

8 SAVA RE GROUP REVIEW OF OPERATIONS⁴⁶

Business is presented by operating segment (non-life insurance, life insurance, reinsurance business and the “other” segment) and by geography (Slovenia and international). The “Slovenia” segment includes figures for the Slovenian part of Zavarovalnica Sava and Sava pokojninska (life segment), while the “international” segment covers the operations of the other subsidiaries, including the Croatian part of Zavarovalnica Sava. The reinsurance segment was not broken down geographically, as after the elimination of transactions with subsidiaries, the majority of the remaining transactions relate to Sava Re’s business in global reinsurance markets.

In addition to this segment breakdown, the segment reporting information also reflects the effects of consolidation elimination and reallocation of certain income statement items:

- In the consolidation process, reinsurance effects were reallocated from the reinsurance segment to the non-life and life segments (Sava Re as the controlling company handles the reinsurance of most of the risks of the subsidiaries within the Sava Re Group): in the segment reporting information, reinsurance premiums received by the reinsurer from the subsidiaries were reallocated to the segment from where they arose (the same applies by analogy to reinsurance-related claims, commission income, change in unearned premiums, claims provisions and deferred acquisition costs arising out of reinsurance business). In the elimination process, the portion of business retroceded by Sava Re to foreign reinsurers was not allocated to the non-life and life segments. Retrocession-related expenses usually exceed income (except in the case of catastrophe claims). To provide a more adequate presentation of segment profitability, the result of the retroceded business was also allocated to the segment to which it related (non-life or life). All these items were adjusted only in the part relating to the risks of subsidiaries retroceded by Sava Re to foreign reinsurers.

- Other operating expenses of the reinsurance segment were reduced by the portion of expenses attributable to the administration of the Sava Re Group. Since Sava Re is the controlling company of the Group and manages its subsidiaries, a part of its expenses relates also to the administration of the Group. These expenses were reallocated from the reinsurance segment to other segments based on gross premiums written. Such reallocation has also been made for other operating expenses relating to intra-Group reinsurance transactions. In the period 1–12/2017, Sava Re allocated 61.7% of other operating expenses to segments as monitored (non-life and life insurance business) by premium structure (1–12/2016: 64.0%).
- Investment income and expenses are reallocated from the reinsurance segment to the non-life insurance and life insurance segments, using the key for the apportionment of net technical provisions for the rolling year (average of past four quarters).

In the statement of financial position, the following adjustments were made in addition to the eliminations made in the consolidation process:

- Intangible assets – goodwill was allocated to the segment from which it arose (reallocated from the reinsurance segment to the non-life or life segments, depending on which subsidiary it related to).
- The balance of financial investments was reallocated from the reinsurance segment to the non-life insurance and life insurance segments using the key for the apportionment of net technical provisions for the rolling year (average of past four quarters).

- The reinsurers’ share of technical provisions (reinsurers’ share of unearned premiums, claims provisions and other provisions) and deferred acquisition costs – in the same way as described in indent one of the description of adjustments to income statement items.
- Equity was reallocated from the reinsurance segment to the non-life and life segments based on the carrying amount of investments in subsidiaries (the sum total of carrying amounts of non-life insurers was reallocated to the non-life segment, and that of life insurers was reallocated to the life segment).

The following is a brief commentary on the results of each operating segment.

Summary consolidated income statement

(€)	2017	2016	Index
Net earned premiums	470,865,993	458,101,526	102.8
Investment income	27,446,915	33,136,242	82.8
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	16,849,384	17,958,678	93.8
Other technical income	15,429,720	18,237,409	84.6
Other income	6,058,000	6,489,633	93.3
Net claims incurred	-296,103,320	-268,393,776	110.3
Change in other technical provisions	-2,179,849	-5,254,856	41.5
Change in technical provisions for policyholders who bear the investment risk	-1,121,327	-17,442,161	6.4
Expenses for bonuses and rebates	5,848	-1,263,545	-0.5
Operating expenses	-156,962,328	-159,563,486	98.4
Expenses for investments in associates and impairment losses on goodwill	0	-1,693,699	-
Expenses for financial assets and liabilities	-11,891,544	-8,556,415	139.0
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	-8,256,416	-11,256,348	73.3
Other technical expenses	-17,486,080	-17,310,937	101.0
Other expenses	-2,774,013	-2,518,278	110.2
Profit or loss before tax	39,880,983	40,669,987	98.1
Income tax expense	-8,786,075	-7,751,774	113.3
Net profit or loss for the period	31,094,908	32,918,213	94.5

⁴⁶ A glossary of selected insurance terms and calculation methods for ratios is appended to this annual report.

Consolidated net premiums earned

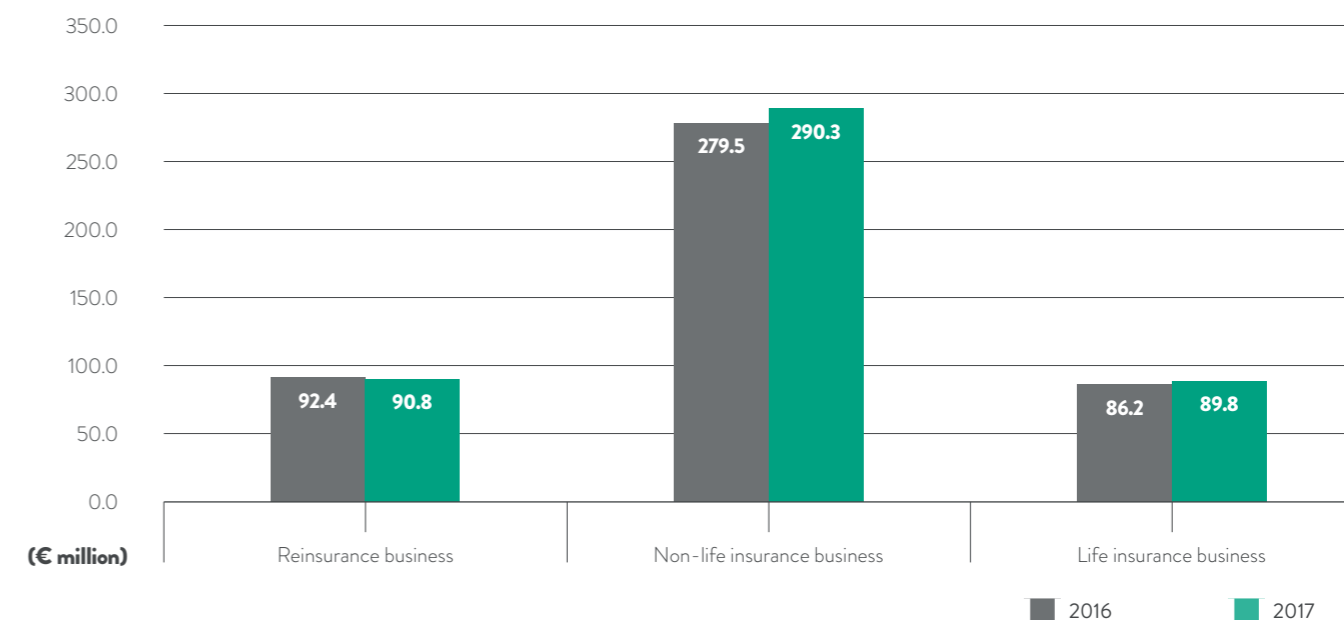
Consolidated net premiums earned

(€)	2017	2016	Index
Gross premiums written	517,233,431	490,205,154	105.5
Net premiums written	482,990,135	458,962,640	105.2
Change in net unearned premiums	-12,124,142	-861,114	1408.0
Net premiums earned	470,865,993	458,101,526	102.8

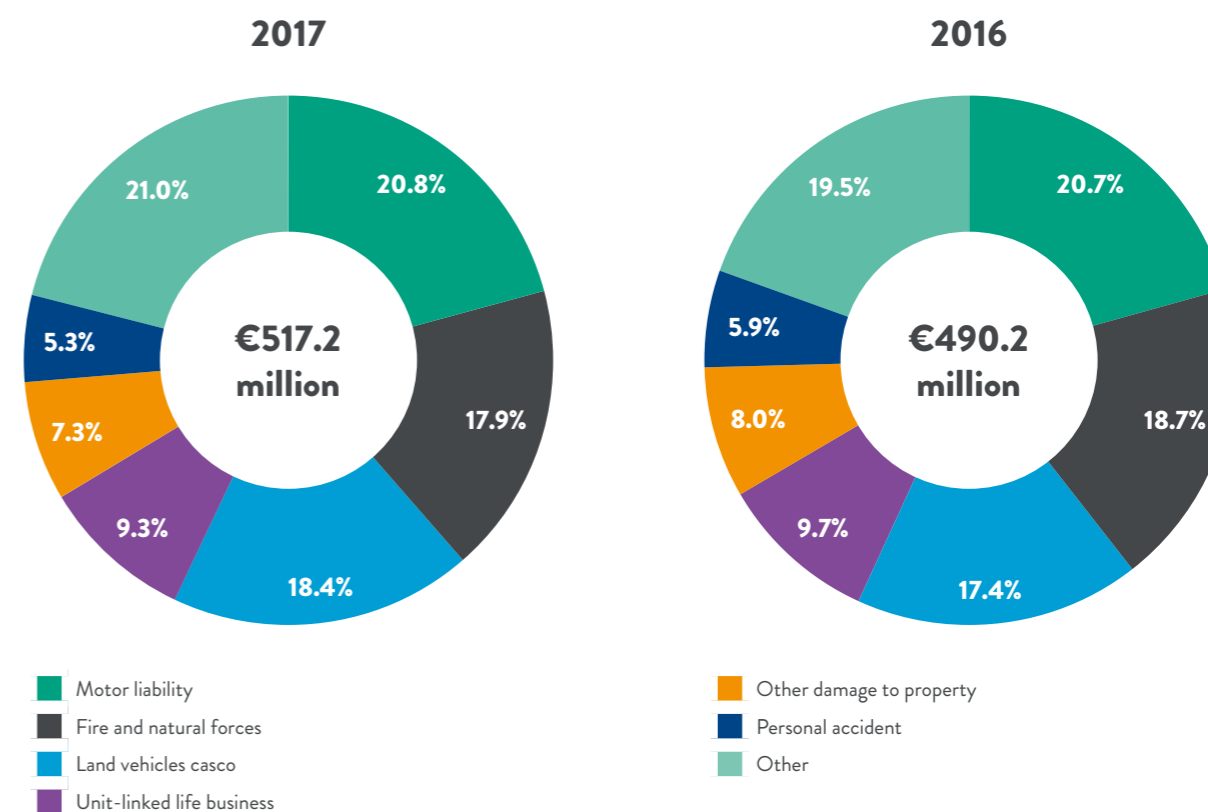
Consolidated net premiums earned by class of business

(€)	2017	2016	Index
Personal accident	27,697,840	30,432,580	91.0
Health	6,885,267	2,928,204	235.1
Land vehicles casco	87,691,767	81,980,726	107.0
Railway rolling stock	191,782	91,376	209.9
Aircraft hull	167,714	876,454	19.1
Ships hull	4,992,710	3,690,491	135.3
Goods in transit	6,342,375	6,580,317	96.4
Fire and natural forces	78,750,066	79,164,292	99.5
Other damage to property	32,698,422	36,019,044	90.8
Motor liability	102,487,948	98,741,014	103.8
Aircraft liability	253,849	167,549	151.5
Liability for ships	944,269	756,694	124.8
General liability	18,653,533	17,144,546	108.8
Credit	4,325,848	3,455,990	125.2
Suretyship	400,850	294,814	136.0
Miscellaneous financial loss	2,290,214	4,313,773	53.1
Legal expenses	224,098	451,362	49.6
Assistance	5,827,553	5,184,295	112.4
Life	42,083,797	38,440,437	109.5
Unit-linked life	47,956,091	47,370,770	101.2
Capital redemption	0	16,798	-
Total	470,865,993	458,101,526	102.8

Consolidated net premiums earned by operating segment



Consolidated gross premiums written by class of business



Consolidated net claims incurred

Net claims incurred, including the change in the mathematical and UL provisions

(€)	2017	2016	Index
Gross claims paid	309,727,160	269,445,796	114.9
Net claims paid	293,880,632	254,626,142	115.4
Change in the net provision for outstanding claims	2,222,688	13,767,634	16.1
Net claims incurred	296,103,320	268,393,776	110.3
Change in other technical provisions*	2,179,849	5,254,856	41.5
Change in technical provisions for policyholders who bear the investment risk	1,121,327	17,442,161	6.4
Net claims incurred, including the change in the mathematical and UL provisions	299,404,496	291,090,793	102.9

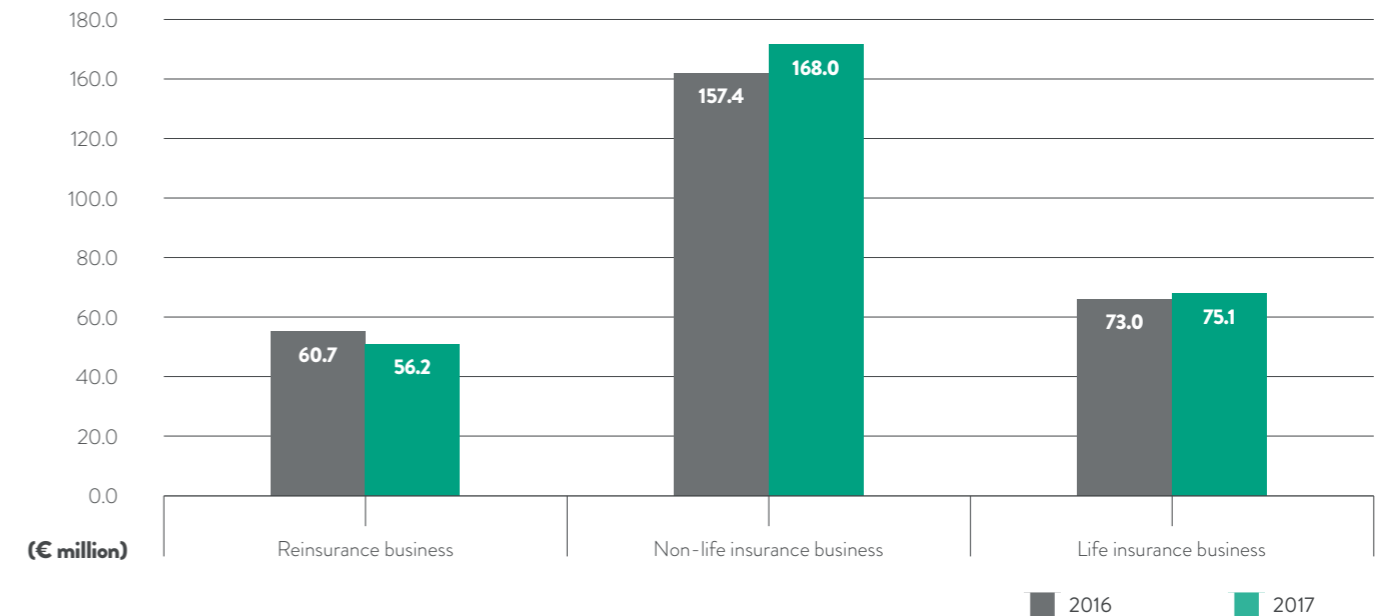
* These are mainly mathematical provisions.

Consolidated net claims incurred by class of business⁴⁷

(€)	2017	2016	Index
Personal accident	11,382,301	16,196,842	70.3
Health	4,806,901	2,184,413	220.1
Land vehicles casco	65,305,930	61,106,817	106.9
Railway rolling stock	102,640	14,576	704.2
Aircraft hull	356,350	793,646	44.9
Ships hull	5,751,369	5,500,755	104.6
Goods in transit	3,411,666	2,598,656	131.3
Fire and natural forces	57,351,813	49,790,750	115.2
Other damage to property	16,041,598	13,050,200	122.9
Motor liability	51,177,373	56,696,628	90.3
Aircraft liability	-22,014	-71,952	169.4
Liability for ships	299,096	359,070	83.3
General liability	5,817,769	9,741,114	59.7
Credit	-785,810	168,472	-466.4
Suretyship	322,983	-29,873	1,281.2
Miscellaneous financial loss	1,324,879	2,259,362	58.6
Legal expenses	10,748	3,087	348.2
Assistance	1,342,338	721,467	186.1
Life	33,292,805	29,847,715	111.5
Unit-linked life	38,812,586	17,459,593	222.3
Capital redemption	0	2,438	-
Total	296,103,320	268,393,776	110.3

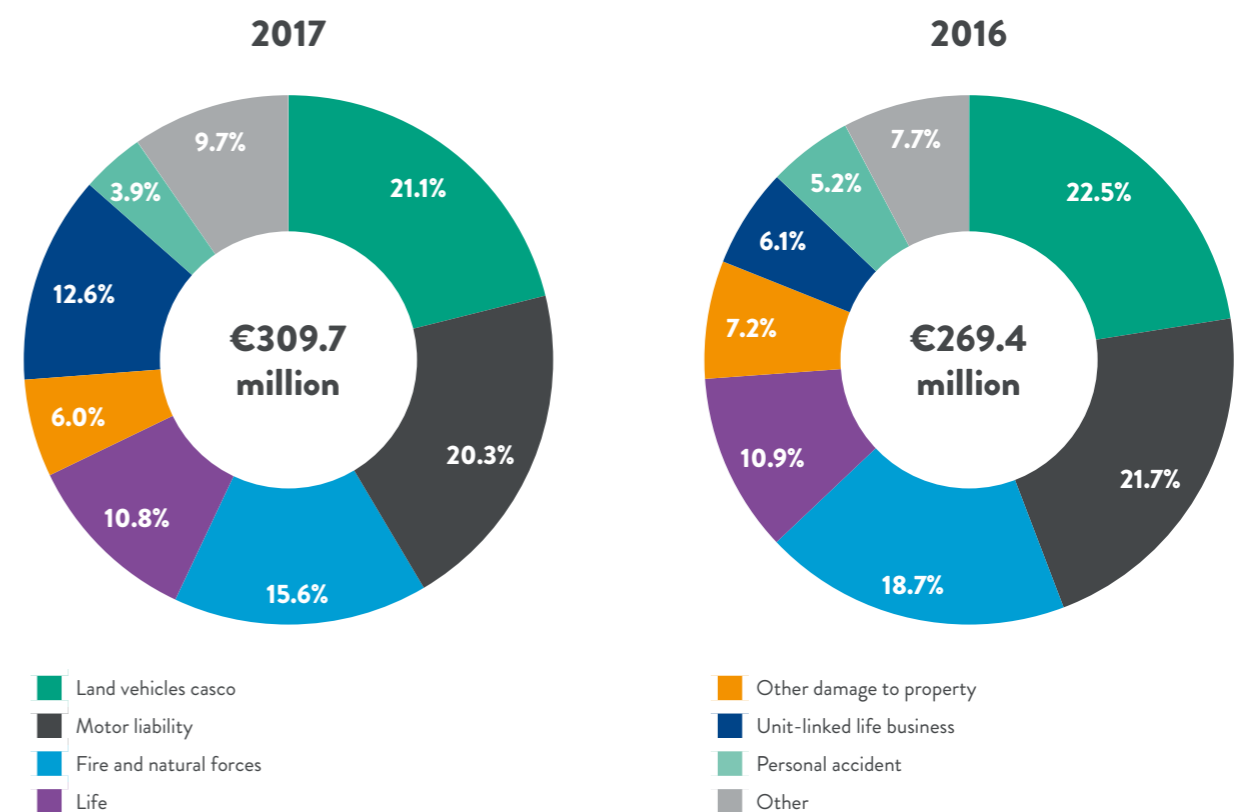
⁴⁷ These do not include the change in other technical provisions nor the change in the technical provision for policyholders who bear the investment risk.

Consolidated net claims incurred by operating segment, including the change in the mathematical and UL provisions



The net claims incurred by operating segment include the change in other technical provisions and the change in technical provisions for policyholders who bear the investment risk.

Consolidated gross claims paid by class of business

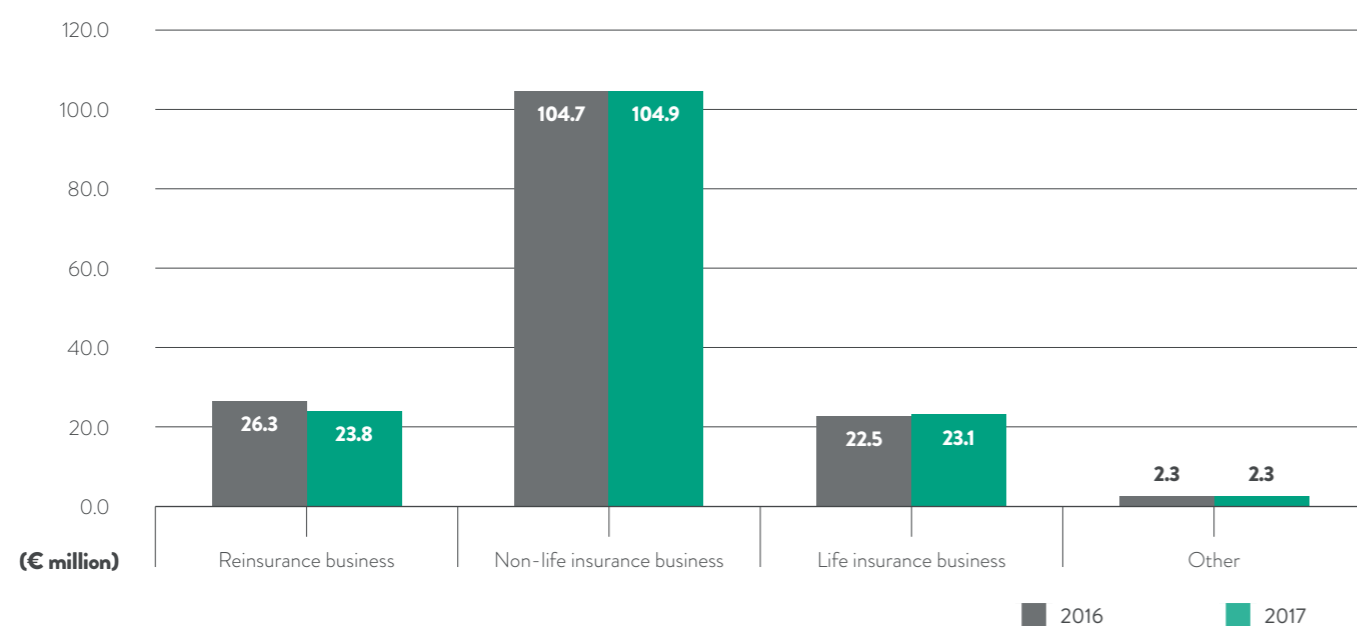


Consolidated operating expenses

Consolidated operating expenses

(€)	2017	2016	Index
Acquisition costs	51,949,127	51,882,550	100.1
Change in deferred acquisition costs (+/-)	-2,389,002	1,474,454	-162.0
Other operating expenses	107,402,203	106,206,482	101.1
Operating expenses	156,962,328	159,563,486	98.4
Income from reinsurance commission	-2,870,868	-3,732,607	76.9
Net operating expenses	154,091,460	155,830,879	98.9
Gross expense ratio	30.8%	32.2%	
Net expense ratio	32.7%	34.0%	

Consolidated net operating expenses by operating segment



* The "other" item represents expenses of the "other" segment (non-insurance companies).

Consolidated net investment income

Consolidated net inv. income of the investment portfolio

(€)	2017	2016	Absolute change
Net inv. income of the investment portfolio	15,731,567	24,612,812	-8,881,245
Net inv. income of the investment portfolio, excluding exchange differences	21,662,931	23,122,262	-1,459,331

The net investment income of the investment portfolio includes the income and expenses relating to investment property. These are shown in the income statement under other income/expenses.

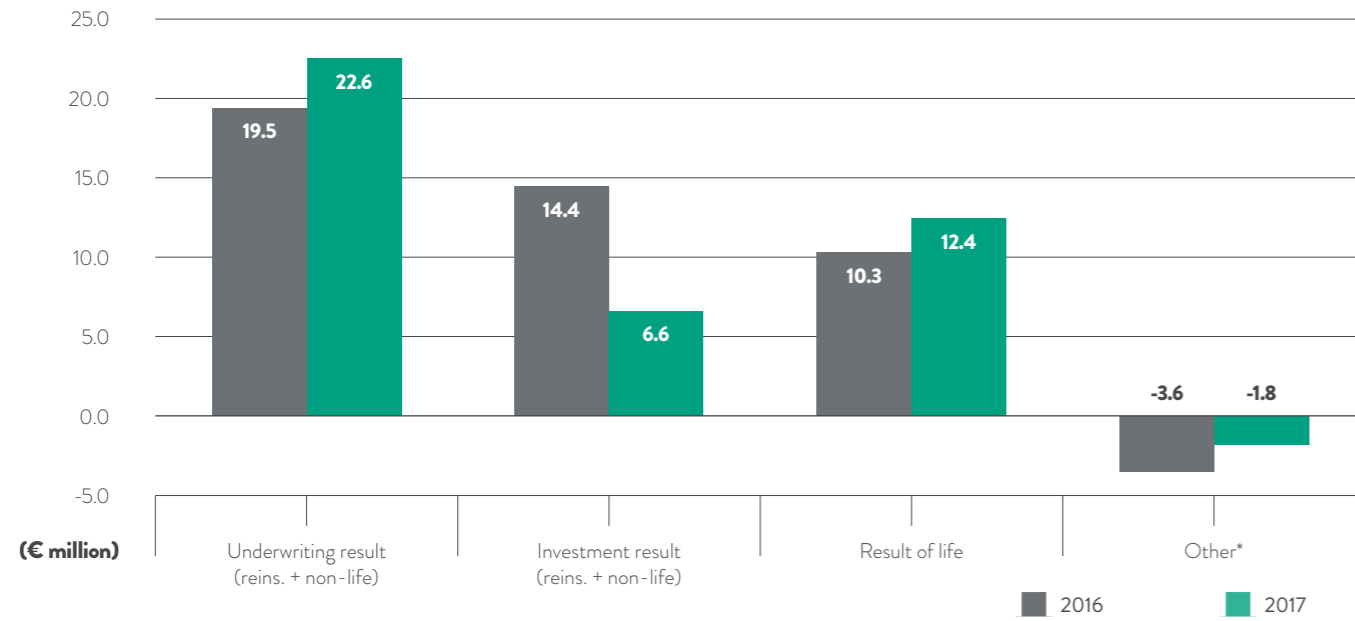
Consolidated income and expenses relating to the investment portfolio

(€)	2017	2016	Absolute change
INCOME			
Interest income	18,607,327	21,233,656	-2,626,329
Change in fair value and gains on disposal of FVPL assets	229,386	737,997	-508,611
Gains on disposal of other IFRS asset categories	3,122,333	2,314,834	807,499
Income from dividends and shares – other investments	1,141,433	1,284,400	-142,967
Exchange gains	4,202,714	7,325,123	-3,122,409
Diverse other income	657,837	622,207	35,630
Income relating to the investment portfolio	27,961,030	33,518,217	-5,557,187
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	16,849,384	17,958,678	-1,109,294
EXPENSES			
Interest expenses	718,860	842,126	-123,266
Change in fair value and losses on disposal of FVPL assets	79,645	631,525	-551,880
Losses on disposal of other IFRS asset categories	584,859	498,683	86,176
Impairment losses on investments	320,000	594,683	-274,683
Exchange losses	10,134,078	5,834,573	4,299,505
Other	392,021	503,815	-111,794
Expenses relating to the investment portfolio	12,229,463	8,905,405	3,324,058
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	8,256,416	11,256,348	-2,999,932

Income/expenses include income/expenses relating to investment property. These are shown in the income statement under other income/expenses.

Consolidated gross profit or loss

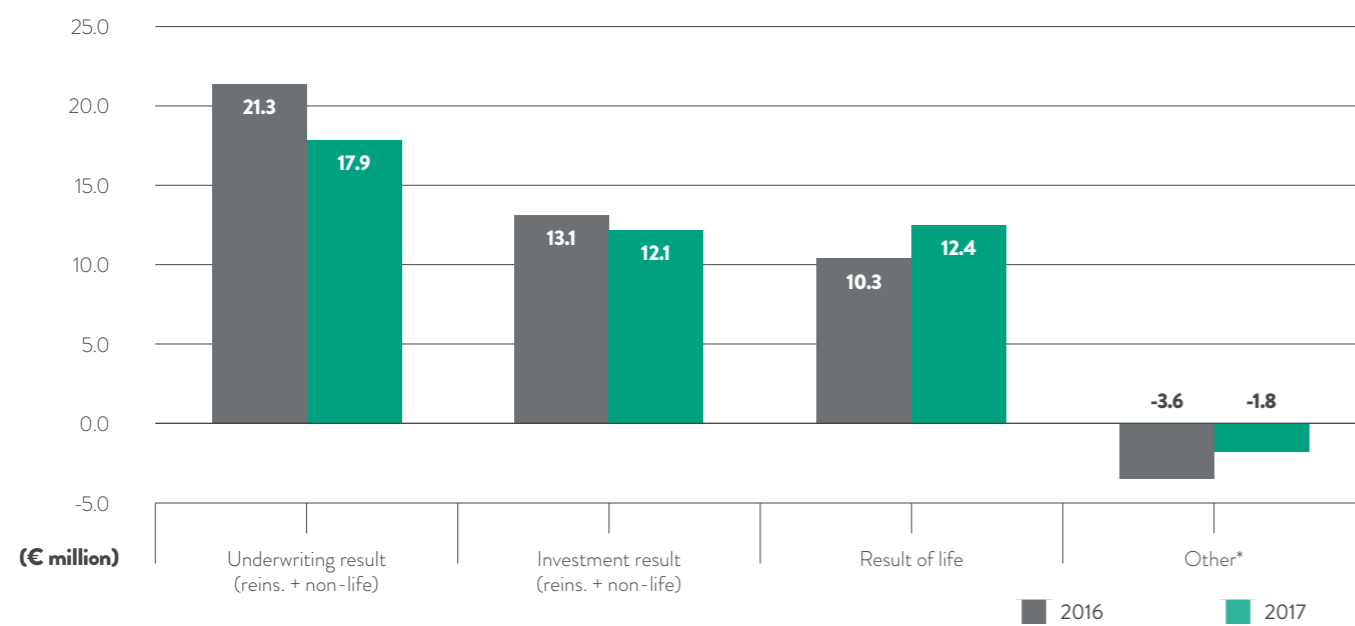
Composition of the consolidated gross income statement



* The "other" item includes the gross profit/loss of the "other" segment (non-insurance companies) and impairment losses on goodwill, which were not reported in 2017 (2016: €1.7 million).

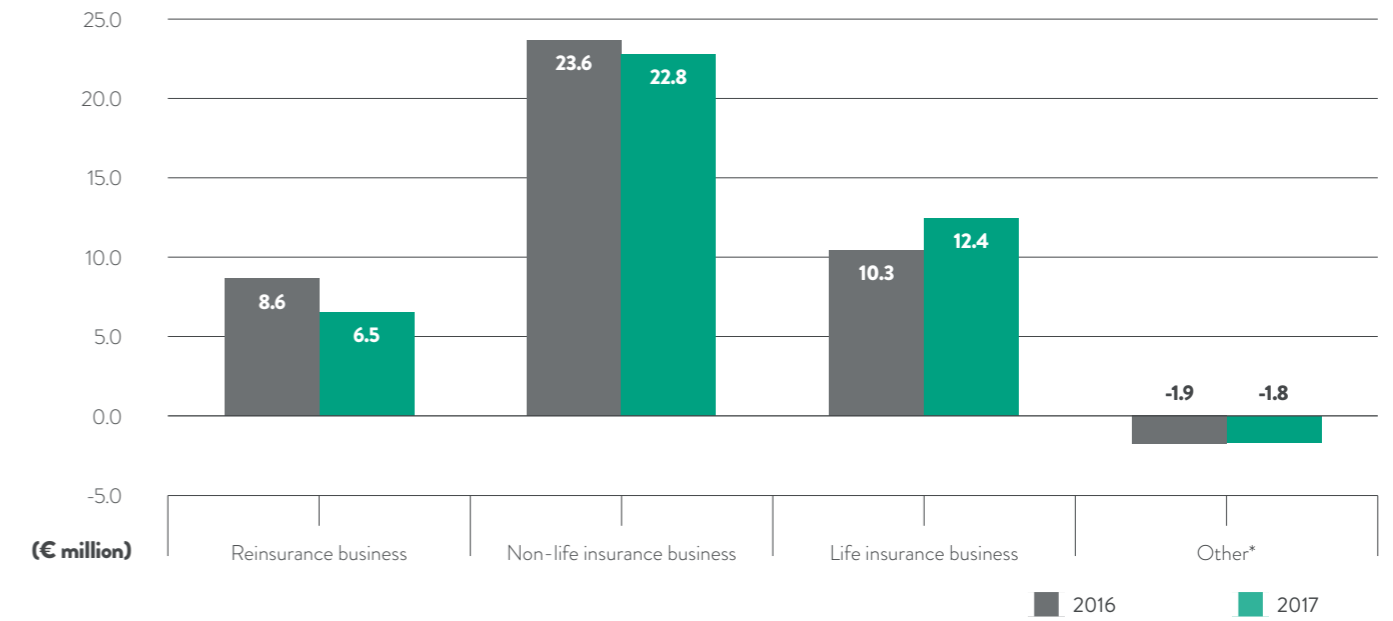
Ker na posamezne elemente izida vplivajo tečajne razlike, smo jih za njegov vsebinski prikaz v spodnjem grafu izločili.

Composition of the consolidated gross result, excluding exchange differences



* The "other" item includes the gross profit/loss of the "other" segment (non-insurance companies) and impairment losses on goodwill, which were not reported in 2017 (2016: €1.7 million).

Composition of the consolidated gross income statement by operating segment

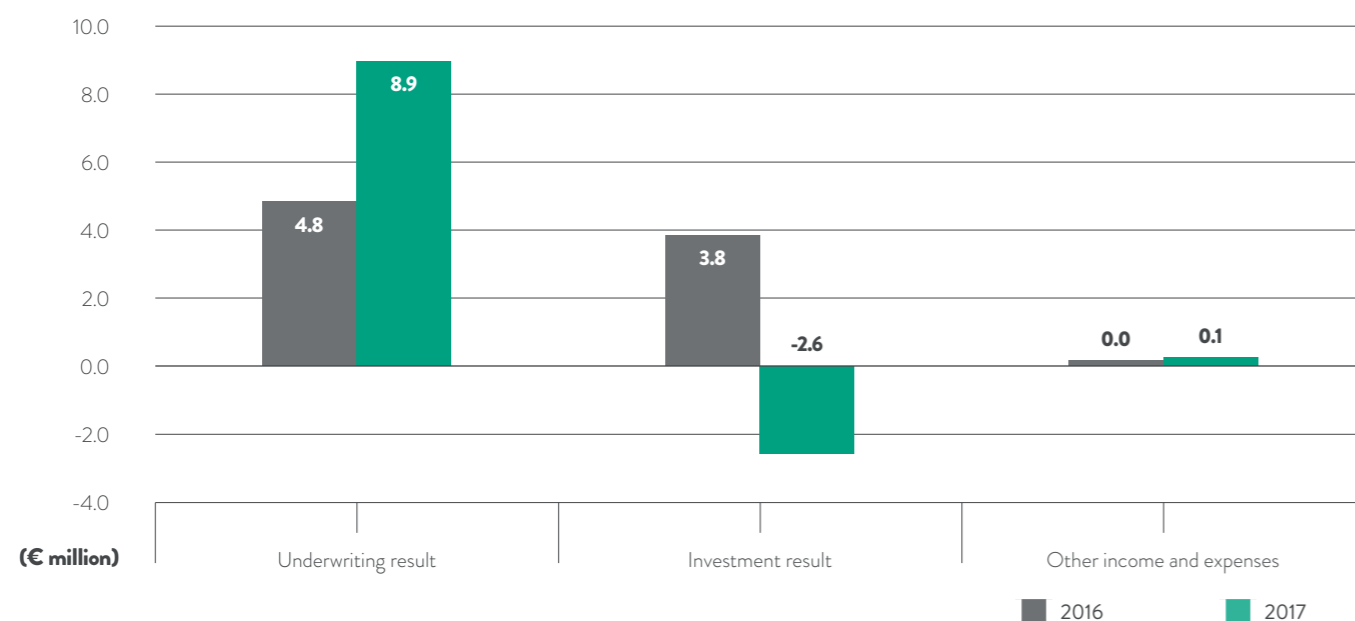


* Other includes gross profit/loss of the "other" segment (non-insurance companies).

8.1 Reinsurance

This segment reflects the developments in the portfolio that Sava Re writes outside Slovenia, and represents exclusively the business operations of companies outside the Sava Re Group.

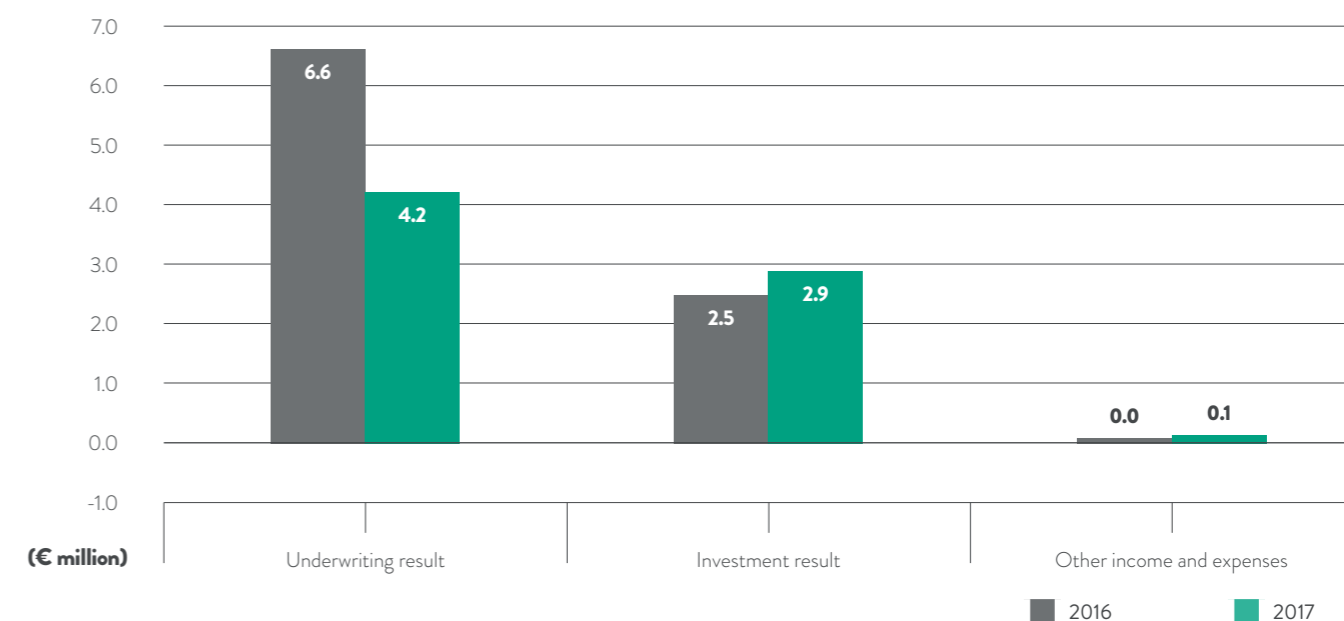
Composition of the consolidated gross income statement; reinsurance business



The net effect of exchange differences on profit or loss is immaterial, as the Company follows a strict asset-liability currency management policy. The impact of exchange differences on the result by operating segment was as follows: underwriting categories were impacted by exchange gains of €4.7 million (2016: €1.8 million losses) and investment activities by losses of €5.5 million (2016: €1.4 million gains).

The table below shows the composition of the gross income statement in the reinsurance segment, excluding exchange differences. With this exclusion, net claims incurred increased by 5.1%, as the reinsurance portfolio suffered several losses abroad. The most notable claims related to the storm in the Caribbean and a flooded mine in Russia. At 69.0%, the net incurred loss ratio was thus 4.5 p.p. lower than in 2016. The investment result was more favourable, mainly on account of capital gains.

Composition of the consolidated gross income statement, excluding exchange differences; reinsurance business



Net premiums earned

Net premiums earned; reinsurance business

(€)	2017	2016	Index
Gross premiums written	96,220,818	92,683,719	103.8
Net premiums written	92,506,611	88,620,585	104.4
Change in net unearned premiums	-1,753,176	3,786,781	-46.3
Net premiums earned	90,753,434	92,407,367	98.2

Gross premiums written in the reinsurance segment in 2017 were up 3.8%. Premium growth is driven by the growth in XL business with the highest absolute growth achieved in marine reinsurance business. The change in net unearned premiums had a negative impact on net earned premiums in 2017 (higher balance of net unearned premiums), while in 2016 the impact was positive. In 2016, unearned premiums

declined owing to the drop in gross premiums written and a larger share of the non-proportional portfolio with relatively lower unearned premiums.

More details on the movement in unconsolidated data are provided in section 20.1 "Sava Re review of operations".

Net claims incurred⁴⁸

Net claims incurred; reinsurance business

(€)	2017	2016	Index
Gross claims paid	54,159,750	58,010,218	93.4
Net claims paid	53,508,162	53,730,691	99.6
Change in the net provision for outstanding claims	2,554,245	6,882,231	37.1
Net claims incurred	56,062,407	60,612,921	92.5

Net claims incurred, excluding exchange differences; reinsurance business

(€)	2017	2016	Index
Gross claims paid	54,159,750	58,010,218	93.4
Net claims paid	53,508,162	53,730,691	99.6
Change in the net provision for outstanding claims	8,763,433	5,522,126	158.7
Net claims incurred	62,271,594	59,252,816	105.1

Gross claims decreased by 6.6% compared to 2016, because large claims were paid in 2016 for previous underwriting years.

Net claims incurred fell by 7.5% year on year. The change in the net provision for outstanding claims (increase) was lower than in 2016 mainly due to the effect of exchange differences that drove claims provisions down by €6.2 million in 2017 and up by €1.4 million in 2016. By excluding exchange differences,

the change (increase) in 2017 was higher than in 2016 on account of additional provisions set aside for newly reported claims (the mine loss in Russia, collision of two ships near Shanghai, fire loss in Russia and similar).

More details on the movement in unconsolidated data are provided in section 20.1 “Sava Re review of operations”.

Operating expenses

Consolidated operating expenses; reinsurance business

(€)	2017	2016	Index
Acquisition costs	21,175,815	21,919,227	96.6
Change in deferred acquisition costs (+/-)	-1,203,450	937,593	-128.4
Other operating expenses			
Operating expenses	24,072,970	26,641,702	90.4
Income from reinsurance commission	-300,852	-350,140	85.9
Net operating expenses	23,772,118	26,291,562	90.4

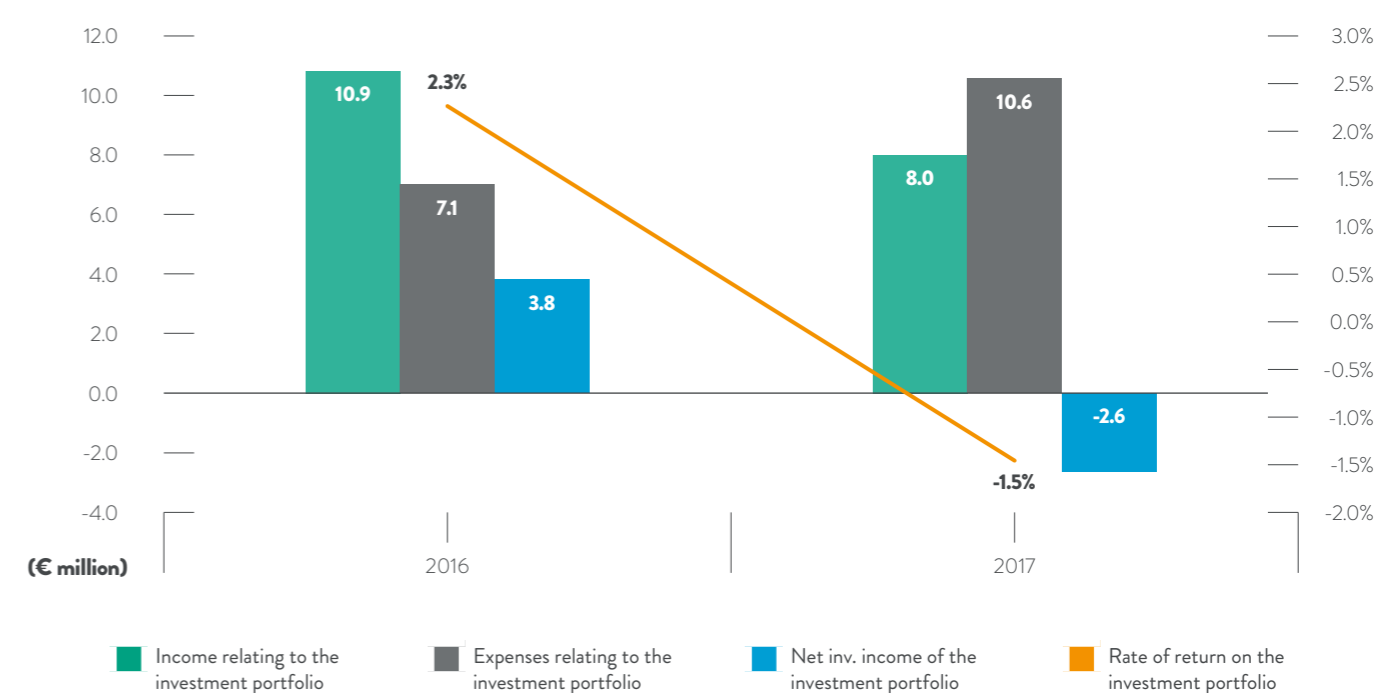
Acquisition costs were down despite higher premiums written. Acquisition costs accounted for 22.0% of gross premiums written in 2017, an improvement of 1.6 p.p. compared to 2016. Deferred acquisition costs increased in 2017 in line with the growth in gross premiums and unearned premiums, which is why their change results in lower operating expenses. In 2016, deferred acquisition costs declined in line

with the decline in premiums and unearned premiums. The growth in other operating expenses was driven by higher personnel costs and by amortisation due to higher software costs.

More details on the movement in unconsolidated data are provided in section 20.1 “Sava Re review of operations”.

Net investment income

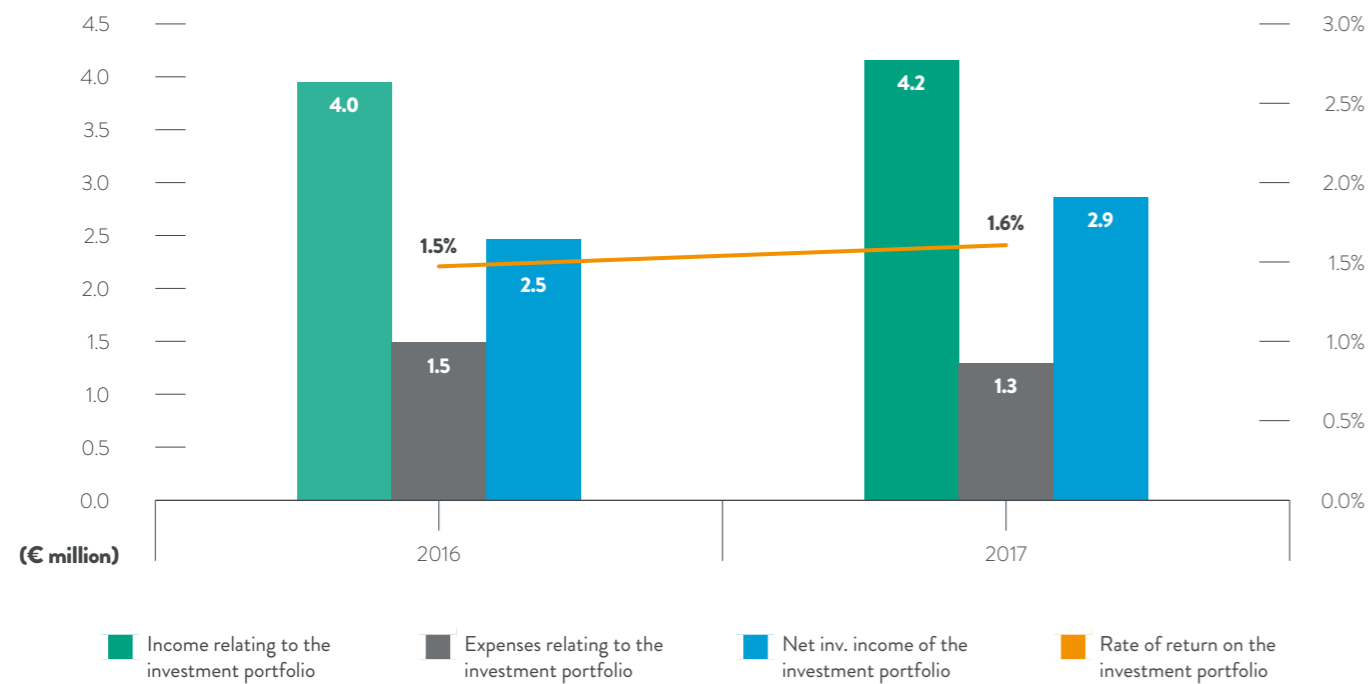
Income, expenses and the net inv. income relating to the investment portfolio; reinsurance business



Income/expenses include income/expenses relating to investment property. These are shown in the income statement under other income/expenses.

⁴⁸ GRI 201-2

Income, expenses and net inv. income of the investment portfolio, excluding exchange differences; reinsurance business



The figures for 2016 differ from those published in the 2016 annual report, as the latter included exchange differences for non-life and life segments.

Given that the exchange differences mainly relate to Sava Re and their impact does not fully affect profit or loss, the graph above shows the net investment income of the investment portfolio, excluding exchange differences relating to reinsurance operations.

Compared to 2016, the Group realised €0.6 million higher net investment income in the reinsurance operating segment. This was mainly the result of realised capital gains.

8.2 Non-life insurance business

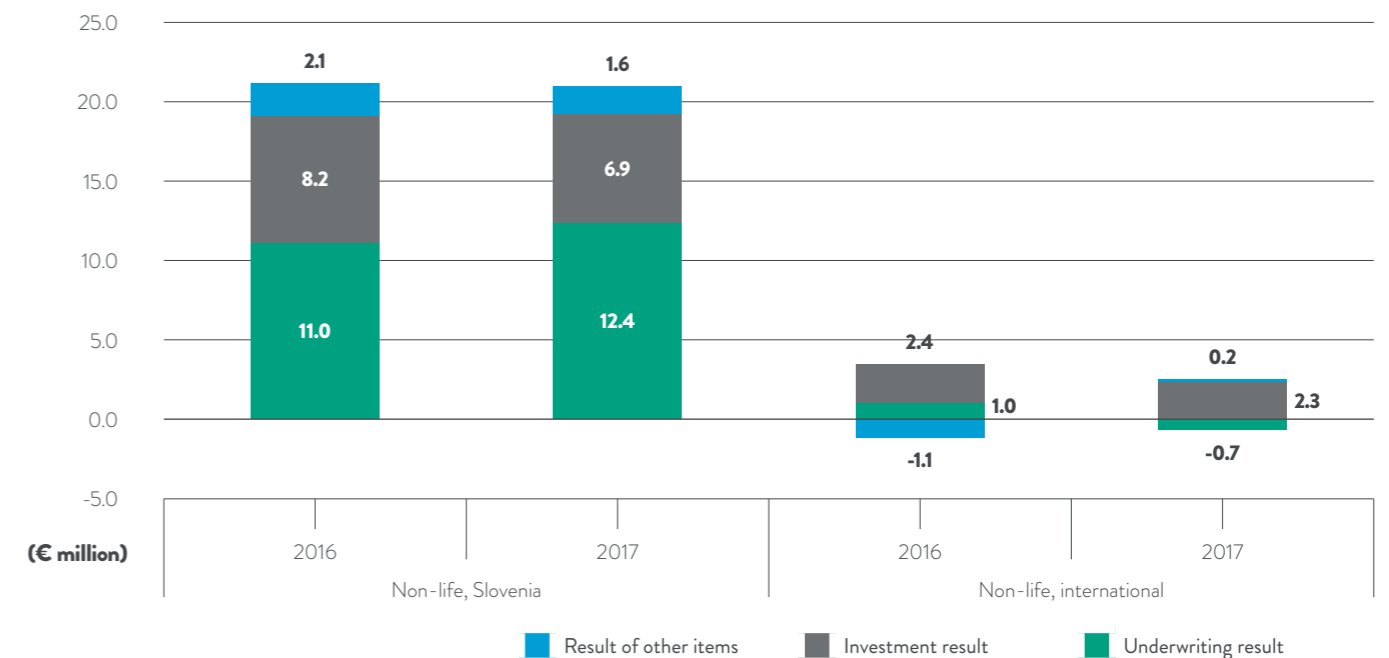
The non-life insurance segment comprises the operations of the following companies:

- Zavarovalnica Sava, non-life,
- Sava osiguranje (MNE),
- Sava neživotno osiguranje (SRB),
- Sava osiguruvanje (MKD),
- Illyria.

The Slovenian part of Zavarovalnica Sava is discussed under Slovenian non-life insurance, while the Croatian part of the company is discussed under international non-life insurance.

Income statement and statement of financial position by operating segment are presented in the notes to the financial statements, section 17.4.36 “Segment reporting”.

Composition of the consolidated gross income statement; non-life insurance business



In 2017, the consolidated income statement for the non-life operating segment was down €0.8 million compared to 2016, namely by €0.3 million in the Slovenian insurance company and by €0.5 million in non-Slovenian insurers.

The consolidated underwriting result of the Slovenian non-life insurer improved by €1.4 million. This improvement was mainly the result of higher net premiums earned and lower operating expenses, but the company suffered more losses from summer storms and several large non-life claims. Reserve releases for prior years’ claims had a positive effect as well.

The investment result of Slovenian non-life insurers deteriorated by €1.2 million as a result of lower interest income (low interest rates in capital markets) and other investment income (lower gains on the disposal of investments).

The result of other items posted by the Slovenian non-life insurer deteriorated mainly on account of a decrease in other income.

The consolidated underwriting result of non-domestic non-life insurers deteriorated by €1.7 million. This was mainly the result of major losses incurred by Kosovan and Macedonian non-life insurers.

The improved result of other items of non-Slovenian non-life insurers is due to lower impairment losses on goodwill in 2016, which were not incurred in 2017. The goodwill of the Kosovan insurer was impaired in

2016 owing to a deviation from the planned results, which had an impact of €1.7 million on consolidation; no goodwill impairments were made in 2017.

Net premiums earned

Net premiums earned; non-life insurance business

(€)	2017	2016	Index
Gross premiums written	330,931,091	310,937,672	106.4
Net premiums written	300,773,781	284,155,677	105.8
Change in net unearned premiums	-10,471,397	-4,613,274	-27.0
Net premiums earned	290,302,385	279,542,403	103.8

Net premiums earned; non-life insurance business

(€)	Slovenia			International		
	2017	2016	Index	2017	2016	Index
Gross premiums written	270,369,068	255,823,534	105.7	60,562,023	55,114,138	109.9
Net premiums written	244,442,228	233,021,200	104.9	56,331,553	51,134,477	110.2
Change in net unearned premiums	-8,441,411	-2,993,035	-82.0	-2,029,986	-1,620,239	74.7
Net premiums earned	236,000,817	230,028,165	102.6	54,301,567	49,514,238	109.7

Unconsolidated gross non-life premiums of Sava Re Group companies

(€)	2017	2016	Index
Zavarovalnica Sava, Slovenian part (non-life)	270,515,513	255,985,530	105.7
Zavarovalnica Sava, Croatian part (non-life)	10,632,760	8,801,827	120.8
Sava neživotno osiguranje (SRB)	16,554,669	14,745,052	112.3
Illyria	8,298,477	7,120,933	116.5
Sava osiguruvanje (MKD)	12,740,051	12,197,976	104.4
Sava osiguranje (MNE)	12,354,736	11,656,792	106.0
Total	331,096,207	310,508,111	106.6

Gross non-life insurance premiums grew by 6.4% in 2017 as a result of the growth in gross non-life premiums of all insurance companies in the Group. In Slovenia they rose by 5.7%, mainly due to higher premium volumes in the motor, assistance and property business. Motor premium growth achieved with private individuals was driven both by a higher num-

ber of policies written and the growth in average premiums, as well as by a larger number of policies sold with broader coverages. Motor premium growth in the business sector, on the other hand, was the result of higher premiums for certain policyholders and higher volumes in business with leasing providers. Growth in property insurance was the result of the acquisition

of certain new policyholders and higher premiums for existing policyholders on account of a larger number of insured items.

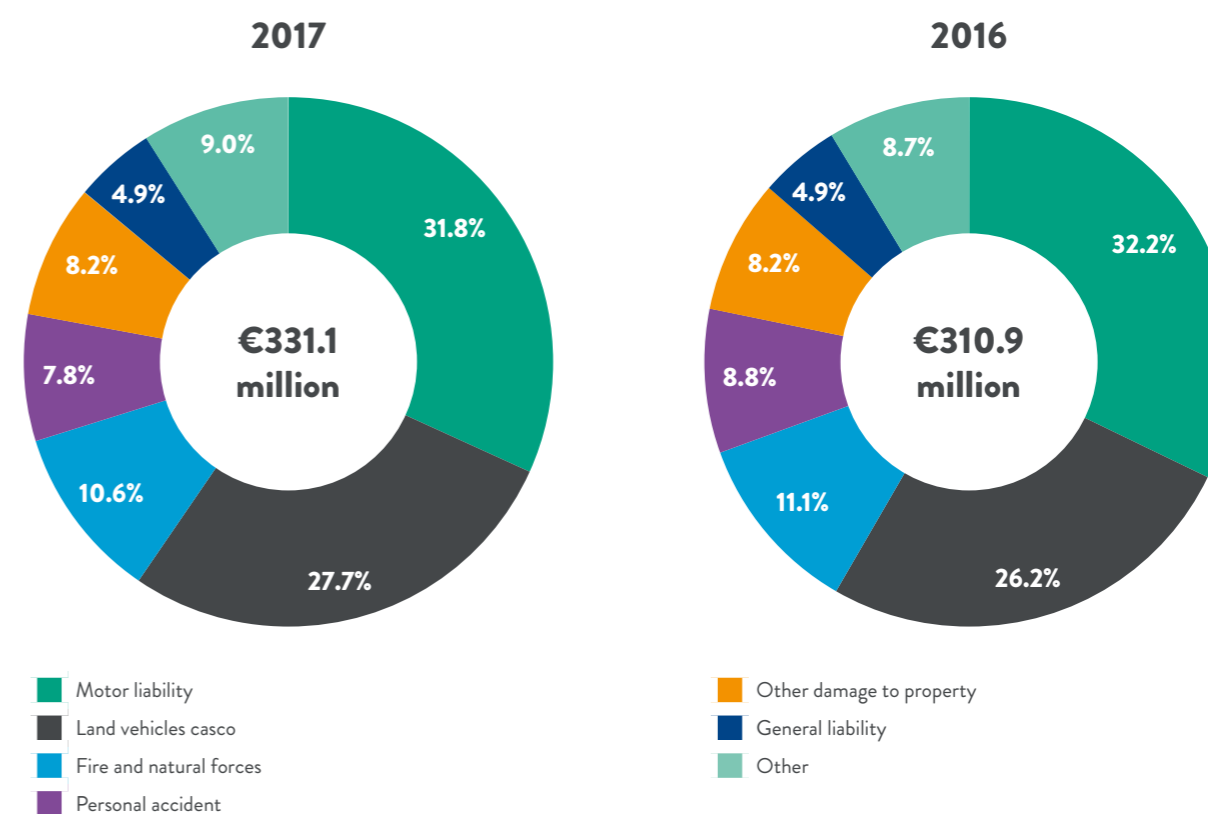
Gross non-life premiums written outside Slovenia increased by 9.9% in all non-Slovenian non-life insurance companies, with the Croatian branch of Zavarovalnica Sava recording the highest growth. This branch exceeded gross premiums from 2016 in most classes of business, which was due to good positioning in Internet sales and resulting increased visibility, improved premium collection, increased efficiency of own sales network and growth in external sales channels. The highest increase was recorded in motor liability insurance. The branch saw total non-life premium growth of 20.8%, whereas the Croatian non-life insurance market grew by 6.0%. In terms of gross non-life premium growth, the Croatian non-life insurer is followed by the Kosovan and Serbian non-life insurers. The Kosovan non-life insurer achieved the highest absolute growth in gross premiums in health insurance owing to increased sales activity, and in assistance business due to price increases and the launch of a new product. The

Serbian non-life insurer achieved the highest absolute premium growth in motor liability insurance and medical assistance abroad owing to intensified sales of these products, a loyal and stable sales network and increased demand among policyholders. The Montenegrin non-life insurer achieved the highest premium growth in other damage to property business through a major new client. Premiums at the Macedonian insurer increased through the acquisition of large new clients in motor vehicle liability insurance, higher production in individual and commercial motor casco business, and the acquisition of major new clients in accident insurance business with natural persons.

Net non-life insurance premiums grew by 5.8% in 2017. The reinsurers' shares of premiums and unearned premiums increased in line with the growth in gross premiums written.

Overall, this led to a 3.8% increase in net premiums earned.

Consolidated gross non-life insurance premiums by class of business



Net claims incurred

Net claims incurred; non-life insurance business

(€)	2017	2016	Index
Gross claims paid	183,008,928	166,151,248	110.1
Net claims paid	167,923,780	155,738,877	107.8
Change in the net provision for outstanding claims	-78,266	4,479,457	-1.7
Net claims incurred	167,845,514	160,218,334	104.8

Net claims incurred; non-life insurance business

(€)	Slovenia			International		
	2017	2016	Index	2017	2016	Index
Gross claims paid	154,626,111	143,614,923	107.7	28,382,817	22,536,325	125.9
Net claims paid	143,274,196	134,776,285	106.3	24,649,585	20,962,591	117.6
Change in the net provision for outstanding claims	-526,011	3,691,798	-14.2	447,745	787,659	56.8
Net claims incurred	142,748,185	138,468,083	103.1	25,097,330	21,750,251	115.4

Unconsolidated gross non-life claims paid of Sava Re Group companies

(€)	2017	2016	Index
Zavarovalnica Sava, Slovenian part (non-life)	155,408,220	144,268,145	107.7
Zavarovalnica Sava, Croatian part (non-life)	4,504,967	3,757,231	119.9
Sava neživotno osiguranje (SRB)	6,300,523	6,156,554	102.3
Illyria	4,512,001	3,497,451	129.0
Sava osiguruvanje (MKD)	8,899,999	4,875,105	182.6
Sava osiguranje (MNE)	4,314,186	4,166,875	103.5
Total	183,939,896	166,721,361	110.3

Gross claims paid for Slovenian business in 2017 were higher due to a larger volume of gross claims paid for private motor business and partly for assistance business. The main reason for the excess in claims relative to the previous year was the settlement of claims in 2017 relating to hail events in 2016 (three large loss events). Large claims in 2017 were the result of several weather-related loss events (June, July, August and December) and an increase in the number of motor and assistance insurance policies sold to individuals. In terms of commercial sector motor insurance the excess of losses from 2016 related mainly to one major and several minor claims in motor vehicle liability insurance and a higher number of insurance policies sold, which means that at the same loss frequency more claims are reported. Higher payments

in the property segment were also the result of weather-related loss events in 2016 and 2017. Provisions for a part of these claims were made in 2016 and their settlement therefore did not have a significant impact on the profits.

Gross claims paid for non-Slovenian business rose by 25.9%. Growth was primarily driven by the settlement of large liability claims of the Macedonian non-life insurer, which did not affect profits as provisions for these claims had been made in previous years. Furthermore, the Macedonian insurer incurred some large motor casco and other damage to property claims as a result of a storm event in the Skopje region in June 2017. A large claim relating to other damage to property was settled in the last quarter

of 2017. An increase in gross claims of the Kosovan non-life insurer was the result of a large claim in fire and natural forces insurance and an increased volume of health insurance written compared to 2016. An increase in gross claims paid by Zavarovalnica Sava in Croatia was due to the increased frequency of small claims and one large motor liability claim from 2013. The Montenegrin insurer recorded a slight growth

in claims due to several large losses in fire and other property insurance, motor liability and accident insurance.

The decline in net claims provisions is mainly due to the payment of claims (from provisions) by Slovenian insurers relating to hailstorm losses from 2016.

Operating expenses

Consolidated operating expenses; non-life insurance business

(€)	2017	2016	Index
Acquisition costs	24,484,789	24,091,300	101.6
Change in deferred acquisition costs (+/-)	-677,906	343,311	-197.5
Other operating expenses	83,642,953	83,583,937	100.1
Operating expenses	107,449,836	108,018,548	99.5
Income from reinsurance commission	-2,523,519	-3,313,876	76.2
Net operating expenses	104,926,317	104,704,672	100.2

Unconsolidated gross non-life operating expenses of Sava Re Group companies

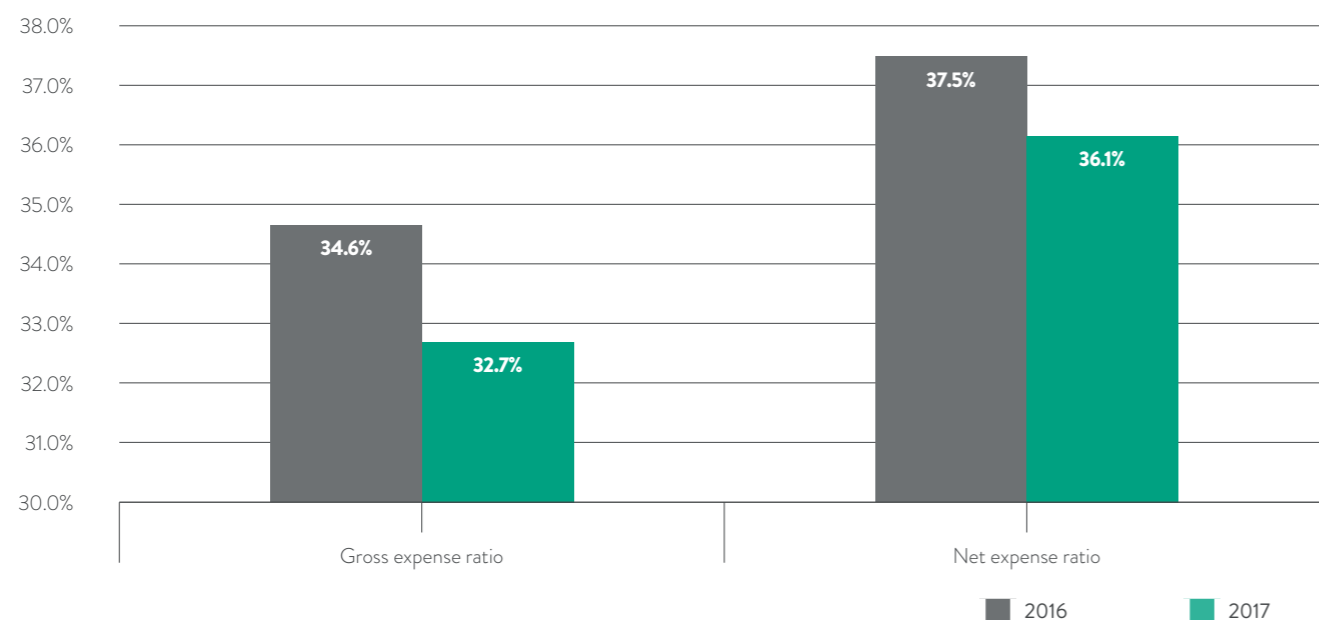
(€)	2017	2016	Index
Zavarovalnica Sava, Slovenian part (non-life)	73,184,792	74,700,751	98.0
Zavarovalnica Sava, Croatian part (non-life)	4,967,296	4,567,819	108.7
Sava neživotno osiguranje (SRB)	9,169,939	7,778,202	117.9
Illyria	2,697,296	2,666,892	101.1
Sava osiguruvanje (MKD)	5,190,358	5,024,561	103.3
Sava osiguranje (MNE)	5,608,720	5,613,168	99.9
Total	100,818,400	100,351,393	100.5

Consolidated acquisition costs rose by 1.6% due to the growth in consolidated non-life premiums and the related increase in commissions for agents and agencies. The overall growth in these costs would be even higher given the growth in these costs in Slovenia, but the costs of the Zavarovalnica Sava branch were reallocated to adjust to the Slovenian part. Prior to the merger, the branch reported agents' salaries as a whole under acquisition costs, whereas after the merger they are disclosed under other operating expenses (personnel costs). This is also the reason for the negative change in deferred acquisition costs in 2017.

Consolidated other operating expenses remained at last year's level due to rationalisation. These costs were down by 4.7% in the Slovenian part of non-life insurers as a result of the merger and its synergistic effects, and up by 13.7% in non-Slovenian insurers. The rise in other operating expenses in non-Slovenian insurers was driven mainly by the increase in the level of expenses of the Serbian non-life insurer, namely personnel costs and one-off costs incurred as the result of the change of its corporate identity. Expenses in the Croatian branch increased mainly on account of higher personnel costs in the above-mentioned adjustment and reallocation of costs for agents' salaries. Increased expenses of the Macedonian insurer are associated with the renovation of business premises and costs incurred in the change of its corporate identity.

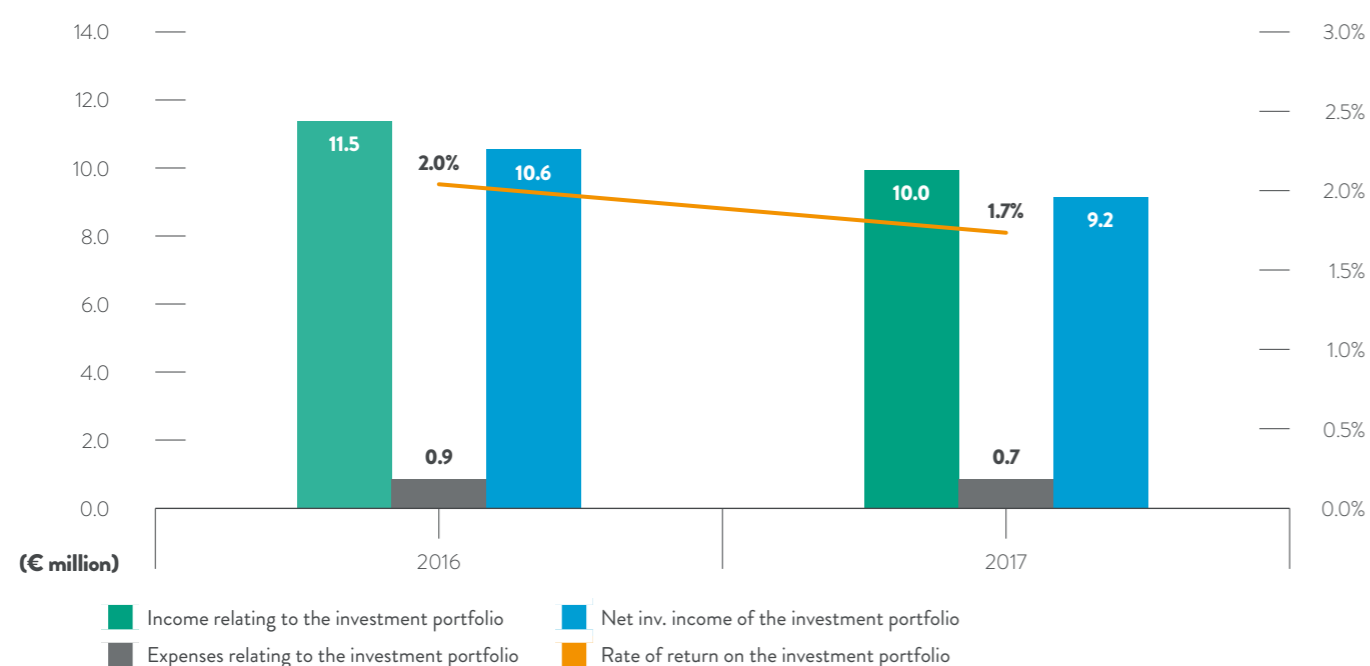
The consolidated gross operating expenses (net of changes in deferred acquisition costs) of non-life business increased by 0.4% and gross consolidated premiums written by 6.4%, as a result of which the gross expense ratio decreased by 2 p.p.

Gross expense ratio; non-life insurance business



Net investment income

Income, expenses and the net inv. income relating to the investment portfolio; non-life insurance business



The net investment income of the investment portfolio of non-life insurance business totalled €9.2 million in 2017, down by €1.4 million from 2016. The net investment income was lower largely owing to lower interest income (€1.1 million). The investment return for the period was 1.7%.

8.3 Life insurance business

The life insurance segment comprises the operations of the following companies:

- Zavarovalnica Sava, life business,
- Sava životno osiguranje (SRB),
- Illyria Life,
- Sava pokojninska.

The Slovenian part of Zavarovalnica Sava is discussed as Slovenian life insurance, while the Croatian part of the company is discussed as international life insurance.

The income statement and statement of financial position by operating segment are presented in the notes to the financial statements, section 17.4.36 "Segment reporting".

Net premiums earned

Net premiums earned; life insurance business

(€)	2017	2016	Index
Gross premiums written	90,081,522	86,583,763	104.0
Net premiums written	89,709,743	86,186,378	104.1
Change in net unearned premiums	100,431	-34,622	490.1
Net premiums earned	89,810,174	86,151,756	104.2

Net premiums earned; life insurance business

(€)	Slovenia			International		
	2017	2016	Index	2017	2016	Index
Gross premiums written	82,999,362	80,073,263	103.7	7,082,160	6,510,500	108.8
Net premiums written	82,646,012	79,697,487	103.7	7,063,731	6,488,891	108.9
Change in net unearned premiums	108,607	-8,761	1439.7	-8,176	-25,861	168.4
Čisti prihodki od premij	82.754.619	79.688.726	103,8	7.055.555	6.463.030	109,2

Unconsolidated gross life premiums written by Sava Re Group companies

(€)	2017	2016	Index
Zavarovalnica Sava, Slovenian part (life)	80,880,631	78,962,673	102.4
Zavarovalnica Sava, Croatian part (life)	3,721,715	3,505,085	106.2
Sava životno osiguranje (SRB)	1,654,286	1,312,639	126.0
Illyria Life	1,708,366	1,692,776	100.9
Sava pokojninska	2,118,731	1,110,590	190.8
Total	90,083,729	86,583,762	104.0

Gross premiums written by the Group's life insurers grew both in Slovenia and abroad year on year. Following the liquidation of its DWS FlexPension funds by the DWS fund administrator, Zavarovalnica Sava made a special offer to policyholders who held savings relating to these funds to take out similar policies, for which a new internal fund was established. This pushed gross premiums up by €2.2 million.

A large number of unit-linked insurance policies that matured in January 2017, on the other hand, had a negative effect on the growth in gross premiums in Slovenia, but were largely replaced as many policyholders decided to take out a new policy.

The growth in life insurance premiums in Slovenia was additionally spurred by Sava pokojninska pension company with higher single premiums for annuities. This business is expected to continue to grow as policyholders reach retirement age, when funds from

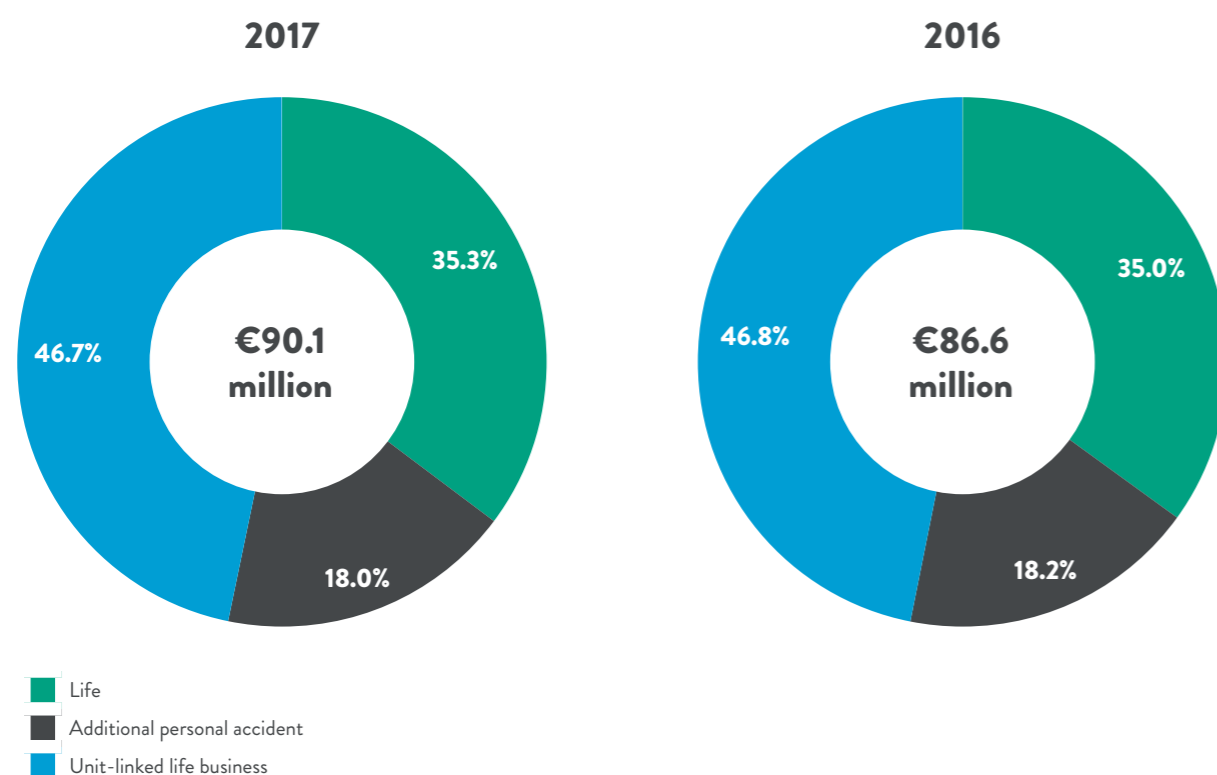
savings accounts are transferred to annuity contracts.

Gross premiums written increased in other countries as well, especially in Serbia, where Sava životno osiguranje (SRB) secured a 26% increase in premiums through its efforts to expand the sales network and boost productivity.

High growth was generated also by the Croatian part of Zavarovalnica Sava, which grew premiums by 6.2% in 2017, while the Croatian life insurance market recorded growth of 1.5%. This was largely due to more term life insurance policies sold.

All Sava Re Group companies have been implementing measures to improve their own sales network through regular education and training events for sales personnel, while also seeking growth opportunities through other sales channels.

Consolidated gross life insurance premiums by class of business



Net claims incurred

Net claims incurred; life insurance business

(€)	2017	2016	Index
Gross claims paid	72,558,482	45,284,330	160.2
Net claims paid	72,448,690	45,156,575	160.4
Change in the net provision for outstanding claims	-253,291	2,405,946	-10.5
Net claims incurred	72,195,399	47,562,521	151.8
Change in other technical provisions*	1,829,203	7,967,906	23.0
Change in technical provisions for policyholders who bear the investment risk	1,121,327	17,442,161	6.4
Net claims incurred, including the change in the mathematical and UL provisions	75,145,929	72,972,588	103.0

* These are mainly mathematical provisions.

Net claims incurred; life insurance business

(€)	Slovenia			International		
	2017	2016	Index	2017	2016	Index
Gross claims paid	70,779,111	43,515,230	162.7	1,779,371	1,769,100	100.6
Net claims paid	70,671,036	43,389,751	162.9	1,777,654	1,766,823	100.6
Change in the net provision for outstanding claims	-212,945	2,414,190	-8.8	-40,346	-8,244	-289.4
Net claims incurred	70,458,091	45,803,941	153.8	1,737,308	1,758,579	98.8
Change in other technical provisions*	-894,199	5,821,095	-15.4	2,723,402	2,146,811	126.9
Change in technical provisions for policyholders who bear the investment risk	1,108,638	17,435,867	6.4	12,689	6,294	201.6
Net claims incurred, including the change in the mathematical and UL provisions	70,672,530	69,060,903	102.3	4,473,399	3,911,684	114.4

* These are mainly mathematical provisions.

Nekonsolidirane kosmate škode življenjskih zavarovanj članic skupine Sava Re

(€)	2017	2016	Index
Zavarovalnica Sava, Slovenian part (life)	70,327,201	43,231,245	162.7
Zavarovalnica Sava, Croatian part (life)	875,387	1,102,122	79.4
Sava životno osiguranje (SRB)	361,844	370,532	97.7
Illyria Life	542,541	296,446	183.0
Sava pokojninska	451,910	283,985	159.1
Total	72,558,883	45,284,330	160.2

Gross claims paid in Slovenia grew by 62.7% as a result of a large number of unit-linked policies that matured in January 2017. The movement in claims needs to be looked at in conjunction with the change in technical provisions.

Gross claims also increased in international business as a result of the increase in claims at Illyria Life, with more claims recorded due to maturities and accidental deaths, coupled with a significant number of surrenders, as a large number of policies became eligible for this option.

The increase in claims paid by Sava pokojninska is the result of more policyholders receiving monthly annuities. Payments will continue to increase on account of more policyholders reaching retirement age.

The movement in other technical provisions is generally the result of higher or lower mathematical provisions that increase over the term of policies and as portfolios mature, but decrease when claims are paid out. In 2017, Zavarovalnica Sava paid out substantially more maturity claims, which pushed mathematical provisions down, whereas mathematical provisions for the Croatian part of Zavarovalnica Sava and Sava životno osiguranje (SRB) increased in line with the ageing and growth of the portfolio.

The year-on-year change in technical provisions for policyholders who bear the investment risk of the Slovenian insurers is affected by claims settlements as well as movements in mutual fund unit prices.

Operating expenses

Consolidated operating expenses; life insurance business

(€)	2017	2016	Index
Acquisition costs	6,288,523	5,872,023	107.1
Change in deferred acquisition costs (+/-)	-507,646	193,550	-262.3
Other operating expenses	17,319,566	16,494,852	105.0
Operating expenses	23,100,443	22,560,425	102.4
Income from reinsurance commission	-46,498	-68,591	67.8
Net operating expenses	23,053,945	22,491,834	102.5

The increase in acquisition costs is primarily due to increased acquisition costs of the Slovenian part of Zavarovalnica Sava due to its expanded operations and altered dynamics of expenses included in products. This is also the reason for the negative change in deferred acquisition costs in 2017.

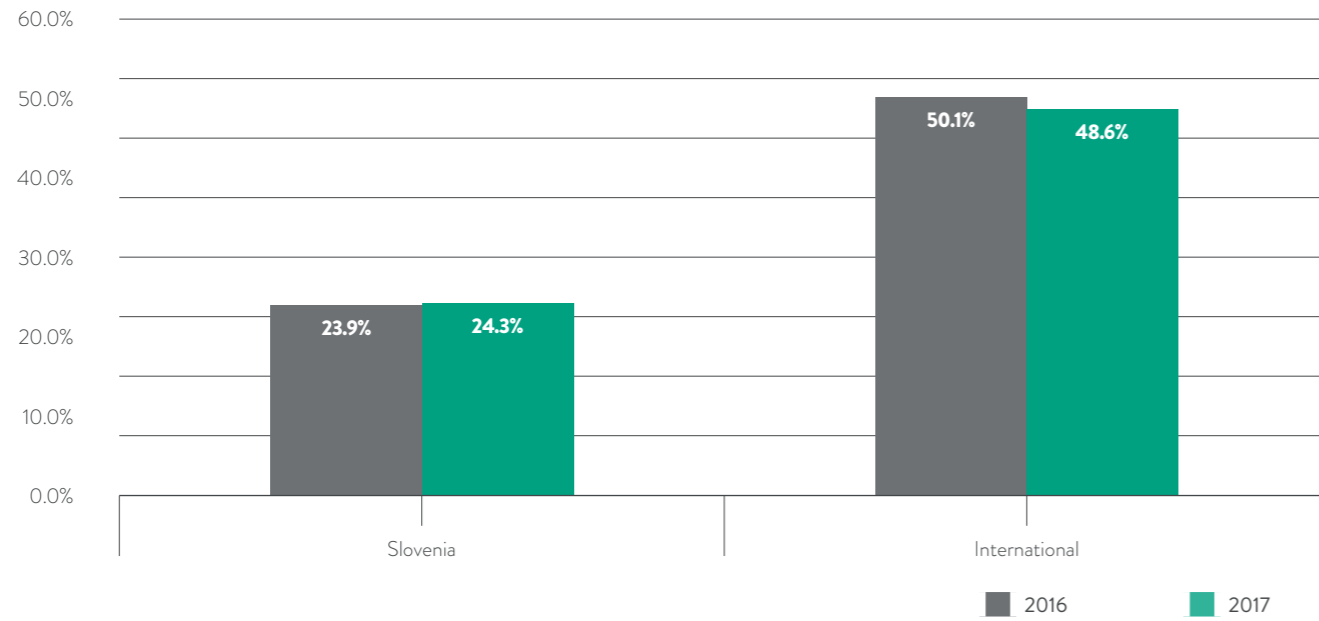
Higher other operating expenses were driven by higher costs in all companies, especially the Croatian part of Zavarovalnica Sava and Sava životno osiguranje (SRB). In the former, this increase is due to reclassification of costs of adjusting to the Slove-

nian part – prior to the merger, the branch reported agents' salaries under acquisition costs, whereas after the merger on 2 November 2016 they are disclosed under other operating expenses. In total, these costs remained at the same level as in the previous year. In 2017, Sava životno osiguranje (SRB) saw higher personnel costs related to sales, which was driven by intensified sales efforts resulting in greater sales of new insurance policies; at the same time, the costs of services incurred due to investments in IT support upgrades and costs associated with the corporate identity redesign increased as well.

Unconsolidated gross life operating expenses of Sava Re Group companies

(€)	2017	2016	Index
Zavarovalnica Sava, Slovenian part (life)	18,268,052	17,096,681	106.9
Zavarovalnica Sava, Croatian part (life)	1,703,900	1,796,973	94.8
Sava životno osiguranje (SRB)	1,179,043	919,592	128.2
Illyria Life	503,510	487,408	103.3
Sava pokojninska	1,393,969	1,335,107	104.4
Total	23,048,475	21,635,760	106.5

Gross expense ratio; life insurance business

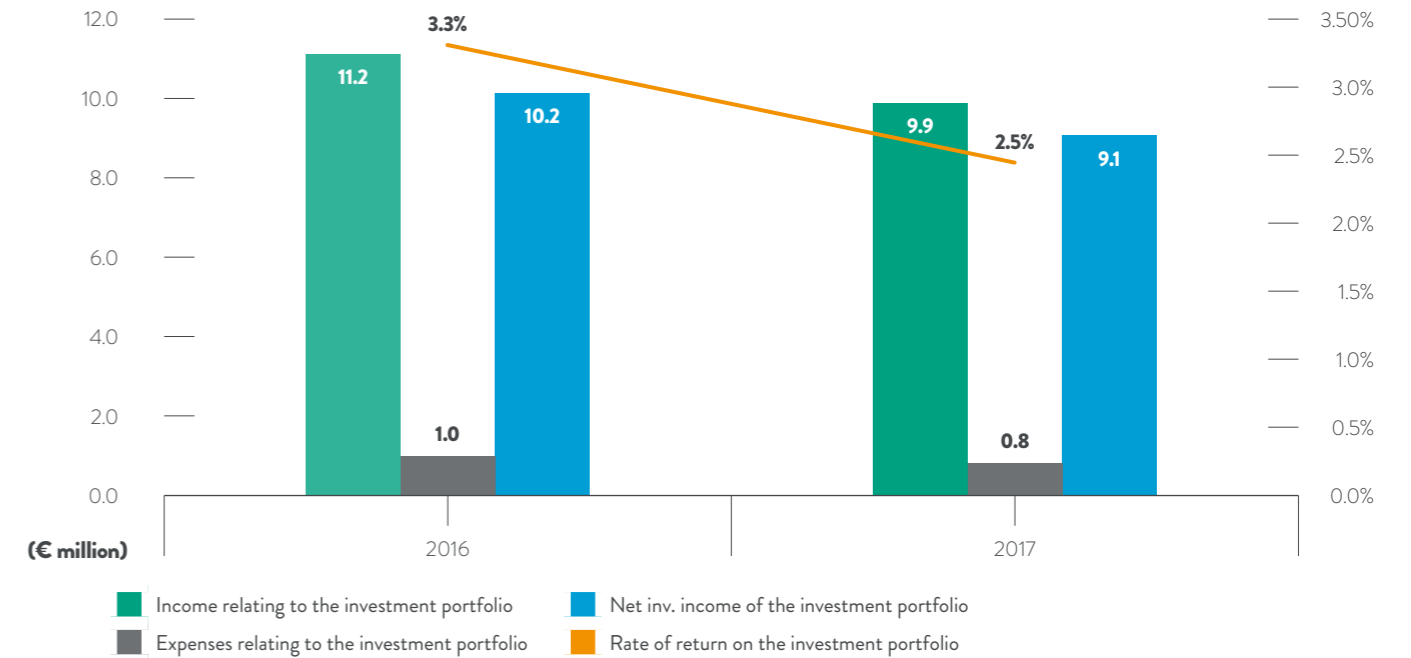


The consolidated gross expense ratio of the Slovenian companies increased by 0.4 percentage points year on year, which is a result of increased expenses in both the Slovenian part of Zavarovalnica Sava and in Sava pokojninska.

The consolidated gross expense ratio of non-Slovenian life insurers dropped by 1.5 p.p. due to the increase in gross premiums written. The consolidated gross expenses of the non-Slovenian companies, by contrast, increased by €0.2 million due to the above reasons.

Net investment income

Income, expenses and the net inv. income relating to the investment portfolio; life insurance business



The net investment income of the investment portfolio of life insurance business declined by €1.1 million year on year. The decline was mainly the result of lower interest income (€1.2 million). Expenses relating to the investment portfolio in the observed

period totalled €0.8 million or €0.2 million less than in 2016. The Group recorded no losses in life business in 2017 (2016: €0.2 million). The investment return in 2017 was 2.5%.

9 FINANCIAL POSITION OF THE SAVA RE GROUP

As at 31 December 2017, total assets of the Sava Re Group stood at €1,708.3 million, an increase of 2.2% over year-end 2016. Below we set out items of assets and liabilities in excess of 5% of total assets or liabilities as at 31 December 2017, or items that changed by more than 2% of equity.

9.1 Assets

Consolidated total assets by type

(€)	31/12/2017	As % of total as at 31/12/2017	31/12/2016	As % of total as at 31/12/2016
ASSETS	1,708,348,067	100.0%	1,671,189,179	100.0%
Intangible assets	22,712,944	1.3%	25,508,583	1.5%
Property and equipment	45,438,014	2.7%	51,887,127	3.1%
Deferred tax assets	2,107,564	0.1%	2,326,063	0.1%
Investment property	15,364,184	0.9%	7,933,786	0.5%
Financial investments	1,038,125,019	60.8%	1,030,235,239	61.6%
Funds for the benefit of policyholders who bear the investment risk	227,228,053	13.3%	224,175,076	13.4%
Reinsurers' share of TP*	30,787,241	1.8%	28,444,628	1.7%
Investment contract assets	129,622,131	7.6%	121,366,122	7.3%
Receivables	138,455,525	8.1%	127,408,527	7.6%
Deferred acquisition costs	18,507,194	1.1%	16,510,536	1.0%
Other assets	2,043,395	0.1%	1,366,844	0.1%
Cash and cash equivalents	37,956,119	2.2%	33,939,160	2.0%
Non-current assets held for sale	684	0.0%	87,488	0.0%

* TP = technical provisions

9.1.1 Property and equipment

Property and equipment assets decreased by 12.4% or €6.4 million compared to 2016.

This decrease is attributable mainly to the reclassification of the €5.2 million property on Baragova

5 in Ljubljana as investment property, because the property came into use after the lease contract was signed with the lessees. Prior to the reclassification, the property was classified as owner-occupied property under construction.

9.1.2 Investment portfolio

The investment portfolio consists of the following statement of financial position items: financial investments, investment property and cash.

The Sava Re Group investment portfolio

(€)	2017	2016	Absolute change	Index
Deposits	21,605,211	24,737,308	-3,132,097	87.3
Government bonds	566,515,923	595,132,601	-28,616,678	95.2
Corporate bonds	394,196,963	368,357,333	25,839,630	107.0
Shares	17,524,834	16,980,847	543,987	103.2
Mutual funds	31,857,756	16,531,807	15,325,949	192.7
Loans granted and other investments	591,985	659,484	-67,499	89.8
Deposits with cedants	5,832,347	7,835,859	-2,003,512	74.4
Total financial investments	1,038,125,019	1,030,235,239	7,889,780	100.8
Investment property	15,364,184	7,933,786	7,430,398	193.7
Cash and cash equivalents	30,746,332	21,481,381	9,264,951	143.1
Total investment portfolio	1,084,235,535	1,059,650,406	24,585,129	102.3
Funds for the benefit of policyholders who bear the investment risk	234,437,840	236,632,855	-2,195,015	99.1
- financial investments	227,228,053	224,175,075	3,052,977	101.4
- cash and cash equivalents of policyholders who bear the investment risk	7,209,787	12,457,779	-5,247,992	57.9
Investment contract assets	129,622,131	121,366,122	8,256,009	106.8

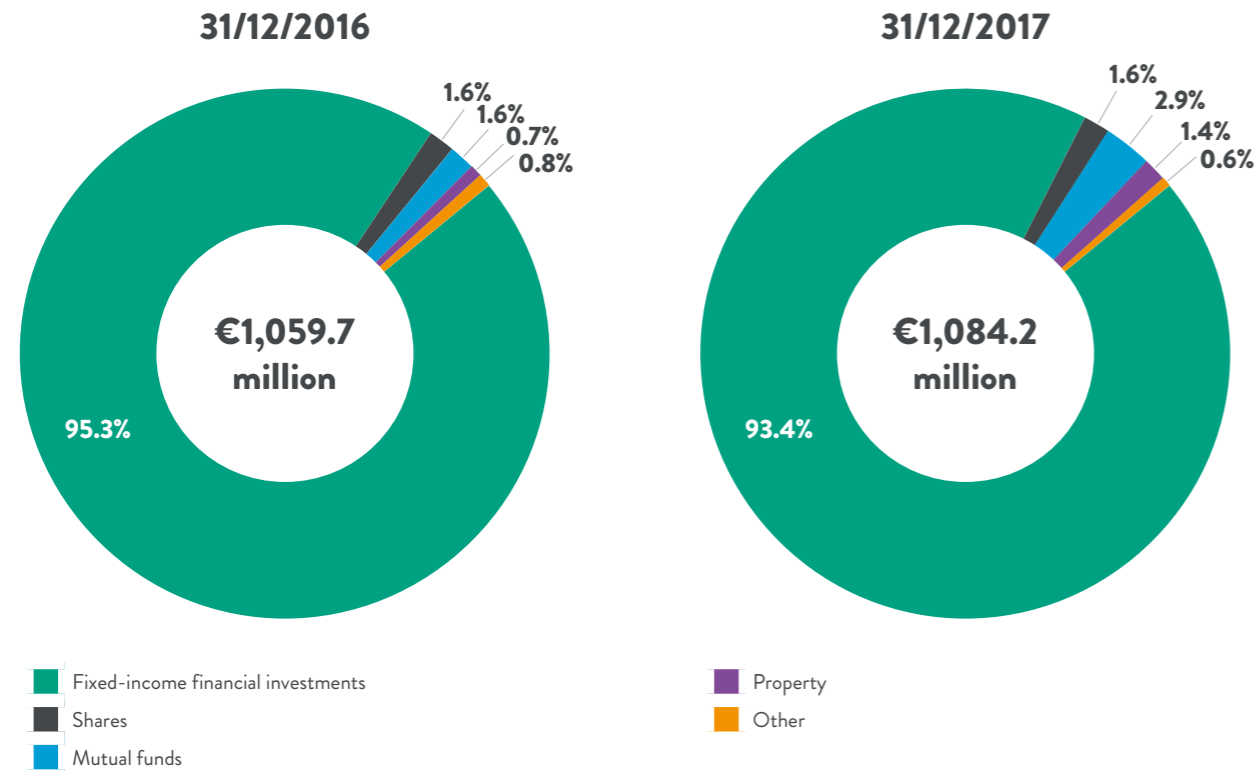
* Cash and cash equivalents of policyholders who bear the investment risk (2017: €7.2 million; 2016: €12.5 million) were excluded from the investment portfolio.

As at 31 December 2017 the Sava Re Group investment portfolio totalled €1,084.2 million and was up €24.6 million compared to 31 December 2016, mainly due to the positive cash flow from the core insurance business.

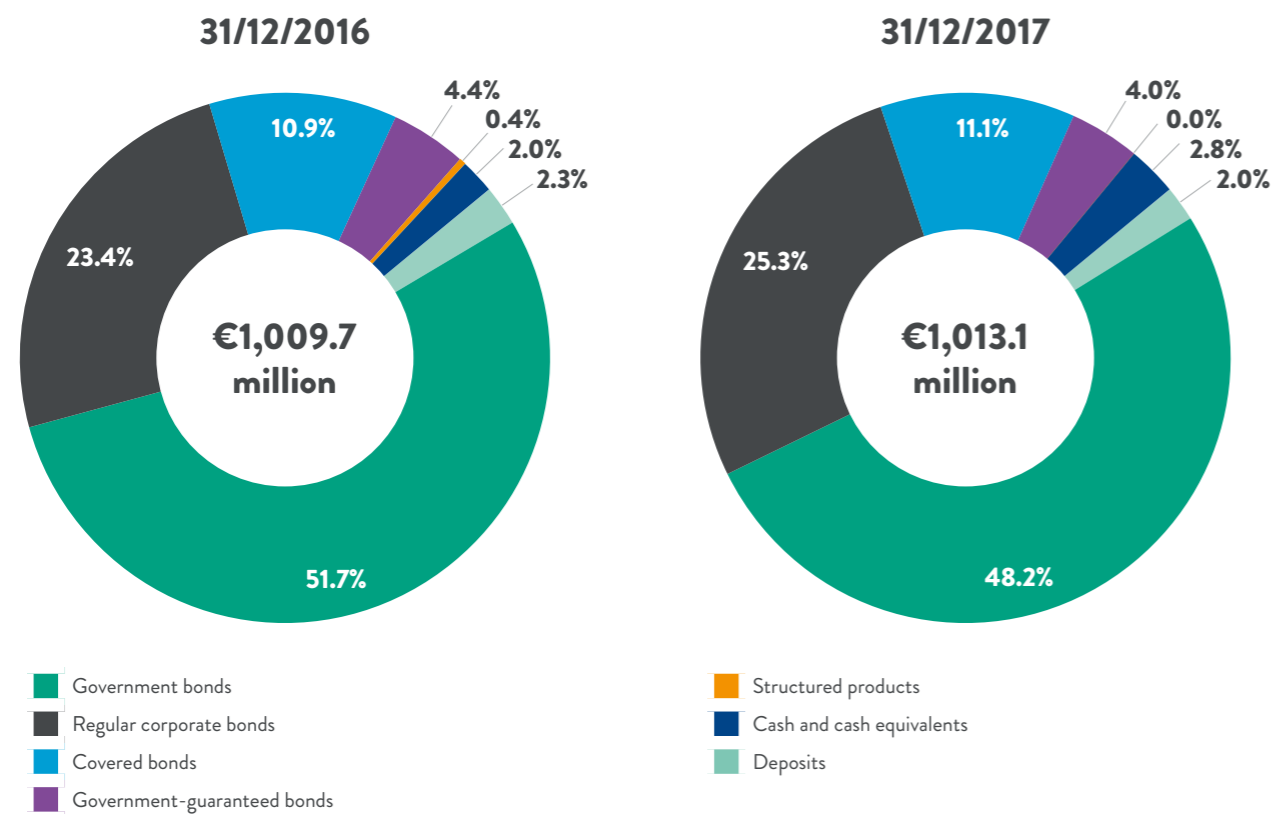
As at 31 December 2017 investment property totalled €15.4 million or €7.4 million more than at year-end 2016. The increase was the result of fixed assets under construction being included in investment property (Sava Re €5.2 million and Zavarovalnica Sava €2.2 million).

Compared to 31 December 2016, the composition of the investment portfolio changed in line with the Group's investment policy. The proportion of investments in government bonds under fixed-income investments, which accounted for 93.4% of the investment portfolio as at 31 December 2017 (31 December 2016: 95.5%), was down compared to 31 December 2016 due to maturities and disposals, whereas the proportion of corporate bonds and mutual funds increased. The increase in investments in mutual funds is largely the result of increased investments in money market funds.

Composition of the investment portfolio



Composition of fixed-income investments



9.1.3 Funds for the benefit of policyholders who bear the investment risk

Zavarovalnica Sava is the only Group company to market life products where the investment risk is borne by policyholders. The funds of these policyholders are recorded as financial investments (mainly in mutual funds selected by policyholders) and cash. As at 31 December 2017, financial investments totalled €227.2 million, while cash and cash equivalents stood at €7.2 million. Compared to 31 Decem-

ber 2016, the funds therefore decreased by €2.2 million. Funds for the benefit of policyholders who bear the investment risk decreased on account of the negative cash flow in the amount of €11.0 million that was generated through maturities and surrenders and the positive change in the fair value reserve totalling €8.2 million.

9.1.4 Investment contract assets

The investment contract assets item includes liability fund assets relating to the life cycle funds MOJ skladi življenjskega cikla managed by the Sava pokojninska pension company for the benefit of policyholders since 1 January 2016. This group consists of three long-term business funds: MOJ dinamični sklad (MY Dynamic Fund, MDF) and MOJ uravnoteženi sklad (MY Balanced Fund, MBF) (where policyholders bear the full investment risk) and MOJ zjamčeni sklad (MY Guaranteed Fund, MGF) (where policyholders bear the investment risk in excess of the guaranteed funds). As at 31 December 2017, investment contract assets totalled €129.6 million, up 6.8% compared to 31 December 2016. The increase

in investment contract assets was mainly due to a positive change in the fair value reserve (€3.3 million) and net payments (€5.6 million; there were €12.6 million of inflows and €7.0 million of outflows in 2017).

As at 31 December 2017, financial investments accounted for 88.4% of all assets, the rest consisted of receivables and cash and cash equivalents.

Like the previous category, the movement in investment contract assets depends on new premium contributions, outflows and changes in the unit prices of funds.

9.1.5 Receivables

Receivables increased by 8.7% or €11.0 million compared to 2016.

The increase was partly due to the increase in receivables arising out of primary insurance business, which rose by €73.0 million compared to 31 December 2016. The increase reflected a change in the disclosure of items of receivables and liabilities relating to operating activities. We disclose the items relating to accepted reinsurance and co-insurance business (also known as inwards re/co-insurance) under receivables and liabilities from primary insurance business. Receivables and liabilities from reinsurance and co-insurance business will continue to include items relating to ceded business (reinsurance and ceded co-insurance written by primary insurance companies and outward retrocession business of the reinsurance company).

Had this change been applied to receivables already on 31 December 2016, the receivables from primary insurance business would be €9.8 million higher than on 31 December 2016. Most of the increase in the reinsurance segment was generated through the growth in gross premiums written in international markets, which was reflected in the total growth in this item. The age structure shows an increase in not-past-due receivables arising out of primary insurance operations. Receivables arising out of reinsurance and co-insurance business increased by €1.4 million, which was the result of an increase in receivables from the reinsurance business of Sava osiguranje (MKD) related to one major claim. Current tax assets were down by €0.1 million, whereas other receivables remained at the same level as in 2016.

9.2 Liabilities

Consolidated total liabilities by type

(€)	31/12/2017	As % of total as at 31/12/2017	31/12/2016	As % of total as at 31/12/2016
LIABILITIES	1,708,348,067	100.0%	1,671,189,179	100.0%
Equity	316,116,895	18.5%	297,038,327	17.8%
Share capital	71,856,376	4.2%	71,856,376	4.3%
Capital reserves	43,035,948	2.5%	43,681,441	2.6%
Profit reserves	162,548,076	9.5%	145,893,612	8.7%
Treasury shares	-24,938,709	-1.5%	-24,938,709	-1.5%
Fair value reserve	18,331,697	1.1%	17,458,948	1.0%
Reserve due to fair value revaluation	667,518	0.0%	351,655	0.0%
Retained earnings	33,093,591	1.9%	36,778,941	2.2%
Net profit or loss for the period	14,557,220	0.9%	9,049,238	0.5%
Translation reserve	-3,353,304	-0.2%	-3,854,182	-0.2%
Equity attributable to owners of the controlling company	315,798,413	18.5%	296,277,319	17.7%
Non-controlling interests in equity	318,482	0.0%	761,008	0.0%
Subordinated liabilities	0	0.0%	23,570,771	1.4%
Technical provisions	931,398,362	54.5%	911,221,323	54.5%
Technical provisions for the benefit of life insurance policyholders who bear the investment risk	226,527,893	13.3%	226,994,200	13.6%
Other provisions	7,600,613	0.4%	8,080,877	0.5%
Deferred tax liabilities	5,781,494	0.3%	6,038,631	0.4%
Investment contract liabilities	129,483,034	7.6%	121,229,675	7.3%
Other financial liabilities	245,205	0.0%	393,996	0.0%
Liabilities from operating activities	60,598,188	3.5%	48,790,646	2.9%
Other liabilities	30,596,383	1.8%	27,830,733	1.7%

9.2.1 Equity

Compared to 31 December 2016 equity increased by 6.4% or €19.1 million. The change reflects the following factors:

- net profit amounted to €31.1 million (increase in equity);
- positive change in the fair value reserve of €1.7 million (increase in equity);
- acquisition of non-controlling interests in the amount of €1.1 million (decrease in equity);
- dividend payout of €12.5 million (decrease in equity).

9.2.2 Subordinated liabilities

In 2006 and 2007, the controlling company raised a subordinated loan in the nominal amount of €32 million scheduled to mature in 2027. Under the contractual provisions, the Company had the option of early repayment of the remaining nominal amount of

€24 million as of 2017. Having received the approval of the Slovenian Insurance Supervision Agency, the controlling company repaid the subordinated debt in the nominal amount of €24 million on 15 March 2017 and 14 June 2017.

9.2.3 Technical provisions

Gross technical provisions are the largest item of liabilities. As at 31 December 2017 they were 2.2% or €20.2 million higher than at year-end 2016.

Gibanje konsolidiranih kosmatih zavarovalno-tehničnih rezervacij

(v EUR)	31.12.2017	31.12.2016	Indeks
Kosmate prenosne premije	171.857.259	157.678.496	109,0
Kosmate matematične rezervacije	271.409.915	269.762.815	100,6
Kosmate škodne rezervacije	479.072.582	475.157.985	100,8
Kosmate rezervacije za bonuse, popuste in storno	1.780.231	1.831.420	97,2
Druge kosmate zavarovalno-tehnične rezervacije	7.278.375	6.790.607	107,2
Kosmate zavarovalno-tehnične rezervacije	931.398.362	911.221.323	102,2

The gross provisions for the reinsurance segment rose by 2.6% or €3.9 million. Unearned premiums increased by €1.9 million or 7.5%, mainly owing to higher premiums in proportional reinsurance with mid-year renewal, and provisions for outstanding claims increased by €1.8 million or 1.4%, mainly as the result of reserves made for large claims in underwriting year 2017.

Gross provisions in the non-life segment at year-end 2017 were 3.1% or €14.6 million higher as the result of a €12.4 million increase in unearned premiums, whereas gross provisions for outstanding claims increased by €2.1 million. Driven by business growth, gross provisions increased in all non-life insurers in

the Group except the Macedonian company, which in 2017 paid several large claims from previous years and thus reported a decrease in gross provision for outstanding claims. Prior year reserve releases had a positive effect on movement in provisions.

The gross provision for traditional life policies at year-end 2017 was 0.6% or €1.7 million larger than at the previous year-end, mainly as a result of the increase in the mathematical provision.

Other technical provisions (bonuses and discounts, unexpired risks) accounted for a smaller share and grew in total by €0.4 million.

9.2.4 Technical provisions for the benefit of life insurance policyholders who bear the investment risk

As at 31 December 2017 technical provisions for the benefit of policyholders who bear the investment risk declined by 0.2% or €0.5 million compared to year-end 2016. These provisions move in line with funds of

policyholders who bear the investment risk (depending on contributions, outflows and movement in fund unit prices).

9.2.5 Investment contract liabilities

The investment contract liabilities of the Sava pokojninska pension company totalled €129.5 million as at 31 December 2017, up 6.8% or €8.3 million on

year-end 2016. They move in line with investment contract assets.

9.2.6 Liabilities from operating activities

As at 31 December 2017, liabilities from operating activities totalled €60.6 million, up €11.8 million or 24.2% compared to year-end 2016.

Due to a change in the disclosure of liabilities described in section 9.1.5 "Receivables", the liabilities from primary insurance business increased by €42.8 million. Had this change been applied already on 31 December 2016, the liabilities arising out of primary insurance business would have been €12.5 million higher at year-end 2017 compared to year-

end 2016. This is largely due to the increase in liabilities arising out of primary reinsurance business due to increased liabilities for claims that are subject to the usual interim dynamics; these include not-past-due liabilities and liabilities with corresponding receivables for premiums. The increase in other segments is largely the result of one large claim of the Macedonian insurer that had been processed, but not yet paid. Liabilities from reinsurance and co-insurance business were down €0.8 million compared to year-end 2016.

9.3 Capital structure

As at 31 December 2017, the Sava Re Group held €316.1 million of equity and no subordinated lia-

bilities, and was thus financed exclusively through equity.

9.4 Cash flow

In 2017, the Sava Re Group had a positive operating cash flow of €31.4 million (2016: €42.2 million) that was driven by the cash flow from its core activity (insurance and reinsurance business), which is the best indicator of the difference between premium inflows and claims and costs paid. Sava Re had €15.6 million of net cash and Zavarovalnica Sava €18.1 million. Strong net cash flow from operating activities provides sufficient funds for the development of key Group areas.

In 2017, the Sava Re Group recorded a negative financing cash flow of €38.2 million (2016: negative €27.8 million), which was the result of the repayment of subordinated debt and dividend payments.

The movement in the net disbursement in financing activities is due to investing activities, but its amount was affected also by the above factors.

Net cash flow in 2017 was €25.2 million below the year-on-year figure.