annual report

2016

SAVA Re GROUP

annual report

2016

declaration of the management board

“

To the best of our knowledge and in accordance with the International Financial Reporting Standards, the consolidated and separate financial statements give a true and fair view of the financial position and profit or loss of the Sava Re Group and Sava Re. The business report gives a fair view of the development and performance of the Group and the Company, and their financial position, including a description of the principal risks that the consolidated companies are exposed to.

Ljubljana, 31 March 2017

”

Jošt Dolničar
Chairman of the Management Board

Srečko Čebron
Member of the Management Board

Mateja Treven
Member of the Management Board









(€)

GROSS PREMIUMS WRITTEN
Year-on-year change (%)
NET PREMIUMS EARNED
Year-on-year change (%)
GROSS CLAIMS PAID
Year-on-year change (%)
NET CLAIMS INCURRED
Year-on-year change (%)
NET INCURRED LOSS RATIO
NET INCURRED LOSS RATIO, EXCLUDING THE EFFECT OF EXCHANGE DIFFERENCES
OPERATING EXPENSES, INCLUDING REINSURANCE COMMISSION INCOME
Year-on-year change (%)
Net expense ratio
NET COMBINED RATIO
NET COMBINED RATIO, EXCLUDING THE EFFECT OF EXCHANGE DIFFERENCES
Net inv. income of the investment portfolio
Return on the investment portfolio
Net inv. income of the investment portfolio, excluding exchange differences
Return on the investment portfolio, excluding exchange differences
PROFIT/LOSS, NET OF TAX
Year-on-year change (%)
PROFIT/LOSS BEFORE TAX
Year-on-year change (%)
COMPREHENSIVE INCOME
Year-on-year change (%)
RETURN ON EQUITY

TOTAL ASSETS
% change on 31 Dec. of prior year
SHAREHOLDERS' EQUITY
% change on 31 Dec. of prior year
NET TECHNICAL PROVISIONS
% change on 31 Dec. of prior year
Book value per share
Net earnings/loss per share
No. of employees (full-time equivalent basis)

Notes:

- For details on the calculation of ratios and the net investment income, see the glossary in Appendix C.
- The net investment income of the investment portfolio does not include the net investment income relating to assets of policyholders who bear the investment risk since such assets do not affect the income statement. The mathematical provision of policyholders who bear the investment risk moves in line with this line item.
- The number of employees employed by the Sava Re Group in 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group.

Key figures

	Sava Re Group		Sava Re	
	2016	**2015**	**2016**	**2015**
	490,205,154	**486,264,557**	**147,426,893**	**151,982,421**
	0.8 %	3.9 %	-3.0 %	15.7 %
	458,101,526	**447,559,605**	**133,428,875**	**125,479,297**
	2.4 %	2.3 %	6.3 %	10.2 %
	269,445,796	**271,503,134**	**85,165,592**	**89,689,537**
	-0.8 %	6.3 %	-5.0 %	27.8 %
	268,393,776	**273,129,823**	**81,781,565**	**86,680,582**
	-1.7 %	6.2 %	-5.7 %	33.9 %
	58.6 %	**60.5 %**	**61.3 %**	**69.1 %**
	58.2 %	**59.5 %**	**60.2 %**	**66.3 %**
	155,830,879	**145,261,469**	**44,475,032**	**37,623,325**
	7.3 %	1.1 %	18.2 %	1.9 %
	34.0 %	32.5 %	33.3 %	30.0 %
	95.0 %	**95.8 %**	**94.9 %**	**99.2 %**
	94.6 %	**94.9 %**	**93.6 %**	**96.7 %**
	24,612,812	26,985,847	27,684,549	15,634,555
	2.4 %	2.7 %	6.0 %	3.5 %
	23,122,262	23,706,782	26,323,674	12,407,054
	2.2 %	2.4 %	5.8 %	2.8 %
	32,918,213	**33,365,451**	**32,873,817**	**16,191,902**
	-1.3 %	9.3 %	103.0 %	-27.6 %
	40,669,987	**40,097,971**	**34,977,140**	**16,739,349**
	1.4 %	2.9 %	109.0 %	-34.7 %
	37,660,245	**27,618,054**	**33,693,737**	**14,814,031**
	36.4 %	-32.5 %	127.4 %	-44.0 %
	11.3 %	**12.0 %**	**12.3 %**	**6.2 %**
	31/12/2016	**31/12/2015**	**31/12/2016**	**31/12/2015**
	1,671,189,179	**1,607,281,060**	**568,147,764**	**570,886,710**
	4.0 %	10.5 %	-0.5 %	4.3 %
	297,038,327	**286,401,678**	**270,355,622**	**263,679,403**
	3.7 %	5.5 %	2.5 %	2.1 %
	1,109,770,895	**1,070,781,309**	**208,003,567**	**204,875,596**
	3.6 %	4.3 %	1.5 %	10.3 %
	18.81	17.38	17.12	16.00
	2.08	2.02	2.08	0.98
	2,487.97	2,540.28	94.58	82.95

SAVA RE GROUP

BUSINESS REPORT


SAVA Re

1. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear

Employees, Business Partners and Shareholders,

The Sava Re Group generated both premium growth and a favourable profit in 2016. We posted solid results while finalising a highly complex merger operation that combined and rebranded our four EU-based Group insurers, which was supported by intensive media coverage.

This consolidation will ensure the stable operation of the Group in the coming years, as – with the combined knowledge base – the reorganised Slovenian and Croatian parts of the Group will provide the necessary critical mass of people conducive to producing innovative solutions for the future, thereby strengthening our market position. An important focus of the combined insurer will be new technology, especially mobile and web-based commerce, to facilitate client access to our services. We also believe in the accelerated growth in the Croatian insurance market, where the Sava osiguranje brand is now even more recognisable.

In 2016, we achieved premium growth and are particularly satisfied with the larger business volume in Slovenia, which is partly a result of the effective rebranding communication plan during the merger process. We have also achieved healthy organic growth in the other insurance markets where we are present, which is a positive sign that these markets are reviving. We expect to see high growth here over the coming years, and the insurers of the Sava Re Group are well placed to benefit from this. While there was a slight decrease in reinsurance premiums written in international reinsurance markets, this was both to reduce our exposure in one specific market as well as to improve the profitability of the reinsurance portfolio. Should the current market conditions persist, we will remain cautious about premium growth in this segment, focusing on technical performance. I would like to highlight that the Group improved its net combined ratio relating to non-life insurance and the reinsurance business in 2016 in line with targets set in the Company's strategic plan, despite a local catastrophic event and heavier operating costs due to the merger of the insurance companies. This shows that underwriting discipline is being maintained in all operating segments.

I am satisfied with the profit achieved by the Sava Re Group in 2016. Despite a major loss event, the Slovenian insurance operations performed well, while reinsurance operations posted very good results. The Sava Re Group closed 2016 with a profit before tax of € 40.7 million, an improvement of 1.4 per cent over the prior year. The net profit for the year was € 32.9 million, which is 1.3 percent below the year-on-year figure because of the tax effect. The Group's return on equity was 11.3 per cent in 2016 and is slightly better than our long-term goal. The profits earned will allow the Group to follow its dividend policy and planned increase in the dividend per share.

It was a challenging year. I would like to thank all of my colleagues who have given more than their share in the project to combine the Group's EU insurers so that, now, we can already enjoy the first benefits of the merger and see the achievements of the consolidated insurer and the Group. This year has reinforced my belief that our people will always find the means to develop the motivation and positive energy we need to shape a successful common future.

Jošt Dolničar
Chairman of the Management Board of Sava Re, d.d.

2. PROFILE OF SAVA RE AND THE SAVA RE GROUP

2.1. Sava Re Company Profile

Company name	Sava Re, d.d.
Business address	Dunajska 56 1000 Ljubljana Slovenia
Telephone (switchboard)	+386 1 47 50 200
Facsimile	+386 1 47 50 264
E-mail	info@sava-re.si
Website	www.sava-re.si
Company ID number	5063825
Tax number	17986141
LEI code	549300P6F1BDSFSW5T72
Share capital	€ 71,856,376
Shares	17,219,662 no-par-value shares
Management and supervisory bodies	MANAGEMENT BOARD Jošt Dolničar (chairman) Srečko Čebron Mateja Treven SUPERVISORY BOARD Mateja Lovšin Herič (chair), Slaven Mićković (deputy chair) Keith Morris Mateja Živec (employee representative) Andrej Gorazd Kunstek (employee representative)
Date of entry into court register	10 December 1990, Ljubljana District Court
Certified auditor	Ernst & Young d.o.o. Dunajska 111 1000 Ljubljana Slovenia
Largest shareholder and holding	Slovenski državni holding, d.d. (Slovenian Sovereign Holding) 25 % + 1 share (no. of no-par value shares: 4,304,917)
Credit ratings:	
A.M. Best	A- /stable/ November 2016
Standard & Poor's	A- /stable/ July 2016
The Company has no branches.	

2.2. Significant events in 2016

Events related to the merger of Sava Re Group subsidiaries

on **6 May 2016** the management boards of the EU-based Sava Re Group insurers (Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje, Velebit životno osiguranje) involved in the merger process signed a Cross-border Merger Plan and Merger Contract. On 13 May 2016 the supervisory boards of all four companies approved the contract, including a joint report of the management boards on the merger and cross-border merger and an auditor's opinion on the exchange ratio issued by the audit firm BDO revizija d.o.o. In June 2016 the companies Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje held their general meetings of shareholders, giving their consent to Zavarovalnica Maribor's merger by acquisition of Zavarovalnica Tilia and the cross-border merger of the two Croatian companies into Zavarovalnica Maribor.

On **23 September 2016** the Insurance Supervision Agency granted authorisation for the merger of insurance companies, including the merger of Zavarovalnica Tilia and the cross-border merger of the companies Velebit osiguranje and Velebit životno osiguranje with Zavarovalnica Maribor.

On **2 November** the process of merging the four insurance companies Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje, all members of the Sava Re Group, was officially completed. As of that day, the above merger was entered into the register of companies, including the change in the company name from "Zavarovalnica Maribor, d.d." to "Zavarovalnica Sava, d.d." The merger process has run both according to plan and successfully, as seen by the owner.

Governance-related events

In its session of 23 February 2016, the workers' council of Sava Re was presented with and accepted the notice of resignation of Helen Dretnik as member of the supervisory board representing employee interests. Helena Dretnik had handed in her notice of resignation on 19 February 2016 with effect from the same date. Until the appointment of a new member of the supervisory board representing employee interests, the supervisory board of Sava Re operated as a five-member body. In accordance with the Workers' Participation in Management Act, the workers' council, in its session of 29 March 2016, appointed Mateja Živec as its new representative in the supervisory board. The member so appointed entered her term of office on 1 April 2016.

In August 2016 Sava Re received a letter from the Insurance Supervision Agency (ISA) notifying the Company of its intention to order supervisory measures and noting that Branko Tomažič, chairman of the Company's supervisory board, failed to meet all of the conditions for appointment as member of the Company's supervisory board.

In its extraordinary session on 22 August 2016, the supervisory board of Sava Re recalled Zvonko Ivanušič from the position of both chairman and member of the Company's management board, effective as of 23 August 2016. The supervisory board appointed management board member Jošt Dolničar as temporary chairman of the management board as of 23 August 2016, and adopted a decision by which the management board is composed of three members effective 23 August 2016. The supervisory board immediately began the process of selecting a new chairman of the management board. On 14 October 2016 the Company received a claim filed by Zvonko Ivanušič with the Ljubljana District Court for annulment of supervisory board resolution on his recall from the position of chairman and member of the management board, annulment of entry of the change of representatives into the court register, reinstatement as chairman of the management board and payment of non-pecuniary damages. Prior to that, the company had already received a claim filed by Zvonko Ivanušič with the Labour and Social Court in Ljubljana for wrongful termination (termination of both employment contract and employment relationship), requesting also full reinstatement.

On 11 October 2016, the Company received a notice of resignation from Branko Tomažič as president and member of the supervisory board, effective as of that day. His functions in other supervisory board committees ceased as of the same day. On 12 October 2016 the members of the supervisory board of Sava Re elected from among themselves Mateja Lovšin Herič as chair of the supervisory board and Slaven Mićković as deputy chair. As of 12 October 2016, Keith Morris was appointed new member of the supervisory board nomination committee. As of 28 October 2016, Slaven Mićković was appointed chairman of the audit committee of the supervisory board (previously audit committee member), and Mateja Lovšin Herič was appointed member of the audit committee (previously chair of the audit committee). As of 28 October 2016, Mateja Živec was appointed new member and chair of the supervisory board fit and proper committee.

In its regular session of 16 December 2016, the Sava Re supervisory board completed the process of selecting a new chairman of the management board of Sava Re, selecting Marko Jazbec as the most suitable candidate. On 16 December 2016, Marko Jazbec was appointed as chair of the management board of Sava Re, d.d., with a five-year term of office starting on the day after the licence to perform the function of management board member is issued by the Insurance Supervision Agency.

Other events

04 In their session of 6 April 2016, the supervisory and management boards of Sava Re drew up a proposal for the general meeting providing for a dividend – relating to the profit of 2015 – of € 0.80 gross per share, of which € 0.65 gross per share would comprise the regular dividend (representing an 18-percent increase over the 2014 dividend) and € 0.15 gross per share would comprise an extraordinary dividend. The management board of Sava Re cancelled the 31st general meeting scheduled for 24 May 2016 and in July 2016 reconvened it for 30 August 2016.

04 In April 2016, Sava Re carried out a share repurchase procedure on the OTC market. After the process of sending offers was closed, the Company set the price (€ 15) and purchase volume of POSR shares (845,599) to be repurchased. From 1 April to 22 April 2016, Sava Re purchased altogether 895,796 own shares for a total amount of € 13.4 million in both the regulated and the OTC markets. The total number of own shares after the purchases is 1,721,966, which represents 10.0 % less one share of the Company's issued share capital. There were no more share buy-back after 22 April 2016, as the general meeting authorisation was limited to 10 % minus one share of the share capital.

05 In early May 2016 after obtaining the required approvals from the National Bank of Serbia, the Serbian insurer Sava neživotno osiguranje (SRB) assumed the entire portfolio of the insurer AS osiguranje Beograd.

07 In July after its regular annual rating review, rating agency Standard & Poor's reaffirmed Sava Re's existing »A-« ratings with a stable outlook. The ratings reflect the Company's improved business risk profile, its long-term stability and financial soundness.

08 On 30 August 2016 the 31st general meeting of shareholders was held, at which no challenging actions were announced.

08 In August, the north-eastern and central parts of Slovenia were hit by a storm. The associated net loss for the Sava Re Group was about € 5 million.

10 On 19 October 2016 the Slovenian Constitutional Court – with respect to the cancellation of subordinated financial instruments – held that while the disputed Banking Act formally allowed the holders of cancelled shares and subordinated bonds of banks to bring claims against the Bank of Slovenia, this form of judicial protection was ineffective because claimants had no access to information for the assessment of the value of bank assets and other relevant data based on which the Bank of Slovenia imposed emergency measures relating to qualified liabilities of banks resulting in the cancellation of banking shares and subordinated bonds. Furthermore, the law provided no procedural rules nor procedures of collective judicial protection for making fair decisions in disputes between expropriated share and bond holders and the Bank of Slovenia. Therefore, the Constitutional Court ordered the Slovenian National Assembly to – within six months of the publication of the decision – pass legislation that would allow the constitutionally consistent and effective enforcement of the right to justice for all claims already filed and future claims for damages relating to the cancellation of shares and bonds, and extend the limitation period for such claims. The total absolute value of cancelled subordinated instruments is € 10,038,000 for Sava Re, € 22,957,200 for Zavarovalnica Sava, and € 4.965.100 for Moja naložba. All these Sava Re Group companies will continue activities to protect their interests. In order to protect their rights with regard to limitation provisions, in December 2016 the Sava Re Group members brought actions against the issuing banks of the subordinated financial instruments that they held and were subsequently cancelled.

11 On 4 November 2015, rating agency A.M. Best affirmed the financial strength rating and issuer credit rating of Sava Re of A- (Excellent) with a stable outlook.

2.3. Significant events after the reporting date

- On 7 March 2017, the 32nd general meeting of Sava Re took place at the Horus Hall of the Austria Trend Hotel in Ljubljana. The general meeting elected the new supervisory board members for the next four-year term of office: Ivan Davor Gjivoje (term of office to start on 7 March 2017) and Mateja Lovšin Herič, Keith William Morris and Andrej Kren (term of office to start on 16 July 2017). As of 7 March 2017, the supervisory board of Sava Re operates with all of its six members.
- In 2006 and 2007, Sava Re raised a subordinated debt in the nominal amount of € 32 million maturing in 2027. Sava Re raised the subordinated debt to expand the Sava Re Group to the markets of the former Yugoslavia and to improve its capital adequacy position in accordance with the then applicable insurance laws and the Standard & Poor's model. In January 2014, Sava Re redeemed € 8 million of the nominal amount of the subordinated debt. Under the contractual provisions, the remaining nominal amount of € 24 million can be early repaid as of 2017. After receiving the approval of the Slovenian Insurance Supervision Agency, Sava Re repaid the first tranche of the subordinated debt in the nominal amount of € 12 million on 15 March 2017. The remaining part of the subordinated debt in a nominal amount of € 12 million is scheduled to be repaid in June 2017. After the repayment of the subordinated debt, Sava Re and the Sava Re Group will maintain a high solvency ratio under the applicable law. Furthermore, the simulations of models of rating agencies Standard & Poor's and A.M. Best have shown that the early repayment of the subordinated debt would not affect the capital position so that both the Company and the Sava Re Group will maintain a solid target level of capitalisation.

2.4. Sava Re Rating Profile

Sava Re is rated by two rating agencies, Standard & Poor's and A.M. Best.

Financial strength rating of the Sava Re

Agency	Rating[1]	Outlook	Latest review
Standard & Poor's	A-	stable	July 2016: affirmed existing rating
A.M. Best	A-	stable	November 2016: affirmed existing rating

2.5. Profile of the Sava Re Group

At 31 December 2016, the insurance part of the Sava Re Group comprised – in addition to the controlling company Sava Re – seven insurers based in Slovenia and other Western Balkan countries, and one pension company based in Slovenia.

1 Credit rating agency Standard & Poor's uses the following scale for assessing financial strength: AAA (extremely strong), AA (very strong), A (strong), BBB (adequate), BB (less vulnerable), B (more vulnerable), CCC (currently vulnerable), CC (highly vulnerable), R (under regulatory supervision), SD (selectively defaulted), D (defaulted), NR (not rated). Plus (+) or minus (–) following the credit rating from AA to CCC indicates the relative ranking within the major credit categories.
A.M. Best uses for the following categories to assess financial strength: A++, A+ (superior), A, A– (excellent), B++, B+ (Good), B, B– (fair), C++, C+ (marginal), C, C– (weak), D (poor), E (under regulatory supervision), F (in liquidation), S (suspended).

2.6. Composition of the Sava Re Group

Composition of the Sava Re Group as at 31 December 2016

SAVA RE group

- 100 % **MOJA NALOŽBA** – Slovenia
- 100 % **SAVA NEŽIVOTNO OSIGURANJE** – Serbia
- 100 % **SAVA ŽIVOTNO OSIGURANJE** – Serbia
- 100 % **SAVA OSIGURANJE** – Montenegro
  - → **SAVA CAR** – Montenegro
  - → **SAVA AGENT** – Montenegro
- 100 % **ILLYRIA** – Kosovo
- 100 % **ILLYRIA LIFE** – Kosovo
- 100 % **ILLYRIA HOSPITAL** – Kosovo
- 92.44 % **SAVA OSIGURUVANJE** – Macedonia
  - → **SAVA STATION** – Macedonia
- 99.74 % **ZAVAROVALNICA SAVA** – Slovenia, Croatia
  - → **ZS SVETOVANJE** – Slovenia
  - → **ZS VIVUS** – Slovenia
    - ↓ **ORNATUS KC** – Slovenia

The new company names of the companies ZS Svetovanje and ZS Vivus were entered in the register of companies in January 2017.

Company names of the Sava Re Group members

	Official long company name	Short name in this document
	Sava Re Group	Sava Re Group
1	Pozavarovalnica Sava, d.d.	Sava Re
2	ZAVAROVALNICA SAVA, zavarovalna družba, d.d.	Zavarovalnica Sava
		Zavarovalnica Sava, Slovenian part (in tables)
	SAVA OSIGURANJE d.d. – Croatian branch office	Zavarovalnica Sava, Croatian part (in tables)
3	Moja naložba pokojninska družba d.d.	Moja naložba
4	SAVA NEŽIVOTNO OSIGURANJE AKCIONARSKO DRUŠTVO ZA OSIGURANJE BEOGRAD	Sava neživotno osiguranje (SRB)
5	"SAVA ŽIVOTNO OSIGURANJE" akcionarsko društvo za osiguranje, Beograd	Sava životno osiguranje (SRB)
6	KOMPANIA E SIGURIMEVE " ILLYRIA " SH.A.	Illyria
7	Kompania për Sigurimin e Jetës " Illyria – Life " SH.A.	Illyria Life
8	AKCIONARSKO DRUŠTVO SAVA OSIGURANJE PODGORICA	Sava osiguranje (MNE)
9	SAVA osiguruvanje a.d. Skopje	Sava osiguruvanje (MKD)
10	" Illyria Hospital " SH.P.K.	Illyria Hospital
11	Društvo sa ograničenom odgovornošću – SAVA CAR – Podgorica	Sava Car
12	ZS VIVUS zavarovalno zastopniška družba d.o.o.	ZS Vivus
13	ZS Svetovanje, storitve zavarovalnega zastopanja, d.o.o.	ZM Svetovanje
14	ORNATUS KLICNI CENTER, podjetje za posredovanje telefonskih klicov, d.o.o.	Ornatus KC
15	DRUŠTVO ZA ZASTUPANJE U OSIGURANJU "SAVA AGENT" D.O.O. - Podgorica	Sava Agent
16	Društvo za tehničko ispituvanje i analiza na motorni vozila SAVA STEJŠN DOOEL Skopje	Sava Station

2.7. Activities transacted by the Sava Re Group

Sava Re, the controlling company of the Group, transacts reinsurance business. Slovenia-based Zavarovalnica Sava is the only Group's composite insurer. Sava neživotno osiguranje (SRB), Sava osiguruvanje (MKD), Illyria and Sava osiguranje (MNE) are non-life insurers. Sava životno osiguranje (SRB) and Illyria Life are life insurance companies. In addition to the above (re)insurers, the Group consists of:

- Illyria Hospital: wholly-owned subsidiary based in Kosovo, which owns some land, but currently does not transact any business,
- Sava Car: vehicle inspection company wholly-owned by the insurer Sava osiguranje (MNE),
- Sava Agent: insurance agency wholly-owned by the insurer Sava Montenegro,
- Sava Station: vehicle inspection company wholly-owned by the insurer Sava osiguruvanje (MKD),
- ZS Vivus: wholly-owned subsidiary of Zavarovalnica Sava specialised in marketing life products of its parent. ZS Vivus owns the company Ornatus KC.
- ZM Svetovanje: wholly-owned subsidiary of Zavarovalnica Sava specialised in marketing life products of its parent.
- Moja naložba: pension company wholly-owned by Sava Re.

2.8. Data on Group companies as at 31 December 2016

As at 31 December 2016, the Sava Re Group had the following members:

Title	Sava Re	Zavarovalnica Sava	Moja naložba	Sava neživotno osiguranje (SRB)	Sava životno osiguranje (SRB)
Registered office	Dunajska cesta 56, 1001 Ljubljana, Slovenia	Cankarjeva 3, 2507 Maribor, Slovenia	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11000 Beograd, Serbia	Bulevar vojvode Mišića 51, 11000 Beograd, Serbia
Company ID number	5063825	5063400	1550411	17407813	20482443
Business activity	reinsurer	composite insurer	pension company	non-life insurer	life insurer
Share capital	€ 71,856,376	€ 68,417,377	€ 6,301,109	€ 6,665,393	€ 4,838,286
Book value of equity interest		€ 68,239,492	€ 6,301,109	€ 6,665,393	€ 4,838,286
Equity interests (voting rights) held by Group members		Sava Re: 99.74 %	Sava Re: 100.0 %	Sava Re: 100.0 %	Sava Re: 100.0 %
Bodies of the Company	MANAGEMENT BOARD Jošt Dolničar (chair), Srečko Čebron, Mateja Treven	MANAGEMENT BOARD David Kastelic (chair), Primož Močivnik, Rok Moljk, Boris Medica, Robert Ciglarič	MANAGEMENT BOARD Lojze Grobelnik (chair), Igor Pšunder	MANAGING DIRECTOR Edita Rituper EXECUTIVE DIRECTOR Milorad Bosnić	BOARD OF DIRECTORS Gorica Drobnjak (chair), Zdravko Jojić
	SUPERVISORY BOARD Mateja Lovšin Herič (chair), Slaven Mićković, Keith Morris, Mateja Živec, Andrej Gorazd Kunstek	SUPERVISORY BOARD Jošt Dolničar (chair), Mateja Treven, Polona Pirš Zupančič, Pavel Gojkovič, Aleš Perko, Branko Beranič	SUPERVISORY BOARD Mateja Treven (chair), Katrca Rangus, Rok Moljk, Jure Korent, Andrej Rihter, Irena Šela, Robert Senica	BOARD OF DIRECTORS Jošt Dolničar (chair), Jure Korent, Marija Popović	BOARD OF DIRECTORS Polona Pirš Zupančič (chair), Pavel Gojkovič, Milan Jeličić
Position in the Group	parent, reinsurer	subsidiary insurance company	subsidiary pension company	subsidiary insurance company	subsidiary insurance company
Supervisory body	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Narodna banka Srbije , Nemanjina 17, 11000 Beograd, Srbija	Narodna banka Srbije, Nemanjina 17, 11000 Beograd, Serbia

Title	Illyria	Illyria Life	Sava osiguruvanje (MKD)	Sava osiguranje (MNE)
Registered office	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Zagrebska br. 28 A, 1000 Skopje, Macedonia	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro
Company ID number	70152892	70520893	4778529	02303388
Business activity	non-life insurer	life insurer	non-life insurer	non-life insurer
Share capital	€ 5,428,040	€ 3,285,893	€ 3,820,077	€ 4,033,303
Book value of equity interest	€ 5,428,040	€ 3,285,893	€ 3,531,279	€ 4,033,303
Equity interests (voting rights) held by Group members	Sava Re: 100.0 %	Sava Re: 100.0 %	Sava Re: 92.44 %	Sava Re: 100.0 %
Bodies of the Company	MANAGING DIRECTOR Gianni Sokolič	MANAGING DIRECTOR Ramis Ahmetaj	CHIEF EXECUTIVE OFFICER Peter Skvarča CHIEF OPERATING DIRECTORS Ruse Drakulovski, Ilo Ristovski	CHIEF EXECUTIVE OFFICER Nebojša Šćekić
	BOARD OF DIRECTORS Primož Močivnik (chair), Rok Moljk, Robert Sraka, Ramis Ahmetaj, Milan Viršek	BOARD OF DIRECTORS Primož Močivnik (chair), Robert Sraka, Gianni Sokolič, Rok Moljk, Milan Viršek	BOARD OF DIRECTORS Rok Moljk (chair), Peter Skvarča (executive member), Polona Pirš Zupančič, Milan Viršek, Janez Jelnikar	BOARD OF DIRECTORS Milan Viršek (chair), Jošt Dolničar, Edita Rituper
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company
Supervisory body	Centralna Banka Kosova, Garibaldi str. no.33, Priština, Kosovo	Centralna Banka Kosova, Garibaldi str. no.33, Priština, Kosovo	Insurance Supervision Agency, Ulica Vasil Glavinov br. 2, TCC Plaza kat 2, 1000 Skopje, Macedonia	Insurance Supervision Agency, Ul. Moskovska bb, 81000 Podgorica, Montenegro

Title	Illyria Hospital	Sava Car	Sava Agent	Sava Station
Registered office	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro	Zagrebska br. 28 A, 1000 Skopje, Macedonia
Company ID number	70587513	02806380	02699893	7005350
Business activity	currently it does not perform any activities	technical testing and analysis	insurance agent & broker services	technical testing and analysis
Share capital	€ 1,800,000	€ 320,000	€ 10,000	€ 199,821
Book value of equity interest	€ 1,800,000	€ 320,000	€ 10,000	€ 199,821
Equity interests (voting rights) held by Group members	Sava Re: 100.0 %	Sava osiguranje (MNE): 100.0 %	Sava osiguranje (MNE): 100.0 %	Sava osiguruvanje (MKD): 100.0 %
Bodies of the Company	MANAGING DIRECTOR Ilirijana Dželadini	MANAGING DIRECTOR Radenko Damjanović	MANAGING DIRECTOR Snežana Milović	MANAGING DIRECTOR Melita Gugulovska
Position in the Group	subsidiary	indirect subsidiary	indirect subsidiary	indirect subsidiary
Supervisory body	/	Insurance Supervision Agency, Ul. Moskovska bb, 81000 Podgorica, Montenegro	Insurance Supervision Agency, Ul. Moskovska bb, 81000 Podgorica, Montenegro	Ministry of Internal Affairs of the Republic of Macedonia

Title	ZS Vivus	ZM Svetovanje	Ornatus KC
Registered office	Karantanska ulica 35, 2000 Maribor	Betnavska cesta 2, 2000 Maribor	Karantanska ulica 35, 2000 Maribor
Company ID number	2154170000	2238799000	6149065000
Business activity	insurance agency	insurance agency	call centre
Share capital	€ 188,763	€ 83,363	€ 11,000
Book value of equity interest	€ 188,763	€ 83,363	€ 11,000
Equity interests (voting rights) held by Group members	Zavarovalnica Sava: 100.0 %	Zavarovalnica Sava: 100.0 %	ZS Vivus: 100.0 %
Bodies of the Company	MANAGING DIRECTOR Horvatić Kristijan	MANAGING DIRECTOR Kislinger Jurij	MANAGING DIRECTOR Štangelj Gregor
Position in the Group	indirect subsidiary	indirect subsidiary	indirect subsidiary
Supervisory body	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana	Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana

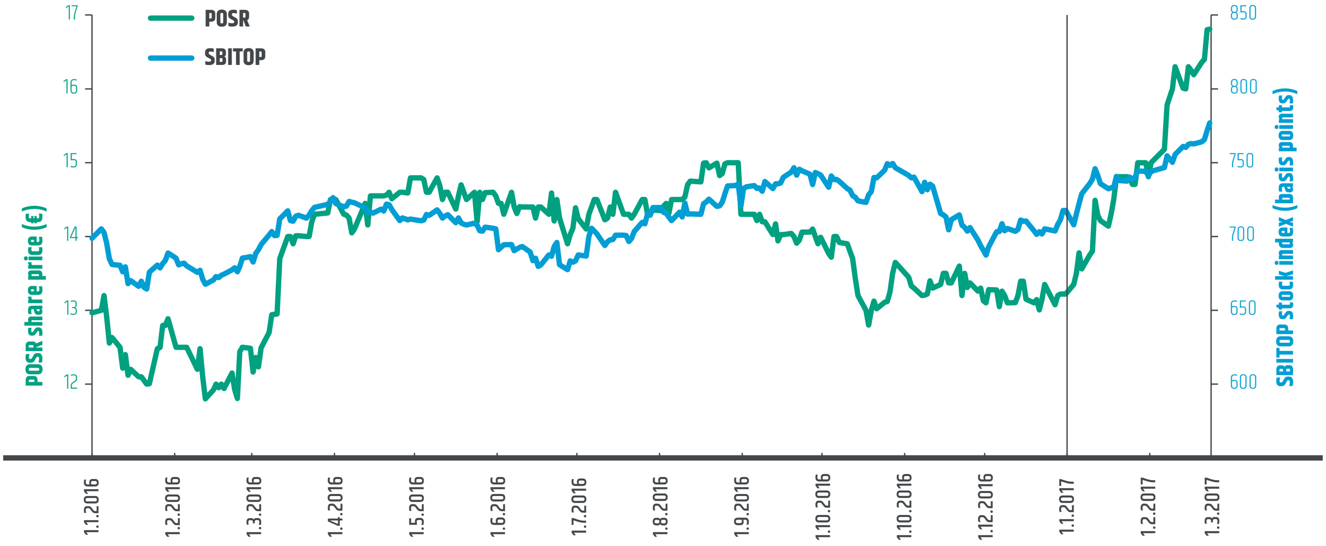
3. SHAREHOLDERS AND SHARE TRADING

3.1. Capital market developments and impacts on the POSR share price

The Slovenian capital market (Slovenian SBITOP blue-chip index) again achieved a positive return in 2016. The SBITOP gained 3.1 %, outperforming most European indices. The return on the Slovenian index would have been even higher if the stock with the largest weight had not fallen by 18.9 % in 2016.

The Sava Re share price rose by 2.1 % in the year. Taking into account dividends, the total return was 7.8 %, while the SBITOP index gained 8.8 % if dividends are excluded. The share's annual turnover on the Ljubljana Stock Exchange was € 19.1 million (2015: € 8.9 million). In 2016, Sava Re continued repurchasing its own shares, concluding its purchases when it reached the threshold set by the general meeting resolution.

Movement in the POSR share price in 2016 compared to the SBITOP stock index.



The share price as at 31 December 2015 was € 12.95 and € 13.22 as at 31 December 2016, representing a 2.1 % increase in the period.

3.2. General information on the share

Basic details about the POSR share

	31/12/2016	31/12/2015
Share capital	71,856,376	71,856,376
No. of shares	17,219,662	17,219,662
Ticker symbol	POSR	POSR
No. of shareholders	4,308	4,857
Type of share		ordinary
Listing	Ljubljana Stock Exchange, prime market	
Number of treasury shares	1,721,966	741,521
Net earnings/loss per share (€)	2.08	0.98
Consolidated net earnings per share (€)	2.08	2.02
Book value per share (€)	17.12	16.00
Consolidated book value per share (€)	18.81	17.38
Share price at end of period (€)	13.22	12.95
	1–12/2016	**1–12/2015**
Average share price in reporting period (€)	13.74	14.57
Minimum share price in reporting period (€)	11.8	11.69
Maximum share price in reporting period (€)	15	16.85
Trade volume in reporting period (€)	19,072,516	8,918,063

The Company paid a dividend in the third quarter 2016. The Company had no conditional equity. The regular general meeting held on 30 August 2016 decided that € 12,398,156.80 of distributable profit be appropriated as dividends. Dividends of € 0.80 gross per share were paid to the shareholders entered in the shareholders' register two business days after the date of the general meeting.

As at 31 December 2016, a total of 66.4 % of shareholders were Slovenian and 33.6 % were foreign. The largest shareholder of the POSR share is the Slovenian Sovereign Holding (Slovenski državni holding d.d.) with 25 % plus one share.

A list of the ten largest shareholders is given in section 5.6 "Details pursuant to Article 70(6) of the Companies Act".

Shareholder structure of Sava Re as at 31 December 2016

Type of Investor	Domestic investors	Foreign investors
Other financial institutions	25.1 %	0.0 %
Insurers and pension companies	19.2 %	0.2 %
Natural persons	9.4 %	0.1 %
Banks	3.8 %	26.5 %
Investment funds and mutual funds	3.7 %	5.6 %
Other commercial companies	2.4 %	1.2 %
Government	2.8 %	0.0 %
Total	**66.4 %**	**33.6 %**

The other financial institutions item includes the Slovenian Sovereign Holding with a stake of 25 % plus one share.

Source: Central securities register KDD d.d. and own sources.

On 2 June 2016, Sava Re received a notice from Adris groupa, d.d., Vladimira Nazora 1, 52210 Rovinj, Croatia via its legal representative Rojs, Peljhan, Prelesnik & partnerji, o.p., d.o.o., advising the Company of a change in major holding in Sava Re. Adris grupa, including its subsidiaries with fiduciary accounts, held 3,278,049 POSR shares, representing 19.04 % of issued and 21.15 % of outstanding shares.

Treasury shares

From 1 January 2016 to 31 December 2016, Sava Re acquired own shares for a total amount of € 14.6 million on the Ljubljana Stock Exchange. The total number of treasury shares prior to these transactions was 741.521. The total number of own shares as at 31 December 2016 after the said purchases was 1,721,966, representing 10 % minus one share of all issued shares.

3.3. Investor relations

Current investors are the primary target group in investor relations as they have already put their trust in the company by buying shares. All shareholders with a holding of over 5 % are paid a visit at least annually, after release of business results and the strategy (in accordance with the principle of equal information for all shareholders). The Company devotes particular attention to smaller investors (retail investors), who are sent letters through direct mail on an annual basis. The company encourages all its shareholders to participate in the general meeting, which is convened annually.

The Company increases its recognition among international institutional investors through presentations at investment conferences and similar events, maintaining its focus on long-term investors.

Financial analysts have a significant impact on the opinion of the financial and other communities regarding the value of shares. The Company strives to ensure long-term coverage by at least two relevant domestic or foreign analysts.

The public relations policy of Sava Re is in line with the Slovenian Financial Instruments Market Act (ZTFI), the Company's Act (ZGD-1), notification recommendations of the Ljubljana Stock Exchange (LJSE) to public companies, the corporate governance code for public joint-stock companies, the rules of procedure of the supervisory board and with the internal rules for investor relations. Announcements are made according to the Company's financial calendar and day-to-day requirements.

In 2016, the Company regularly and with increased intensity communicated with existing and potential investors. It met with investors at its own investor events and those organised by the Ljubljana Stock Exchange and other foreign organisers. In addition, there were also a number of meetings with individual interested investors. Analyst reports are also posted on the Company's official website. Interim and annual financial reports are published and are posted unabridged on the Company's website. It also regularly posts presentations from investor events.

As the Company's shareholders include non-Slovenian entities and in order to provide more and faster information that is relevant to the financial community, the Company started to and teleconference and webcast its communications.

Current and potential investors are invited to send any questions relating to the Company to ir@sava-re.si.

4. REPORT OF THE SUPERVISORY BOARD

The supervisory board of Sava Re has prepared the following report in accordance with Article 282 of the Slovenian Companies Act (ZGD-1, Official Gazette of the Republic of Slovenia No. 42/2006, as amended).

In 2016 the supervisory board monitored the Company's operations on a periodic basis and oversaw its management in a responsible manner. It periodically examined reports on various aspects of the business, passed appropriate resolutions and monitored their implementation. Individual issues were addressed in detail by the relevant supervisory board committees, and on the basis of their findings, the supervisory board adopted appropriate resolutions and recommendations.

The supervisory board operated within the scope of its powers and terms of reference under law, the Company's articles of association and its own rules of procedure.

COMPOSITION OF THE SUPERVISORY BOARD

The supervisory board operated as a six-member body during the major part of 2016. There was a change in the composition of the Company's supervisory board in 2016.

The supervisory board member representing the employees' interests Helena Dretnik handed in her notice of resignation on 19 February 2016. Pending the appointment of a new supervisory board member to represent the employees' interests, the supervisory board operated with five members. Pursuant to the Workers' Participation in Management Act, the workers' council of Sava Re, d.d., in its session of 29 March 2016, elected Mateja Živec as its representative on the supervisory board of Sava Re for a term of four years. She started her term of office on 1 April 2016.

During this term of office, the members of the supervisory board representing the shareholders were as follows: Branko Tomažič, chair, until 11 October 2016; Mateja Lovšin Herič, deputy chair until 11 October, Keith Morris; and Slaven Mićković, deputy chair from 12 October 2016. The employee representatives on the supervisory board were Gorazd Andrej Kunstek, Helena Dretnik (until 19 February 2016) and Mateja Živec (from 1 April 2016).

Branko Tomažič resigned as chairman and member of the supervisory board on 11 October 2016. Since then, the supervisory board has operated with five members.

The sise and composition of the supervisory board facilitates effective discussion and adoption of sound resolutions based on the members' broad range of experience. Nevertheless, the supervisory board proposed that the vacancy be filled as soon as possible and that in conjunction candidates be sought to take the place of the supervisory board members who are shareholders representatives and whose terms of office expire in mid July 2017.

OPERATION OF THE SUPERVISORY BOARD

In its operation and decision-making, the supervisory board is guided by the goals of both the Company and the Sava Re Group as a whole. In its sessions, members express opinions and viewpoints, seeking to reconcile differences in positions in order to adopt resolutions unanimously.

The supervisory board notes that all reports prepared by the management board for its own use and that of the audit committee were broadly sufficient and appropriate for a thorough review of issues and comply with both the law and internal regulations. Meeting materials were provided in a timely manner, allowing members sufficient time to prepare themselves for the discussion of agenda items. The Company's professional staff assisted in carrying out sessions and organised other supporting activities.

Contrary to the above, the supervisory board is of the opinion that in the case of the purchase of the ACH property at Baragova 5 in Ljubljana it did not receive timely and adequate information. Assisted by external experts, it conducted a review of the property purchase transaction, which added to the board's workload and required specific measures and personnel procedures.

After careful examination of the information received and consulting with independent external financial and legal experts, the supervisory board of Sava Re, in its extraordinary session on 22 August 2016, recalled Zvonko Ivanušič from his positions of chairman and member of the Company's management board effective as of 23 August 2016. The supervisory board resolved that until further steps are taken, the management board would consist of three members and, as of 23 August 2016, would be headed by Jošt Dolničar. The supervisory board immediately began the process of selecting a new chairman of the management board.

Because of the above activities, the supervisory board held 19 sessions in 2016, of which four were correspondence sessions and one an extraordinary session. Members attended sessions regularly. In 2016, the members attended nearly all meetings. Discussions were also attended by management board members and the supervisory board secretary; and on certain agenda items were attended by other in-house and external professionals.

In the course of the year, the supervisory board discussed, within its powers in accordance with law and the articles of association, all relevant aspects of the operations and activities of the Company and the Sava Re Group.

The supervisory board members dedicated special attention in 2016 to the following issues:

Short-term and long-term plans of the Company and the Sava Re Group

In early 2016, the supervisory board reviewed and approved the document titled Business Policy and the Financial Plan of Sava Reinsurance Company d.d. and the Sava Re Group for the Financial Year 2016. In the second half of the year, the supervisory board was informed of the framework of both the 2017 planning process and the strategic plan for 2017–2019.

Financial reports – annual report

The supervisory board reviewed the unaudited financial statements of the Sava Re Group and Pozavarovalnica Sava, d.d. 2015. In 2016, the supervisory board adopted the Annual Report of the Sava Re Group and Pozavarovalnica Sava, d.d. for 2015, including the auditor's report and opinion to the 2015 annual report, and the supervisory board's own report on its activities in 2015. The annual report, including the auditor's opinion, was presented to the general meeting.

Financial reports – interim reporting

In addition to the above documents, the supervisory board regularly reviewed further financial reports in 2016, i.e. unaudited business reports of the Sava Re Group and the financial statements of Sava Re, d.d. both for the periods January–March 2016, January–June 2016, and January–September 2016.

Investments

The supervisory board monitored the management of assets periodically and as part of reviewing the annual report and interim financial reports of the Company and the Group.

Furthermore, the supervisory board discussed extensively the annual investment report for 2015.

Reinsurance operations and claims experience

Early in the year, the supervisory board was briefed on the annual renewal of reinsurance contracts for 2016 and the Company's retrocession programme for the current period. Throughout 2016, it was regularly informed by the management board on major loss events in the domestic as well as global markets and on potential losses that could impact the Company.

Supervision of subsidiaries

In addition to overseeing the operations of Sava Re as the parent company, the supervisory board, to the extent permitted by law, actively monitored the parent's subsidiaries. The supervisory board was informed of the assumption of the portfolio of the Serbian insurer AS osiguranje.

It considered the management board's proposal regarding capital requirements of the subsidiary Sava životno osiguranje (SRB).

The supervisory board regularly and by area (sub-projects) monitored the project of merging the Group's EU-based insurers.

Internal audit

In 2016, the supervisory board, within its statutory powers, oversaw the Company's internal audit service. It approved the annual work plan of the internal audit service for 2016 and 2017. In addition, it considered the internal audit report for the period 31 October – 31 December 2015 and the annual report on internal auditing for 2015 and drew up an opinion on the annual report on internal auditing for 2015, which was presented to the general meeting of shareholders. It considered quarterly internal audit reports for the three months to 31 March 2016, for the three months to 30 June 2016 and for the three months to 30 September 2016. All internal audit reports were presented by the director of internal audit.

The supervisory board considers reports prepared by internal audit to have been independent and objective, and that the internal auditor's recommendations and findings are being taken into account by the management board. It notes that, in the reviews it conducted, the internal audit found no material irregularities in the Company's operations. The supervisory board also notes that the IAS, on an ongoing basis, monitors the development of the internal audit services of Group subsidiaries, providing them all required professional assistance. In addition, it monitors the business operations of these companies but found no major irregularities.

Convocation and holding of general meeting of shareholders
In 2016, the supervisory board jointly with the management board postponed the general meeting of shareholders scheduled for 24 May 2016 to 30 August 2016. Together with the management board, it proposed resolutions to be adopted by the general meeting, and in accordance with the Companies Act (ZGD-1), the supervisory board proposed to shareholders an external auditor to be appointed for the auditing of the financial statements of Sava Re, d.d. and its subsidiaries. The auditing firm Ernst & Young d.o.o., Dunajska 111, Ljubljana was appointed as auditor for the financial years 2016–2018, in accordance with the provisions of the Insurance Act (IA-1, Official Gazette of the Republic of Slovenia No. 93/2015).

Risks
The supervisory board monitored risk management periodically and as part of reviewing the annual report and interim financial reports of the Company and the Group.
It took note of the Sava Re Group Risk Strategy. Furthermore, in 2016, the supervisory board reviewed the risk report as at 30 September 2015, 31 March 2016, and 30 June 2016; the capital adequacy calculation under the Solvency II Directive (hereinafter: S II) as at 01/01/2016 for Sava Re and the Sava Re Group; and consented the Own Risk and Solvency Assessment (ORSA) report adopted by the management board.

Solvency II
At the end of 2016, the supervisory board reviewed all S II policies and consented the proposed amendments.

Review of the purchase of the ACH building at Baragova 5, Ljubljana.
Within its powers and in accordance with Article 281 of the ZGD-1, the supervisory board reviewed the transaction of the management board relating to the purchase of the ACH office building at Baragova 5, Ljubljana. For this purpose, it engaged independent external experts in corporate finance, who, upon reviewing the relevant documentation and examining other information about the transaction, issued the document Report on the Special Review for Sava Re, d.d. In view of the findings based on this report, the supervisory board additionally engaged independent external legal experts. After obtaining additional expert opinions, the legal experts issued their conclusions on the review of the transaction relating to the property purchase. Having carefully considered these reports, the supervisory board, in its extraordinary session on 22 August 2016, recalled Zvonko Ivanušič from his positions of chairman and member of the management board effective as of 23 August 2016.
The supervisory and management boards considered and approved additional measures, defining more clearly the approval process to be followed for major capital expenditures in Sava Re, d.d.

Candidate selection procedure and appointment of chairman of the management board
In December, the supervisory board completed the procedure for the selection of a new chairman of the management board of Sava Re, d.d.
In this regard, the supervisory board followed the recommendations of the Corporate Governance Code for Public Joint-Stock Companies. The supervisory board set up a

nominations committee authorising it to conduct the procedures for selecting suitable candidates for the function of chair of the management board with the assistance of an executive search firm. The supervisory board defined the job description, powers and responsibilities, terms and competencies, skills and personal qualities that the candidates for chair of the management board would need to comply with in addition to the formal requirements.

Based on the above, a short list of candidates was obtained who were interviewed by the supervisory board and subsequently presented their vision of their work and of the strategic direction of the Sava Re Group. Based on an in-depth assessment of the candidates, taking into account their professional, strategic, operational and leadership, organisational and personal competencies, as well as specific competencies, the supervisory board selected Marko Jazbec as the most suitable candidate for the new chair of the management board. On 16 December 2016, Marko Jazbec was appointed as chair of the management board of Sava Re, d.d., with a five-year term of office starting on the day after the licence to perform the function of management board member is issued by the Insurance Supervision Agency.

Strengthening the good practices of the supervisory board

In 2016 the supervisory board also conducted regular annual self-assessment using the methodology of the Slovenian Directors' Association. In accordance with good practice, supervisors, upon taking office and then on an annual basis, complete questionnaires, including a statement on the (non-)existence of conflicts of interest. The Company posts these statements on its website.

OPERATION OF SUPERVISORY BOARD COMMITTEES

- THE AUDIT COMMITTEE

In accordance with statutory regulations, the supervisory board of the Company set up the audit committee for the examination of accounting, financial and audit issues in greater detail.

Composition of the audit committee

Up until 27 October 2016, the audit committee operated in the composition Mateja Lovšin Herič (chair), Slaven Mićković (member) and Ignac Dolenšek (external member).

On 28 October 2016, the supervisory board appointed a three-member audit committee composed of:

Slaven Mićković (chairman), Mateja Lovšin Herič (member) and Ignac Dolenšek (external member).

Activities of the audit committee in 2016

The audit committee of the supervisory board met 11 times in 2016.

The audit committee was mostly focused on overseeing financial reporting processes. In this respect, it gave recommendations and suggestions regarding materials for supervisory board meetings so that they comply with all relevant professional standards, observing the reporting principle of completeness, transparency, consistency and such like.

In 2016, the audit committee conducted the procedure regarding the selection of the external auditor of the annual report of Sava Re, d.d. and the Sava Re Group for a three-year period and participated in the selection of the independent external financial expert to carry out a special review of the procedure for the purchase of the property at Baragova 5. The audit committee met regularly with the selected external auditor, monitored the audit of the annual and consolidated financial statements and, among other things, participated in determining the main areas of auditing.

Furthermore, the audit committee regularly oversaw the activities of the internal audit service and, based on a supervisory board resolution in light of the challenging conditions in capital markets over the recent years, regularly discussed the quarterly investment reports of the Company and the Sava Re Group.

The chair of the audit committee regularly reported on the activities and positions of the audit committee at supervisory board sessions. In addition, the audit committee prepared a written report on its activities in 2016.

The supervisory board is of the opinion that the audit committee considered all relevant issues within its terms of reference and offered the supervisory board professional assistance by giving opinions and preparing proposals.

The supervisory board further believes that the composition of the audit committee is appropriate and that the members have such professional and personal qualities that ensure quality and independence of operation.

Furthermore, the supervisory board is of the opinion that the audit committee were provided necessary support to effectively carry out their work.

- THE NOMINATIONS COMMITTEE

In September 2016, the supervisory board of Sava Re, d.d., appointed a three-member nominations committee as a special committee of the supervisory board to carry out the selection procedures of candidates for members of the management board, as well as the selection procedure of candidates for the supervisory board members as shareholder representatives, which are then proposed to the general meeting for election.

The supervisory board authorised the nominations committee for the implementation of operational procedures for the selection of a set of candidates for chairman of the Company's management board to be presented to the supervisory board for final selection.

Composition of the nominations committee

The three-member nominations committee was appointed from among the members of the supervisory board as follows: Mateja Lovšin Herič (chair), Branko Tomažič (member) and Slaven Mićković (member). In the third quarter 2016, there was a change in the composition of the supervisory board nominations committee. Following the resignation of Branko Tomažič as chair and member of the supervisory board, his function as member of the nominations committee also ceased as of 11 October 2016. On 12 October 2016, the supervisory board appointed Keith W. Morris as a new member of this committee.

Activities of the nominations committee in 2016

The nominations committee of the supervisory board met five times in 2016.

In August 2016, the number of management board members decreased from four to three members. The supervisory board decided to immediately take steps to find a new chairman. The supervisory board authorised the nominations committee to carry out the procedures for the selection of a new chairman of the management board. The supervisory board adopted a resolution on the manner of selecting candidates and determined the job description, powers and responsibilities, conditions and competencies that the candidate for chair of the management board needed to comply with in addition to the formal conditions. Assisted by an executive search firm, the nominations committee conducted the procedure of selecting a pool of candidates, proposing to the supervisory board a shortlist of the most suitable candidates. The responsibility and power to appoint a new chair of the management board was solely with the supervisory board.

In December 2016, the supervisory board's nominations committee proposed a procedure for the selection of candidate for membership of the supervisory board, which would be carried out in collaboration with an external expert. The nominations committee proposed that nominations be obtained by inviting the major shareholders to nominate candidates. Following the recommended practice of ensuring the continuity of the supervisory board, the nominations committee proposed to all the current supervisory board members representing shareholders to submit their candidacy in the selection procedure.

- THE FIT & PROPER COMMITTEE

In line with the law and the Company's fit and proper policy, on 10 February 2016, the management and supervisory boards appointed a fit and proper committee for the purpose of fit and proper assessment of the management and supervisory boards, including all its committees, as well as the members of these bodies.

Composition of the fit & proper committee

In 2016, the fit and proper committee was composed as follows: Branko Tomažič (chair), Mateja Lovšin Herič (member), Nika Matjan (member), and Keith Morris (alternate member).

In the third quarter 2016 there was a change in the composition of the supervisory board nominations committee. Following the resignation of Branko Tomažič as chair and member of the supervisory board, his function as member of the fit and proper committee also ceased as of 11 October 2016. On 28 October 2016, the supervisory board appointed Mateja Živec as the new chair of this committee.

Operation of the fit & proper committee in 2016

In 2016, the fit & proper committee met three times.

In the year, the fit and proper committee individually assessed the Company's relevant personnel, which were all found to be fit and proper. It also assessed the management and supervisory boards as collective bodies, finding that both were adequately qualified.

CONCLUDING FINDINGS

The supervisory board assessed that, despite the distractions caused by the circumstances surrounding the acquisition of the ACH property, Sava Re continued to perform well in 2016.

The supervisory board also bases its findings on the independent auditor's report on the financial statements of Sava Re, d.d., and the Sava Re Group 2016, as well as on the annual report of the internal audit service on its activities for 2016.

In 2017, the supervisory board will give special attention to overseeing the operations of the Sava Re Group, in particular the integration of the merged insurer Zavarovalnica Sava and the achievement of synergistic effects resulting from the merger.
Furthermore, the supervisory board will be particularly attentive to monitoring the progress towards strategic objectives, providing the management board, within its means and powers, with its full support.
The supervisory board will regularly oversee risk management reports of the Company and the Sava Re Group.

ANNUAL REPORT 2016

The Company's management board submitted the "Audited Annual Report of the Sava Re Group and Sava Re, d.d. 2016" for approval to the supervisory board. Within its statutory mandate, in its meeting on 5 April 2017, the supervisory board examined the annual report 2016.
The audit committee of the supervisory board discussed the unaudited annual report, the audited annual report of the Sava Re Group and Sava Re, d.d. 2016, including the audit report on the preaudit, the audit letter addressed to the management, and the additional report for the management and supervisory boards and the audit committee after conclusion of the audit, issuing its opinion and position thereon.
The supervisory board was also presented with the opinion of the auditor Ernst & Young Slovenija, podjetje za revidiranje, d.o.o., who audited the annual report of the Sava Re Group and Sava Re, d.d. 2016, and also carried out audit reviews in the Sava Re Group subsidiary companies.
The supervisory board noted that the annual report for 2016 was clear and transparent, as well as compliant with contents and disclosure requirements under the Companies Act, International Accounting Standards and specific regulations (Insurance Act) and implementing regulations adopted on the basis of such regulations.
Based on its review of the 2016 annual report, as well as on the opinion of the external auditor and that of the audit committee, the supervisory board considers that the 2016 annual report gives a true and fair view of the assets and liabilities, financial position, profit and loss, and cash flows of Sava Re, d.d. and the Sava Re Group.
The supervisory board hereby approves the Audited Annual Report of the Sava Re Group and Sava Re, d.d. 2016 as submitted by the management board.

DETERMINATION AND PROPOSAL FOR APPROPRIATION OF THE DISTRIBUTABLE PROFIT OF SAVA RE

The supervisory board reviewed the management board's proposal on the appropriation of distributable profit as at 31 December 2016, subject to final approval by the general meeting of shareholders of Sava Re, d.d., and agrees with the management board's proposal that the following resolution on the appropriation of distributable profit be submitted for adoption to the general meeting of shareholders of Sava Re, d.d.:

“Distributable profit of € 18,410,390.94 as at 31 December 2016 shall be appropriated as follows:
€ 12,398,165.80 shall be appropriated for dividends. The dividend shall be € 0.80 gross per share and shall be paid, on 20 June 2017, to the shareholders entered in the shareholders’ register on 19 June 2017.

The remaining distributable profit of € 6,012,234.14 shall not be appropriated.

· The proposal for the appropriation of distributable profit is based on the number of own shares at 31 December 2016. On the date of the general meeting, the number of shares entitled to dividends may change as a result of disposals of own shares. Should the number of own shares change, the general meeting of shareholders will be proposed adjusted figures for appropriation of the distributable profit, while the amount of the dividend per share of € 0.80 shall remain unchanged.”

The supervisory board proposes to the general meeting that the management board members seated as of the date of 31 December 2016 be discharged from their liability for the financial year 2016.

Mateja Lovšin Herič,
Chair of the Supervisory Board of Sava Re, d.d.

Ljubljana, 5 April 2017

5. CORPORATE GOVERNANCE STATEMENT PURSUANT TO ARTICLE 70 OF THE COMPANIES ACT

5.1. Corporate Governance Policy

In its 55th meeting on 10 December 2015, the Sava Re management board, with the consent of the Company's supervisory board granted in its session of 18 December 2015, adopted the corporate governance policy of the Sava Re Group and the corporate governance policy of Sava Re, d.d. The documents set out the main subsidiary governance principles in the Sava Re Group, governance rules for Sava Re, taking into account the goals, mission, vision and values of the Sava Re Group. The corporate governance policy represents a commitment to the future.
The corporate governance policy of Sava Re is available through the Ljubljana Stock Exchange Seonet information system and from the Company's website www.sava-re.si.

5.2. Statement of compliance with the Corporate Governance Code for Public Joint-Stock Companies

The management and the supervisory boards of Sava Re hereby confirm that they operate in compliance with the Corporate Governance Code for Public Joint-Stock Companies as adopted on 8 December 2009 by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia and available from the website of the Ljubljana Stock Exchange, Ljubljana http://www.ljse.si) in Slovenian and English, with individual deviations that are disclosed and explained below.

5.2.1. Supervisory board

Recommendation 6.2: The supervisory board has two members who are employee representatives. They are employed with the Company and therefore have business ties with it.

5.2.2. Transparency of operations

Recommendation 20.2: The Company does not have in place a single document including a communication strategy for the prevention of situations leading towards insider trading. Recommendation 20.2 is partly included in internal acts and partly implemented based on day-to-day management board decisions.

This statement relates to the period from the adoption of the previous statement of compliance with the Corporate Governance Code for Public Joint-Stock Companies, i.e., from 30 March 2016 to 30 March 2017.

5.3. Bodies of Sava Re

Management system

Sava Re has a two-tier management system with a management board that manages and a supervisory board that oversees operations. Governance bodies, the general meeting, the supervisory board and the management board, act in compliance with laws, regulations, the articles of association and internal rules. The Company's articles of association, the rules of procedure of both the general meeting and the supervisory board are posted on the Company's website www.sava-re.si.

The risk management system is a key building block of the governance system. The Company's management board ensures that an effective risk management system is in place. Rules of the risk management systems and own risk and solvency assessment rules are set out in detail in the Company's internal regulations.

The Company has certain functions integrated into the organisational structure and decision-making processes. These are the risk management function, internal audit function, actuarial function and compliance function, defined by applicable law as the key functions of the governance system (hereinafter: key functions). The key functions are integrated into the organisational structure and decision-making processes to strengthen the three-lines-of-defence framework in the Company's control system. Rules governing individual key functions are set out in detail in the Company's internal regulations.

5.3.1. The general meeting of shareholders

Terms of reference

The general meeting decides on the following:

- approval of the annual report, unless approved by the supervisory board, or if the management board and supervisory board have left the decision about its approval to the general meeting of shareholders;
- the appropriation of distributable profit, at the proposal of and based on a report by the management board;
- appointment and removal of supervisory board members;
- granting of discharges to management and supervisory board members;
- adoption of amendments to the articles of association;
- measures to increase and reduce the capital;
- dissolution of the Company and its transformation in terms of status;
- appointment of the auditor, at the proposal of the supervisory board;
- other matters in compliance with the law and articles of association.

Convening the general meeting

The general meeting of shareholders, through which the shareholders of Sava Re exercise their rights in the affairs of the Company, is convened at least once a year, no later than August. The general meeting may be convened in other cases as provided by law, the Company's articles of association and whenever this is in the interest of the Company. As a rule, the general meeting is convened by the management board. In the cases stipulated by law, it may be convened by the supervisory board or shareholders.
The Company publishes general meeting notices through the SEOnet system provided by the Ljubljana Stock Exchange and through its website (www.sava-re.si), on the AJPES website (www.ajpes.si) and on the Company's official website www.sava-re.si; in printed form in one daily newspaper as provided in the articles of association: Delo or Dnevnik or in the Official Gazette of the Republic of Slovenia.

Participation in the general meeting

To attend the general meeting and exercise voting rights, shareholders must send the Company a registration form no later than by the end of the fourth day prior to the session of the general meeting and must be registered holders of shares listed in the central register of book-entry securities at the end of the fourth day prior to the session of the general meeting.
The conditions of participation or exercise of voting rights at the general meeting must be set out in detail in the notice of general meeting.

Adoption of resolutions

General meeting resolutions are adopted by a majority of votes cast (simple majority), unless a larger majority or other requirements are stipulated by law or the articles of association.

Exercise of voting rights

Shareholders may exercise their voting rights in general meeting based on their share of the Company's share capital. Each no-par-value share with voting rights carries one vote. Voting rights can be exercised by proxy based on a written proxy form, or through financial organisations or shareholder associations.

The general meeting in 2016

The general meeting of shareholders was convened twice in 2016.
The general meeting was convened on 21 April 2016 to be held on 24 May 2016. However, the management board, in cooperation with the supervisory board, cancelled the general meeting on 23 May 2016. The management and supervisory boards decided to cancel and as a result postpone the general meeting so as to be able to provide answers to the general meeting regarding the transaction to purchase the ACH property at Baraga

5 in Ljubljana, the verification of which would not have been completed by the then scheduled date.
In accordance with the new notice, the 31st general meeting was held on 30 August 2016. Among other things, the general meeting was presented the annual report for 2015, including the auditor's opinion and written report of the supervisory board to the annual report, and the annual report on internal auditing for 2015 with the opinion of the supervisory board thereto. Furthermore, the general meeting was informed of the remuneration of the members of management and supervisory bodies and of the management report on own shares. The general meeting resolved that part of distributable profit in the amount of € 12,398,156.80 be appropriated for dividends, while the remaining part of distributable profit of € 8,365,277.91 be left unappropriated. The general meeting discharged both the management and the supervisory boards from their liability for the financial year 2015. The general meeting appointed the auditing firm Ernst & Young d.o.o., Dunajska 111, Ljubljana, as auditor for the financial years 2016–2018. The general meeting approved the proposed amendments to the articles of association and passed a resolution amending remuneration for the members of the supervisory board and its committees. In addition, the general meeting took note of both the change in the members of the supervisory board representing employee interests and the review of the transaction to purchase the ACH property at Ljubljana, Baragova 5.

The general meeting in 2017

In accordance with the 2017 financial calendar, two general meetings are scheduled to be held in 2017, on 7 March 2017 and 19 May 2017.

5.3.2. The supervisory board

Operation of the supervisory board

The supervisory board oversees the operations of the Company. In doing so, it must comply with applicable regulations, especially the Slovenian Companies Act (ZGD), the Insurance Act (ZZavar), the Company's articles of association and the rules of procedure of the supervisory board. In accordance with the law, the supervisory board must be convened at least on a quarterly basis, generally after the end of each quarter. If necessary, the supervisory board may meet on a more frequent basis. The terms of reference of the supervisory board are determined in its rules of procedure. The rules of procedure of the supervisory board are posted on the Company's website www.sava-re.si.

Terms of reference

Major responsibilities of the supervisory board:

- to grant consent to the business policy and financial plan of the Sava Re Group and Sava Re as prepared by the management board;
- to grant consent to the development strategy of the Sava Re Group and Sava Re as prepared by the management board;

- to grant consent to the written rules of the system of governance, risk management, compliance, internal audit, the actuarial function, internal controls and outsourced business;
- to grant consent to the appointment of key function holders;
- to grant consent to the report on the solvency and financial condition of the Company;
- to grant consent to the framework annual internal audit plan as prepared by the management board;
- to oversee the adequacy of processes and the effectiveness of internal audit;
- to prepare an opinion for the general meeting on the internal audit annual report;
- to consider the findings of the Insurance Supervision Agency and other supervisory bodies made when exercising their supervisory competence over the Company;
- to review annual and interim financial reports of the Sava Re Group and Sava Re;
- to review the annual report submitted by the management board, adopt an opinion on the auditor's report, and prepare a qualified or approving report for the general meeting;
- to review the proposal regarding appropriation of the distributable profit submitted by the management board, and prepare a written report for the general meeting;
- other matters in compliance with the law and articles of association.

The supervisory board in 2016

Pursuant to the Company's articles of association and the applicable legislation, the supervisory board is composed of six members, of which four (shareholder representatives) are elected by the Company's general meeting, and two (employee representatives) are elected by the workers' council, which informs the general meeting of its decision. Supervisory board members are appointed for a term of up to four years and may be re-elected.

On 12 July 2013, the Sava Re general meeting of shareholders elected four members of the supervisory board to represent the interests of the shareholders with a four-year term of office, beginning on 15 July 2013. These were Branko Tomažič, Mateja Lovšin Herič, Keith W. Morris and Slaven Mićković.

Pursuant to the Workers' Participation in Management Act, the workers' council of Sava Re elected Andrej Gorazd Kunstek and Helena Dretnik as their representatives to the supervisory board of Sava Re for a term of four years. Andrej Gorazd Kunstek and Helena Dretnik began their term of office on 11 June 2015.

In 2016, there were changes in the composition of the supervisory board.

On 19 February 2016 Helena Dretnik tendered her resignation as member of the supervisory board with effect from the same date. In place of Helena Dretnik, the workers' council appointed Mateja Živec as new member of the supervisory board to represent employee interests for a term of office from 1 April 2016 to 11 June 2019.

On 11 October 2016, the Company received a notice of resignation from Branko Tomažič as chair and member of the supervisory board, effective as of that day. On 12 October 2016 the members of the supervisory board of Sava Re elected from among themselves Mateja Lovšin Herič (previously deputy chair) as chair of the supervisory board and Slaven Mićković (previously supervisory board member) as deputy chair.

Composition of the supervisory board in 2016

Member	Title	Beginning of term of office	Duration of term of office
Branko Tomažič	chair (until 11/10/2016)	15/07/2013	up until 11/10/2016
Mateja Lovšin Herič	chair (since 12/10/2016)	15/07/2013	15/07/2017
Mateja Lovšin Herič	deputy chair (until 11/10/2016)		
Slaven Mićković	deputy chair (since 12/10/2016)	15/07/2013	15/07/2017
Slaven Mićković	member (until 11/10/2016)		
Keith Morris	member	15/07/2013	15/07/2017
Andrej Gorazd Kunstek	member (employee representative)	11/06/2015	11/06/2019
Mateja Živec	member, employee representative (since 01/04/2016)	01/04/2016	11/06/2019
Helena Dretnik	member, employee representative (until 19/02/2016)	11/06/2015	up until 19/02/2016

Employment, qualification, brief presentation, beginning of term of office, memberships of other management or supervisory bodies

Representatives of capital:

Mateja Lovšin Herič | chair of the supervisory board

Employment: Slovenski državni holding, d.d. (Slovenian Sovereign Holding)

Educational background: University graduated economist.

Presentation: Mateja Lovšin Herič has been with Slovenian Sovereign Holding, d.d. (previously: Slovenian Restitution Company) since 1995, and is currently director of the capital asset disposal and acquisition department. She has extensive experience in managing equity investments, as well as in steering and participating in large and complex projects led by Slovenian Sovereign Holding, d.d. In the past, she has served as a member of the supervisory board of four joint-stock companies. Currently, she is the chair of the Sava Re supervisory board, a member of the supervisory board's audit committee, a member of the fit and proper committee, and the chair of the nominations committee of the supervisory board of Sava Re. She holds a certificate issued by the association of supervisory board members certifying that she is a qualified member of supervisory and management bodies required by persons to be appointed to such bodies by the government of the Republic of Slovenia.

Beginning of term of office: 15/07/2013

Term of office: 15/07/2017

Mateja Lovšin Herič does not serve on any other management or supervisory body neither in any Group company nor in any other third party.

Slaven Mićković | member of the supervisory board

Employment: Abanka Vipa d.d.

Educational background: Master of science in mathematics, PhD in economics.

Presentation: Slaven Mićković has experience in valuation of companies. He has been strategic consultant of risk management at Abanka Vipa, d.d. since March 2013. Prior to that, he had been involved in projecting income and in calculating the impact of economic activities and of population aging on public finance at the Ministry of Finance for 15 years. In recent years, he has been participating in various international projects on behalf of the Slovenian government. This is his second term of office as member of the supervisory board and member of the audit committee of Sava Re (since 2009).

Beginning of term of office: 15/07/2013

Term of office: 15/07/2017

Slaven Mićković does not serve on any other management or supervisory body neither in any Group company nor in any third party.

Keith William Morris | member of the supervisory board

Employment: retiree

Educational background: Bachelor's degree in management sciences; specialising in finance and marketing

Presentation: For most of his career, Keith Morris worked in finance and has extensive international experience both in banking and insurance. He started his career with Midland Bank (HSBC Group). From 1969 to 1984, he was with Citibank NA, where he was promoted to vice president. Between 1984 and 1989 he worked for IBM UK as treasury manager and then senior consultant for the banking industry. From 1989 until his retirement he worked in managing director/ chief executive roles, mostly in insurance and within large groups, such as Eagle Star Group, American International Group (AIG), Allianz Group and RBS Insurance (Direct Line Group). From 2003 to 2008, he served as non-executive director of Standard Life Bank and Standard Life Insurance Company and has also served in non-executive roles with six other smaller organisations. He has served on the Sava Re supervisory board since 2013 (first term of office). He is also a member of the nominations committee and an alternate member of the fit and proper committee of the Sava Re supervisory board.

Currently, he is a non-executive director of the Greek insurer European Reliance S.A.

Beginning of term of office: 15/07/2013

Term of office: 15/07/2017

Keith Morris does not serve on any other management or supervisory body neither in any Group company nor in any other legal entity.

Employee representatives

Andrej Gorazd Kunstek | member of the supervisory board

Employment: Sava Re, d.d.

Educational background: University graduated economist, master of science in economics.

Presentation: After completing his studies at the Faculty of Economics, Andrej Gorazd Kunstek started working for Sava Re and has now over 17 years of experience in reinsurance underwriting and technical accounting of reinsurance business. Since 2007 he has been director of technical accounting in the reinsurance operations department. This is his second term of office as member of the supervisory board of Sava Re (since 2013).

Beginning of new term of office: 11/06/2015

Duration of new term of office: 11/06/2019

Andrej Gorazd Kunstek does not serve on any other management or supervisory body neither in any Group company nor in any third party.

Mateja Živec | member of the supervisory board

Employment: Sava Re, d.d.

Educational background: University graduated economist, master of science in economics.

Presentation: Mateja Živec has many years of experience in banking and insurance (over 15 years of employment in insurance). Prior to joining Sava Re in 2014, she headed the asset management department of Zavarovalnica Triglav for 12 years. This is her first term of office as member of the supervisory board of Sava Re (since April 2016).

Beginning of term of office: 01/04/2016

Term of office: 11/06/2019

Mateja Živec does not serve on any other management or supervisory body neither in any Group company nor in any other third party.

Statement of independence

The supervisory board members committed themselves, upon entering their office in 2013 (employee representatives in 2015 and 2016), to meeting the criteria of independence as set out in point C.3 of Annex C to the Corporate Governance Code for Public Joint-Stock Companies by signing a "Statement of independence of supervisory board member of Sava Re". Statements on the independence of supervisory board member are signed on an annual basis. These statements are posted on the Company's website at www.sava-re.si/en/o-druzbi/nadzorni-svet/.

Remunerations, compensations and other benefits

Remuneration of supervisory board members is discussed in detail in section 24.10 "Related party disclosures" in the notes to the financial statements.

POSR holdings of supervisory board member

POSR shares held by Supervisory Board members as at 31 December 2016

	No. of shares	Holding (%)
Andrej Gorazd Kunstek	2,500	0.0145 %
Total	**2,500**	**0.0145 %**

Source: Central securities register KDD d.d.

More information on the activities of the supervisory board in 2016 is provided in section 4 "Report of the supervisory board".

5.3.3. Supervisory board committees

Pursuant to legislation, the Corporate Governance Code for Public Joint-Stock Companies and best practices, the supervisory board appoints one or more committees or commissions, and tasks them with specific areas, with the preparation of proposed resolutions of the supervisory board, the implementation of resolutions of the supervisory board, thereby offering it professional support.
In this term of office, the Sava Re supervisory board established an audit committee, a fit and proper committee and a nominations committee.

The audit committee

Activities of the Audit Committee

The duties and terms of reference of the audit committee of the supervisory board are set out in the Companies Act, the audit committee's charter and rules of procedure, the supervisory board's rules of procedure, and other autonomous legal acts (e.g. recommendations for audit committees).

Terms of reference

Major responsibilities of the audit committee:

- to monitor financial reporting processes and prepare recommendations and proposals for ensuring its completeness;
- to monitor the efficiency and effectiveness of the Company's internal controls, of internal auditing, if set up, and of risk management systems;
- to monitor the statutory audit of the annual separate and consolidated financial statements, in particular the effectiveness of the statutory audit, taking into account all the findings and conclusions of the competent authority;

- to examine and monitor the independence of the auditor of the annual report of the company, especially the provision of additional non-auditing services;
- to oversee the auditor selection process and propose to the supervisory board candidates for the auditing of the Company's annual report;
- to monitor the integrity of financial information issued by the Company;
- to assess the composition of the annual report, including drafting the proposal for the supervisory board;
- to cooperate in determining focus areas for auditing;
- to participate in the preparation of the contract between the auditor and the Company, which must not include any provision that would restrict the general meeting's choice regarding the appointment of auditor.
- to report to the supervisory board on the outcome of the statutory audit, including notes on how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in the process;
- to carry out other tasks as stipulated by articles of association or resolution of the supervisory board;
- to cooperate with the auditor in auditing the Company's annual report, in particular, the audit committee shall exchange information on main areas to be audited; and
- to cooperate with the internal auditor, in particular by exchanging information on key issues relating to internal audit.

The audit committee in 2016

In its constitutive meeting on 22 July 2013, the supervisory board appointed a three-member audit committee, composed of Mateja Lovšin Herič (chair), Slaven Mićković and Ignac Dolenšek (members).

In the fourth quarter of 2016, there was a change in the composition of the supervisory board audit committee.

As of 28 October 2016, Slaven Mićković was appointed chairman of the audit committee of the supervisory board (previously audit committee member), and Mateja Lovšin Herič was appointed member of the audit committee (previously chair of the audit committee).

Composition of the audit committee in 2016 (until 27/10/2016)

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chair	22/07/2013	15/07/2017
Slaven Mićković	member	22/07/2013	15/07/2017
Ignac Dolenšek	external member	22/07/2013	15/07/2017

Composition of the audit committee in 2016 (since 28/10/2016)

Member	Title	Beginning of term of office	Duration of term of office
Slaven Mićković	chairman	22/07/2013	15/07/2017
Mateja Lovšin Herič	member	22/07/2013	15/07/2017
Ignac Dolenšek	external member	22/07/2013	15/07/2017

The fit and proper committee

Operation of the fit & proper committee

As part of its efforts to comply with Solvency II requirements, the management board of Sava Re adopted, with the consent of the supervisory board, a fit and proper policy for key persons of Sava Re (hereinafter: Fit and Proper Policy), which entered into force on 1 January 2016. In accordance with the requirements of applicable legislation and in accordance with the stated policy, Sava Re must ensure that persons who effectively run and oversee the company are properly qualified (fit) and suitable (proper) for managing and overseeing the company in a professional manner, not only upon appointment but throughout the performance of the function. In addition to the appropriate qualifications, experience and expertise (fit) that members of the management and the supervisory boards as a collective body need to demonstrate, they must be of good repute and demonstrate through their actions high standards of integrity (proper).
Criteria and procedures for any fit and proper assessment of members of the management and supervisory boards, their committees, key function holders and other relevant personnel are detailed in the company's Fit and Proper Policy.

Terms of reference

The most important task of the fit & proper committee is:

- to assess the fitness and suitability of the management board, supervisory board and its committees.

Fit & Proper Committee in 2016

In order to implement such fit and proper assessment of members of the management and supervisory boards, the supervisory board appointed a fit and proper committee on 10 February 2016. It was composed of Branko Tomažič (chair), Mateja Lovšin Herič and Nika Matjan (members), and Keith Morris (alternate member).
In the third quarter 2016 there was a change in the composition of the supervisory board nominations committee.
Following the resignation of Branko Tomažič as chair and member of the supervisory board, his function as member of the fit and proper committee also ceased as of 11 October 2016. On 28 October 2016, the supervisory board appointed Mateja Živec as the new chair of this committee.

Composition of the fit & proper committee in 2016 (10/02/2016 – 11/10/2016)

Member	Title	Beginning of term of office	Duration of term of office
Branko Tomažič	chairman	10/02/2016	11/10/2016
Mateja Lovšin Herič	member	10/02/2016	15/07/2017
Nika Matjan	member	10/02/2016	15/07/2017
Keith Morris	alternate member	10/02/2016	15/07/2017

Composition of the fit & proper committee in 2016 (since 28/10/2016)

Member	Title	Beginning of term of office	Duration of term of office
Mateja Živec	chairman	28/10/2016	15/07/2017
Mateja Lovšin Herič	member	10/02/2016	15/07/2017
Nika Matjan	member	10/02/2016	15/07/2017
Keith Morris	alternate member	10/02/2016	15/07/2017

The nominations committee

The supervisory board of Sava Re, in line with the recommendations of the Corporate Governance Code for Public Joint-Stock Companies, appointed a three-member nominations committee as a special committee of the supervisory board to carry out the selection procedures of candidates for members of the management board, as well as the selection procedure of candidates for the supervisory board members as shareholder representatives, which are then proposed to the general meeting for election. The nomination committee was set up for the purpose of carrying out objective and transparent proceedings for the nomination of candidates to fill management and supervisory board vacancies and recommend to the supervisory board which candidates to propose to the general meeting for election.

Activities of the nominations committee

The terms of reference of the nominations committee are governed by the Corporate Governance Code for Public Joint-Stock Companies.

Terms of reference

Major responsibilities of the nominations committee of the supervisory board:

- to support the supervisory board in preparing proposals, defining selection criteria and candidates for new management and supervisory board members;
- to assist the supervisory board in other matters pertaining to the supervisory board where supervisory board members may experience conflicts of interest.

The nominations committee in 2016

The following persons were appointed members of the three-member nominations committee on 12 September 2016: Mateja Lovšin Herič (chair), Branko Tomažič and Slaven Mićković.
In the third quarter 2016, there was a change in the composition of the supervisory board nominations committee.
Following the resignation of Branko Tomažič as chair and member of the supervisory board, his function as member of the nominations committee also ceased as of 11 October 2016. On 12 October 2016, the supervisory board appointed Keith W. Morris as a new member of this committee.

Composition of the nominations committee in 2016 (12/09/2016 – 11/10/2016)

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chairperson	12/09/2016	15/07/2017
Branko Tomažič	member	12/09/2016	11/10/2016
Slaven Mićković	member	12/09/2016	15/07/2017

Composition of the nominations committee in 2016 (since 12/10/2016)

Member	Title	Beginning of term of office	Duration of term of office
Mateja Lovšin Herič	chairperson	12/09/2016	15/07/2017
Keith W. Morris	member	12/10/2016	15/07/2017
Slaven Mićković	member	12/09/2016	15/07/2017

5.3.4. The management board

Operation of the management board

The management board represents the Company in its legal transactions. In this, it acts in accordance with the applicable legislation, particularly the Slovenian Companies Act and the Insurance Act, as well as with the articles of association and the act on the management board and its rules of procedure.

Terms of reference

Major duties of the management board:

- to run and organise the operations of the Company;
- to represent the Company;
- to be responsible for the legality of the Company's operations;
- to adopt the development strategy of the Company and Group, which is to be presented to the supervisory board for consent;
- to adopt the business policy and financial plan of the Company and the Group, which is presented to the supervisory board for consent;
- to adopt internal acts of the Company;
- to approve and periodically review strategies and written rules on risk management, the internal control system, internal audit, the actuarial function and regarding outsourcing, and to ensure their implementation;
- to adopt the report on the solvency and financial condition and submit it to the supervisory board for consent;
- to grant authorisation to key function holders of the Company subject to the consent of the supervisory board;
- to report to the supervisory board on operations of the Company and the Group;
- to prepare a draft annual report, including a business report, and to submit it to the supervisory board together with the auditor's report and a proposal regarding appropriation of distributable profit for approval;

- to convene the general meeting of shareholders;
- to implement the resolutions adopted by the supervisory board.

Powers of the management board (increase in share capital, acquisition of own shares)

The management board has no authorisation to increase the share capital.
The management board has an authorisation to purchase own shares of up to 10 % of the share capital over a period of three years from the adoption of the general meeting resolution (i.e. until 23 April 2017). In April 2016, Sava Re carried out a share repurchase procedure on the OTC market. The total number of own shares after the purchases was 1,721,966, which represents 10.0 % less one share of the Company's issued share capital. Thereby the management board fully exhausted the general meeting authorisation to purchase own shares up to 10 % minus one share of the share capital.

The management board in 2016

In accordance with its articles of association, Sava Re is managed and represented by a two- to five-member management board. In order to transact business, the Company must be represented jointly by at least two members.
In its meeting of 20 May 2013, the supervisory board of Sava Re reappointed the four-member management board consisting of Zvonko Ivanušič (chairman), Srečko Čebron, Jošt Dolničar and Mateja Treven. The new term of office of the Chairman and all three other Board members will run for five years, beginning 1 June 2013.
In 2016 there was a change in the composition of the management board.
On 22 August 2016, the supervisory board passed a resolution to recall Zvonko Ivanušič from the position of chairman and member of the management board. The recall was effective as of 23 August 2016. The supervisory board appointed management board member Jošt Dolničar as chairman of the management board as of 23/08/2016, and passed a resolution whereby the management board would be temporarily composed of three members.
On 16 December 2016, the supervisory board of Sava Re completed the selection process with the appointmentof Marko Jazbec as new chairman of the Sava Re management board for a term of five years, commencing on the day following the receipt of the decision on the issuance of the licence for performing the function of a member of the management board by the Insurance Supervision Agency.

Composition of the management board in 2016

Member	Title	Beginning of term of office	Duration of term of office
Zvonko Ivanušič	chair (until 23/08/2016)	01/06/2013	up until 23/08/2016
Jošt Dolničar	chair (since 23/08/2016)	01/06/2013	5 years
Jošt Dolničar	member (until 23/08/2016)		
Srečko Čebron	member	01/06/2013	5 years
Mateja Treven	member	01/06/2013	5 years

Qualifications, brief presentation, beginning of term of office, area of responsibility and memberships of other management or supervisory bodies

Jošt Dolničar | chairman of the management board

Educational background: University graduated lawyer.

Presentation: Jošt Dolničar started his career in Zavarovalnica Triglav, where he worked for nine years; his last position was executive director of non-life insurance operations. Through much of his life, he has been actively involved in sports, and is still a licensed rowing trainer, a member of the legal committee and an arbitrator with the arbitration court of the Slovenian Olympic Committee. He joined Sava Re in 2006 as senior executive responsible for the management of Group subsidiaries. This is his second term of office as member of the management board of Sava Re (since 2008). He assumed the role of chairman of the Sava Re management board on 23 August 2016.

Beginning of term of office: 01/06/2013

Term of office: five years.

Areas of responsibility (management board): The chairman of the management board is responsible for providing leadership to Sava Re, coordinating the activities of the management board, controlling, general affairs, human resource and organisation, legal affairs, compliance, public relations, integration processes, managing strategic investments in primary insurance subsidiaries, and information technology.

Memberships of other management or supervisory bodies of Group companies:

- Sava neživotno osiguranje, a.d., Bulevar vojvode Mišića 51, 11000 Belgrade, Serbia – member of the board of directors;
- Sava osiguranje, a.d., P.C Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro – member of the board of directors.
- Zavarovalnica Sava , Cankarjeva 3, 2000 Maribor – chairman of the supervisory board.

Notes on memberships of management or supervisory bodies of third parties:

- Slovenian Rowing Federation, Župančičeva cesta 9, Bled – President.

Srečko Čebron | member of the management board

Educational background: University graduated mining engineer.

Presentation: Srečko Čebron started his career with Generali in Trieste. He gained most of his predominantly international experience in insurance from Zavarovalnica Tilia (Slovenia), Unipol (Milano, Bologna and Moscow), ICMIF (Manchester) and Euresap (Lisbon). In his extended stays abroad, Srečko acquired considerable foreign language skills. From 2001 to 2008, he was a member of the management board of the insurer Zavarovalnica Maribor. This is his second term of office as member of the management board of Sava Re (since 2009).

Beginning of term of office: 01/06/2013

Term of office: five years.

Areas of responsibility (management board):

Srečko Čebron is responsible for reinsurance operations and actuarial affairs.

Srečko Čebron does not serve on any other management or supervisory body neither in any Group company nor in any third party.

Mateja Treven | member of the management board

Educational background: University graduated economist, master of science in economics.

Presentation: Mateja Treven started her carrier at Ljubljanska banka. In 2000, she headed the securities department at Zavarovalnica Triglav and between 2004 and 2006 was consultant to the chairman of the management board responsible for finance and accounting. In 2006, Mateja Treven accepted the position of member of the management board at the brokerage firm Publikum, investicijske storitve d.d., and from March 2010, was consultant to its management board, responsible for finance and accounting. Mateja obtained a Master of Science in Investment Management Degree from the London City University Business School. In 2005, she obtained the Chartered Financial Analyst charter. Prior to her appointment as a management board member, she served on the supervisory board of Sava Re, chairing its audit committee. She joined Sava Re at the beginning of 2011, first as authorised representative of the management board. This is her second term of office as member of the management board of Sava Re (since 2011).

Beginning of term of office: 01/06/2013

Term of office: five years.

Areas of responsibility (management board):

Mateja Treven is responsible for finance, accounting, internal audit, investor relations, risk management and pension business.

Memberships of other management or supervisory bodies of Group companies:

- Moja naložba, Pokoninska družba, d.d., Ulica Vita Kraigherja 5, 2103 Maribor – chair of the supervisory board,
- Zavarovalnica Sava , Cankarjeva 3, 2000 Maribor – chair of the supervisory board.

Mateja Treven does not serve on any management or supervisory body of any third party.

Remunerations, compensations and other benefits

Remuneration of the management board members is discussed in detail in section 24.10 "Related party disclosures" in the notes to the financial statements.

Shareholdings

POSR shares held by management board members as at 31 December 2016

	No. of shares	Holding (%)
Srečko Čebron	2,500	0.0145 %
Jošt Dolničar	4,363	0.0253 %
Mateja Treven	8,722	0.0507 %
Total	**15,585**	**0.0905 %**

Source: Central securities register KDD d.d.

5.4. Financial reporting: internal controls and risk management

Internal controls comprise a system of guidelines and processes designed and implemented by Sava Re at all levels to manage risks associated, among other things, with financial reporting. These internal controls work to guarantee the efficiency and effectiveness of operations, the reliability of financial reporting and compliance with applicable regulations and internal acts.

Apart from the Companies Act (ZGD), Sava Re is governed by the Insurance Act (ZZavar), which provides that insurance companies must put in place and maintain an appropriate internal control and risk management system. Relevant implementing regulations, which the Company strictly follows, based on the Insurance Act are issued by the Insurance Supervision Agency.

Financial controls are tightly connected to controls related to information technology, which are aimed among other things at restricting and controlling access to the network, information and applications, and at controlling the completeness and accuracy of data entry and processing.

Internal controls applying to financial reporting on the consolidated basis are set out in the internal accounting rules and in the Sava Re Group financial control manual. Members of the Sava Re Group submit the financial information required for the preparation of the consolidated financial statements in the form of reporting packages, prepared in accordance with both the International Financial Reporting Standards (IFRS) as adopted by the EU and the controlling company's guidelines, within the time limits set out in the Company's financial calendar. Reporting packages have inbuilt cross controls that ensure information consistency, and are also reviewed by external auditors. In addition, Group members submit their separate financial statements, which constitutes an additional control measure. By unifying information systems and applications that support consolidation, planning and reporting, the exchange of financial data among Group companies is becoming ever more efficient. Whether necessary information system controls have been put in place and function adequately is verified, on an annual basis, by relevant experts as part of the regular annual auditing of financial statements.

In addition to the above mentioned control systems, Sava Re has put in place internal control systems for other vital work processes. Internal controls include procedures and acts ensuring compliance with the law and internal rules. All major business processes in Sava Re have been specified, including details on control points together with persons responsible for individual controls. Basic controls are carried out by reviewing documents received or by an automatic or manual control procedure of processed data.
Sava Re complies with all rules and regulations on handling confidential data and inside information, on allocation of investments and prohibition of trading based on inside information. In addition, it regularly controls employee dealings in financial instruments for own account.
Other entities authorised by Sava Re with the provision of individual services must do so in compliance with the law, implementing acts, contracts for service, internal rules and job instructions that are applicable at Sava Re.
Pursuant to the Insurance Act, Sava Re set up an internal audit service that is responsible for assessing the adequacy and effectiveness of internal controls employed, and their reliability in the Company's pursuance of objectives and management of risks. The internal audit service reports on its findings to the management board, the audit committee and the Company's supervisory board.

5.5. External audit

The financial statements of the controlling company have been audited by Ernst & Young d.o.o., Dunajska 111, Ljubljana, who have been tasked with the auditing of the financial statements of the Sava Re Group and Sava Re in 2016 for the fourth year in a row. In 2016, the Group's subsidiary companies were audited by the local auditing staff of the same auditing firm. A new contract for the auditing of the financial statements was signed with Ernst & Young in 2016, applying to the period from 2016 to 2018.
The Company complies with the Companies Act provision on the rotation of auditors.

5.6. Details pursuant to Article 70(6) of the Companies Act (ZGD-1)

Sava Re Group share capital structure

Ten largest shareholders as at 31 December 2016

	Shareholder	No. of shares	Holding (%)
1	Slovenski državni holding, d.d. (Slovenian Sovereign Holding)	4,304,917	25.0 %
2	Zagrebačka banka, d.d. – fiduciary account	2,469,432	14.3 %
3	Sava Re, d.d. (treasury shares)*	1,721,966	10.0 %
4	European Bank for Reconstruction and Development (EBRD)	1,071,429	6.2 %
5	Raiffeisen Bank Austria d.d. (fiduciary account)	776,839	4.5 %
6	Modra Zavarovalnica d.d.	714,285	4.1 %
7	Abanka, d.d.	655,000	3.8 %
8	Republic of Slovenia	476,402	2.8 %
9	Balkan Fund	463,211	2.7 %
10	Modra Zavarovalnica, d.d. – ZVPS	320,346	1.9 %
	Total	**12,973,827**	**75.3 %**

Source: Central securities register KDD d.d.

* Treasury shares carry no voting rights.

All shares of Sava Re are ordinary registered shares with no par value; all were issued in a dematerialised form and pertain to the same class.

The shares give their holders the following rights:

- the right to participate in the Company's management, with one share carrying one vote in general meeting;
- the right to a proportionate part of the Company's profit (dividend);
- the right to a corresponding part of the remaining assets upon the liquidation or bankruptcy of the Company.

Pursuant to the Sava Re articles of association and the applicable legislation, current Sava Re shareholders also hold pre-emptive rights entitling them to take up shares in proportion to their existing shareholding in any future stock offering; their pre-emptive rights can only be excluded under a resolution to increase share capital adopted by the general meeting by a majority of at least three quarters of the share capital represented.

Share transfer restrictions

All Sava Re shares are freely transferable.

Qualifying shareholders under the Takeover Act (ZPre-1)

As at 31 December 2016 the following shareholders of Sava Re[2] exceeded the five-percent share threshold (qualifying holding in accordance with Article 77 of the Slovenian Takeover Act, ZPre-1):

Shareholder	No. of shares	Holding (%)
Slovenski državni holding, d.d. (Slovenian Sovereign Holding)	4,304,917	25.0 %
Zagrebačka banka, d.d. – fiduciary account	2,469,432	14.3 %
Sava Re, d.d. (treasury shares)*	1,721,966	10.0 %
European Bank for Reconstruction and Development (EBRD)	1,071,429	6.2 %

On 2 June 2016, Sava Re received a notice from Adris groupa, d.d., Vladimira Nazora 1, 52210 Rovinj, Croatia via its legal representative Rojs, Peljhan, Prelesnik & partnerji, o.p., d.o.o., advising the Company of a change in major holding in Sava Re. Adris grupa, including its subsidiaries with fiduciary accounts, held 3,278,049 POSR shares, representing 19.04 % of issued shares and 21.15 % of outstanding shares.
Under the table "Ten largest shareholders of Sava Re as at 31 December 2016", there is a note regarding the share of voting rights.

Holders of securities carrying special control rights

Sava Re issued no securities carrying special control rights.

Employee share schemes

Sava Re has no employee share scheme.

Restrictions of voting rights

Sava Re adopted no restrictions on voting rights.

Shareholders' agreements restricting share or voting right transferability

Sava Re is not aware of any such agreements between shareholders.

Rules on appointment/removal of members of management/supervisory bodies and on amendments to the articles of association

Company rules on appointment/removal of management board members
Pursuant to Sava Re articles of association, the chairman and members of the management board are appointed by the supervisory board for a period of five years. Such appointments are renewable without limitations.

2 Source: Central securities register KDD d.d.

Natural persons with full legal capacity that meet the requirements set down by law and internal rules may be appointed members of the management board. The process and criteria for the selection of candidates for members of the management board as well as the process of periodic fit and proper assessments of individual members is transparently set out in the Company's fit and proper policy.
The management board, as a whole or its individual members, may be recalled by the supervisory board for reasons prescribed by law.

Sava Re rules on appointment/removal of supervisory board members
Pursuant to Sava Re articles of association, the supervisory board is composed of six members, of which four (shareholder representatives) are elected by the Company's general meeting, and two (employee representatives) are elected by the workers' council, which subsequently informs the general meeting of its decision. Shareholder representatives of the supervisory board are elected by the general meeting, by a majority of votes present. The term of office of supervisory board members is four years, renewable. Natural persons with full legal capacity that meet the requirements set down by law and internal rules may be appointed members of the supervisory board. The process and criteria for the selection of candidates for members of the supervisory board and for drafting proposals for general meeting resolutions on the appointment of supervisory board members, including the process of periodic fit and proper assessments of individual members, is transparently set out in the Company's fit and proper policy.
Supervisory board members who are shareholder representatives may be recalled by the general meeting for reasons as prescribed by law based on a general meeting resolution adopted by a majority of at least three quarters of the share capital represented.

Rules of Sava Re on amending its articles of association
Sava Re articles of association do not contain special provisions governing their amendment. Pursuant to applicable legislation, they may be amended by resolution of the general meeting by a majority of at least three quarters of the share capital represented.

Powers of the management board, especially relating to treasury shares

In the 28th general meeting held on 23 April 2014, the management board was given authorisation to acquire own shares. The authorisation was for acquiring up to a total of 1,721,966 own shares, representing 10 % of the Company's share capital, including own shares that the Company already owned at the date of the general meeting authorisation. In accordance with the general meeting authorisation, the Company may acquire its own shares, either by transactions on the regulated financial instruments market or outside the regulated market.
By the additional own share repurchases in April 2016, the management board fully exhausted the general meeting authorisation to purchase own shares up to 10 % minus one share of the share capital.

Important agreements that apply, change or terminate after a public takeover bid results in a control change

Sava Re protects itself against the risk of losses by reinsuring its own account (retrocession). Retrocession contracts usually contain provisions governing contract termination in cases involving significant changes in ownership or control of the counterparty. It follows that in the case of a successful takeover bid, retrocessionaires could terminate their relevant contracts.

Agreements between an entity and members of its management/supervisory bodies on compensation in case of (i) resignation, (ii) dismissal without cause or (iii) employment relationship termination due to any bid specified in the law governing takeovers

Sava Re management board members are not entitled to a severance benefit in case of resignation.
Sava Re management board members are entitled to severance pay if recalled or dismissed by the supervisory board without cause.

Ljubljana, 31 March 2017

Save Re Management Board

Jošt Dolničar
Chairman

Srečko Čebron
Member

Mateja Treven
Member

Save Re Supervisory Board

Mateja Lovšin Herič
Chair

6. MISSION, VISION, STRATEGIC FOCUS AND GOALS

6.1. Mission and vision

What are we here for?

Through commitment and constant progress, we ensure security and quality of life.

Who do we aspire to be?

A modern, client-focused, socially- and sustainable-oriented insurance group.

What are we like?

We exceed client expectations by our ongoing effort to make improvements and strengthen relationships. We grow relationships with our colleagues in a responsible, frank and respectful manner. We are active in relation to the environment (e.g. owners, social environment).

6.2. Goals achieved in 2016

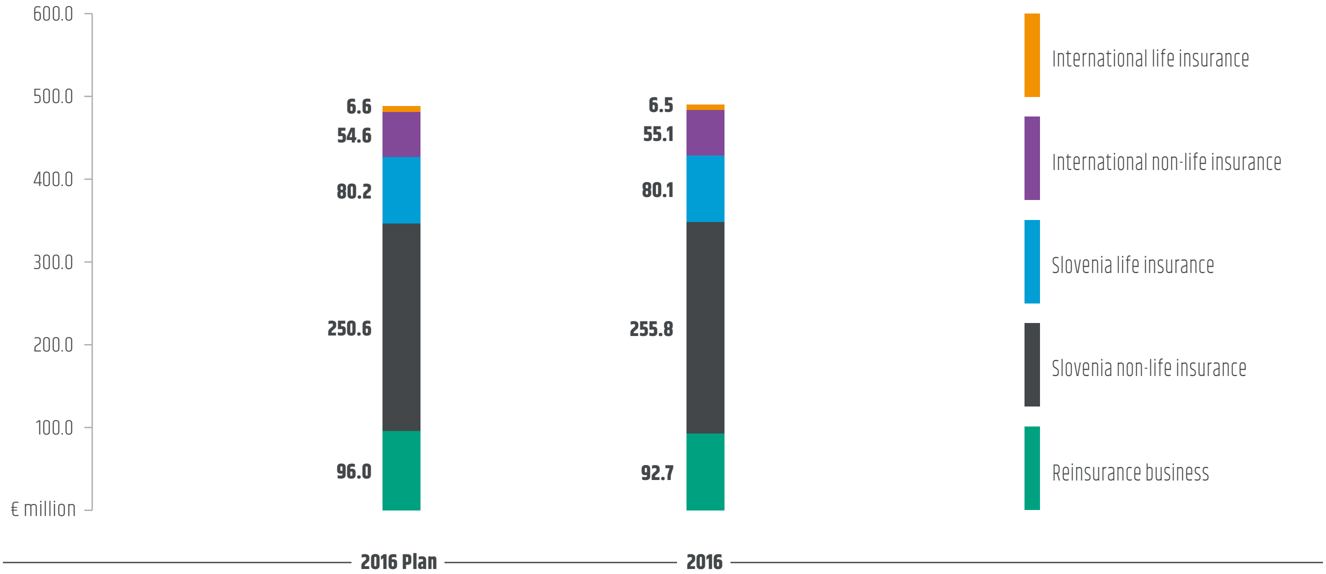
In 2016 the Sava Re Group achieved its targets as follows:

(€ million)	2016 Plan	Actual 2016	Index / deviation in p.p.
Gross written premiums	487.9	490.2	100.5
Growth/decline in premiums	0.3 %	0.8 %	0.5 p.p.
Net expense ratio	33.2 %	34.0 %	0.8 p.p.
Net incurred loss ratio	58.2 %	58.6 %	0.4 p.p.
Net combined ratio	94.8 %	95.0 %	0.2 p.p.
Profit/loss, net of tax	33.4	32.9	98.6
Investment return, excluding exchange differences	2.1 %	2.2 %	0.1 p.p.
Return on equity	11.6 %	11.3 %	-0.3 p.p.

* The net combined ratio is given for the reinsurance and non-life insurance operating segments.

The Sava Re Group slightly exceeded its planned gross premiums written for 2016. The net expense ratio and the net incurred loss ratio are less favourable than planned, while the return on the investment portfolio is above plan. In 2016, the return on equity was 11.3 %, which is only marginally below the planned figure. Both the combined ratio and the return on equity are within the limits set out in the Group's strategic plan.

Realisation of planned consolidated gross premiums written



The consolidated gross premiums written exceeded the plan by 0.5 %, with the growth primarily driven by the non-life insurance segment in Slovenia.

6.3. Sava Re Group strategy highlights

The core strategic directions are:

- The Sava Re Group will be known in its target markets as a provider of comprehensive insurance and reinsurance services, and as the most professional and flexible insurance group. The further development of the Sava Re Group is based on the following strategic objectives:
  - providing transparent, understandable and efficient services that reflect actual customer needs;
  - proactive responding to technological progress;
  - optimal use of know-how in the Group;
  - development of a common, modern organisational culture.
- After the successful completion of the formal merger of the Group's EU-based insurers in 2016, Zavarovalnica Sava will continue its integration process, expecting to fully realise the effects of the merger within three years.
- The Group will provide for appropriate capital allocation to achieve its strategic objectives, utilising also debt capital. Capital allocation will be based on the calculation of capital requirements and ORSA calculations under the SII regime.
- The Group will primarily strive for quality and profitability (at the Group and the Group member levels). Premium growth in the Group will be, as a rule, above the industry average in each of the markets covered, however this being secondary to the profitability target. All members of the Group are to aim both at attaining a positive underwriting result as well as a positive investment result.
- Sava Re will explore new opportunities for growth through acquisitions – primarily in the Western Balkans.
- The Group will look for opportunities to liaise with banks for the marketing of life policies (bancassurance).
- The Group will support all business levels with efficient process and information technology, gradually centralising IT infrastructure and unifying IT solutions.
- Sava Re will strive to maintain, possibly improve, its credit ratings from rating agencies Standard & Poor's and A.M. Best.

The Group's core strategic targets are:

	Strategic targets
Average growth rate	> 2 %
Net expense ratio	< 30 %
Net combined ratio*	< 95 %
Investment return	> 1.5 %
Return on equity	> 11 %

* The net combined ratio includes all items except those relating to investments; excluded is life business.

Assuming organic growth, we plan to achieve the following in the plan period:
- improved expense and premium collection ratios,
- improved loss ratios in Slovenia,
- lower but stable returns on investment.

Strategic directions by operating segment:

Non-life insurance business in Slovenia
- strengthening the position of the new combined insurer in the market;
- improving the results of the non-life insurance segment other than motor insurance;
- taking advantage of segment cost synergies.

Life insurance in Slovenia:
- strengthening the position of the new combined insurer in the market;
- maintaining premium volume and especially profitability of life business;
- taking advantage of segment cost synergies.

Pension business in Slovenia:
- growth above market growth rates;
- utilisation of synergies in the Group;
- promoting private sector sales (for maximum utilisation of tax relief).

Reinsurance operations:
- growth in international reinsurance markets;
- maintaining a high-quality reinsurance portfolio;
- good geographic diversification.

Non-Slovenian operations:
- making use of established platforms (in terms of processes and products) to increase growth in gross premiums written;
- decrease in expense ratios;
- seeking opportunities through investments in vehicle inspection;
- strengthening companies' brand recognition;
- increasing the productivity of the sales network and focus on premium and recourse collection;
- utilisation of synergies among Group subsidiaries in individual markets;
- development and focus both on selling products with a higher risk component and on more affordable products (life policies);

6.4. Plans of the Sava Re Group for 2017

Key targets for 2017

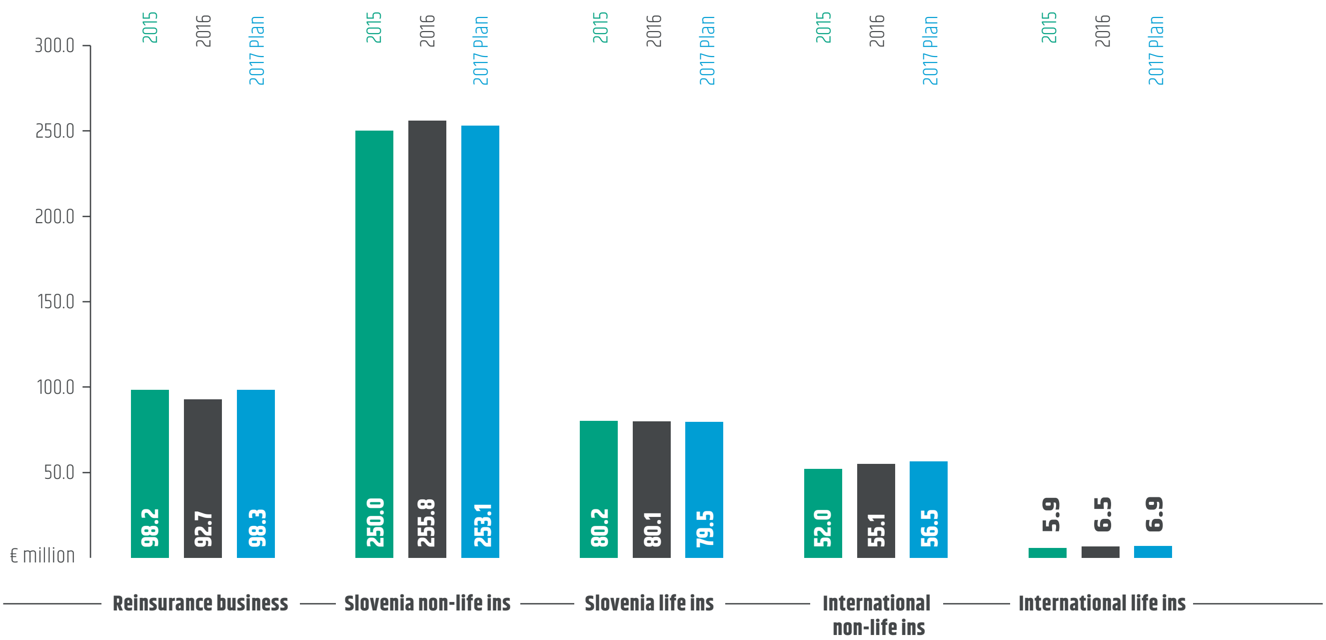
(€ million)	2015	2016	2017 Plan	Index/difference in p.p. P 2017/16
Gross written premiums	486.3	490.2	494.3	100.8
Growth/decline in premiums	3.9 %	0.8 %	1.3 %	-
Net expense ratio	32.5 %	34.0 %	32.6 %	-1.4 p.p.
Net incurred loss ratio	60.5 %	58.6 %	59.4 %	0.8 p.p.
Net combined ratio	95.8 %	95.0 %	94.6 %	-0.4 p.p.
Profit/loss, net of tax	33.4	32.9	32.6	99.0
Investment return, excluding exchange differences	2.4 %	2.2 %	1.8 %	-0.4 p.p.
Return on equity	12.0 %	11.3 %	10.3 %	-1.0 p.p.

* The net incurred loss ratio and the net combined ratio are given for the reinsurance and non-life insurance operating segments.

Profit has been planned based on the following factors:

- Growth is mainly planned in reinsurance and non-Slovenian primary insurance markets.
- Because of the large pressure from merger costs in 2016, the expense ratio is expected to drop in 2017.
- The net incurred loss ratio is planned to remain broadly on the 2016 level, as the planned ratio also includes one catastrophic loss event (one large loss with a total impact of € 5 million on the Group result);
- the decline in investment return is planned because of the low interest rates on capital markets.

Target consolidated gross premium income by operating segment (Sava Re Group)



* Premiums of Moja naložba are included in the segment Slovenian life insurance business.

Planned premium volume

Reinsurance operations:

- Despite the persisting soft market phase in reinsurance, we are planning a minor premium growth, especially in markets with growth potential where our premium volume is still low (Africa, Latin America, the new Asian markets). We will continue focusing on improved risk selection in reinsurance underwriting (underwriting results must be positive in the long term).

Non-life business:

- Slovenia: we are planning a minor decline in premiums to further improve the technical performance (higher pricing may deter clients from maintaining or renewing covers that do not produce positive results in the long term);
- International: all non-Slovenian companies have a good basis for growth (in the past, premiums mainly declined because of loss of major clients). Planned growth is based on small risks (which are our target risks in the our risk structure). Growth is partly related to expected organic growth of these markets.

Life business:

- Slovenia: we are planning a drop in the premium volume as a result of the continued increase in the number of maturities (the planned increase in new premiums written will not be sufficient to offset the expected maturities). This segment also includes pensions: premiums in this segment also include premiums from pension business, which is expected to grow with the number of policyholders (which upon retirement will switch from the accumulation period to the liquidations period).
- International: these premiums from non-Slovenian markets are still relatively low, but we are planning growth – due to (i) marketing networks set up over the years, (ii) marketing activities, and (iii) overall market growth.

7. BUSINESS ENVIRONMENT

Slovenia[3]

Major economic indicators for Slovenia

	2012	2013	2014	2015	2016
Real change in GDP (%)	-2.7	-1.1	3.1	2.3	2.3
GDP (€ million)	36,003	35,917	37,332	38,570	40,004
Registered unemployment rate (%)	12.0	13.1	13.1	12.3	11.2
Average inflation (%)	2.6	1.8	0.2	-0.5	0.1
Population (million)	2.0	2.1	2.1	2.1	2.1
GDP per capita (€)	18,002	17,435	17,777	18,367	19,050
Insurance premiums (€ million)	**2,036.4**	**1,979.5**	**1,937.6**	**1,975.4**	**1,991.2**
- growth/decline in insurance premiums	-2.7 %	-2.8 %	-2.1 %	2.0 %	0.8 %
Insurance premiums – non-life (€ million)	1,457.1	1,426.9	1,402.2	1,409.4	1,449.7
- growth/decline in non-life insurance premiums	0.2 %	-2.1 %	-1.7 %	0.5 %	2.9 %
Insurance premiums – life (€ million)	579.3	552.6	535.4	565.9	541.5
- growth/decline in life insurance premiums	-9.2 %	-4.6 %	-3.1 %	5.7 %	-4.3 %
Insurance premiums per capita (€)	**1,018.2**	**960.9**	**922.6**	**940.6**	**948.2**
Non-life insurance premiums per capita (€)	728.6	692.7	667.7	671.2	690.3
Life insurance premiums per capita (€)	289.7	268.3	254.9	269.5	257.9
Premium/GDP (%)	**5.7**	**5.5**	**5.2**	**5.1**	**5.0**
Non-life premiums/GDP (%)	4.0	4.0	3.8	3.7	3.6
Life premiums/GDP (%)	1.6	1.5	1.4	1.5	1.4
Average monthly net salary (€)	991	997	1,009	1,011	1,030

* The premiums for 2016 are shown without the premiums of the branches of Adriatic Slovenica and Zavarovalnica Sava in Croatia.

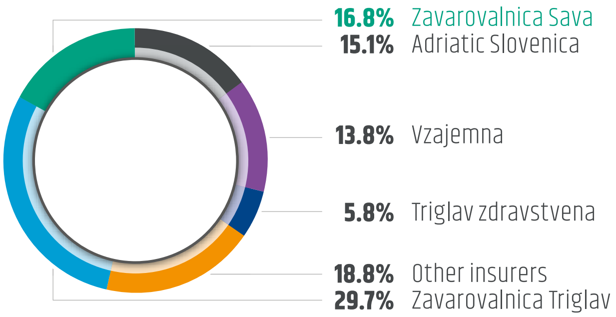
- Consumer confidence continued to improve at the end of the year, which was reflected in the further growth in household consumption. Purchases of durable goods (passenger cars[4] and home furnishings), which have been rebounding for quite some time, continued to grow, as did spending on semi-durable goods[5] and services, which started to strengthen more notably in 2016. Among the latter, there was a particular increase in the spending on leisure-related services in Slovenia and abroad[6].

3 Source: UMAR, Economic Mirror, no. 1/2017, Statistical Office of the Republic of Slovenia, Slovenian Insurance Association.
4 In the sale of motor vehicles, the year-on-year growth in the sale of new passenger cars to natural persons and new goods motor vehicles and trailing vehicles to legal persons continued at the end of 2016; according to our estimates, exports of second-hand vehicles also increased further. The sales of passenger cars to legal persons were down year on year in 2016 after three years of growth.
5 Computer and telecommunication equipment, clothing, footwear, and products for personal care.
6 Turnover in accommodation and food service activities, affected not only by higher spending of domestic households, but also a record number of foreign tourist arrivals, rose more than one-tenth in the first ten months of 2016. Household expenditure on private trips abroad was also up by 6.4 %.

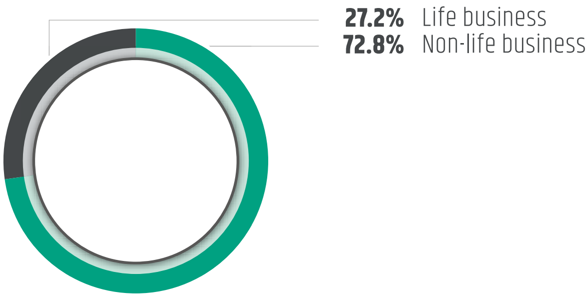
- With increased hiring, registered unemployment declined further in 2016 (by 8.5 %). The number of registered unemployed was close to the level seen during the years of stable economic growth. There were also fewer first-time jobseekers, which may be also partly due to slightly fewer young people finishing school and the improved job prospects when leaving school to enter the labour market. At the end of 2016 a total of 99,615 persons were registered as unemployed, 11.9 % fewer than at the end of 2015.
- The growth of average gross earnings in the first 10 months of 2016 was the highest in five years, but still significantly weaker than before the crisis. In the private sector, growth is related to the strengthening of economic activity; in the public sector, which is mainly attributable to the promotions of civil servants and the return to the former pay scale.
- Consumer prices were higher year on year at the end of 2016 (0.5 %), largely as a result of increases in the prices of commodities and services. The fall in energy prices, the main reason for the price decline in 2015, began to decelerate in the second half of the year. At the year-end, energy prices were similar to those recorded one year earlier. Higher commodity prices contributed to rises in food prices (especially unprocessed food). Price growth in services strengthened and was broader-based compared to previous years when it was mainly affected by one-off factors[7]. With a further rebound in private consumption and more foreign tourist arrivals, higher prices were recorded, particularly for leisure-related services. The prices of durable and semi-durable goods remained low year on year.

The Slovenian insurance market[8]

Slovenian insurance market 2016



Breakdown of premiums in the Slovenian insurance market in 2016



7 Fiscal consolidation measures, which had the greatest effect on service price movements in 2012–2014.
8 Source: Slovenian Insurance Association. The market shares are calculated excluding the premiums of the branches of Adriatic Slovenica and Zavarovalnica Sava in Croatia.

Market shares of Zavarovalnica Sava in the Slovenian insurance market[9]

Premiums and market shares in the Slovenian reinsurance market[10]

(€)	2016		2015	
	Gross premiums written	Market share	Gross premiums written	Market share
Sava Re	147,426,893	55.7 %	151,982,421	56.5 %
Triglav Re	117,417,689	44.3 %	116,839,911	43.5 %
Total	**264,844,582**	**100.0 %**	**268,822,332**	**100.0 %**

9 Source: Slovenian Insurance Association.
10 Source: internal data of Sava Re and Triglav Re.

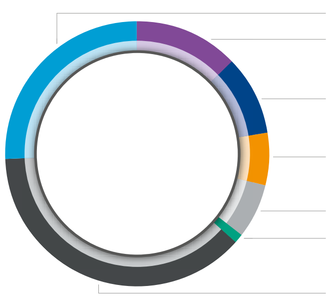
Croatia[11]

Major economic indicators for Croatia

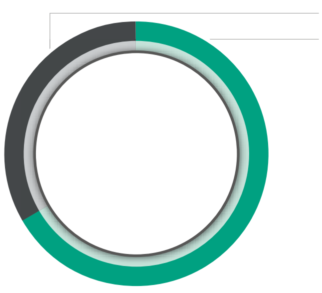
	2012	2013	2014	2015	2016
Real change in GDP (%)	-2.2	-0.9	-0.4	1.6	2.8
GDP (€ million)	43,682	43,487	43,020	43,897	45,038
Registered unemployment rate (%)	15.9	17.3	17.3	16.3	13.0
Average inflation (%)	3.4	2.2	-0.2	-0.5	-1.1
Population (million)	4.3	4.3	4.2	4.2	4.2
GDP per capita (€)	10,159	10,218	10,151	10,442	10,723
Insurance premiums (€ million)	**1,201.7**	**1,197.7**	**1,121.4**	**1,146.0**	**1,167.8**
- growth/decline in insurance premiums	-2.3 %	-0.3 %	-6.4 %	2.2 %	1.9 %
Insurance premiums – non-life (€ million)	874.4	862.7	775.9	760.5	777.2
- growth/decline in non-life insurance premiums	-3.1 %	-1.3 %	-10.1 %	-2.0 %	2.2 %
Insurance premiums – life (€ million)	327.2	334.9	345.5	385.5	390.6
- growth/decline in life insurance premiums	0.1 %	2.4 %	3.2 %	11.6 %	1.3 %
Insurance premiums per capita (€)	**279.5**	**281.4**	**264.6**	**272.6**	**278.0**
Non-life insurance premiums per capita (€)	203.4	202.7	183.1	180.9	185.0
Life insurance premiums per capita (€)	76.1	78.7	81.5	91.7	93.0
Premium/GDP (%)	**2.8**	**2.8**	**2.6**	**2.6**	**2.6**
Non-life premiums/GDP (%)	2.0	2.0	1.8	1.7	1.7
Life premiums/GDP (%)	0.7	0.8	0.8	0.9	0.9
Average monthly net salary (€)	728	728	725	735	745
Exchange rate (HRK/€)	7.522	7.579	7.634	7.614	7.533

Croatian insurance market[12]

Croatian insurance market 2016

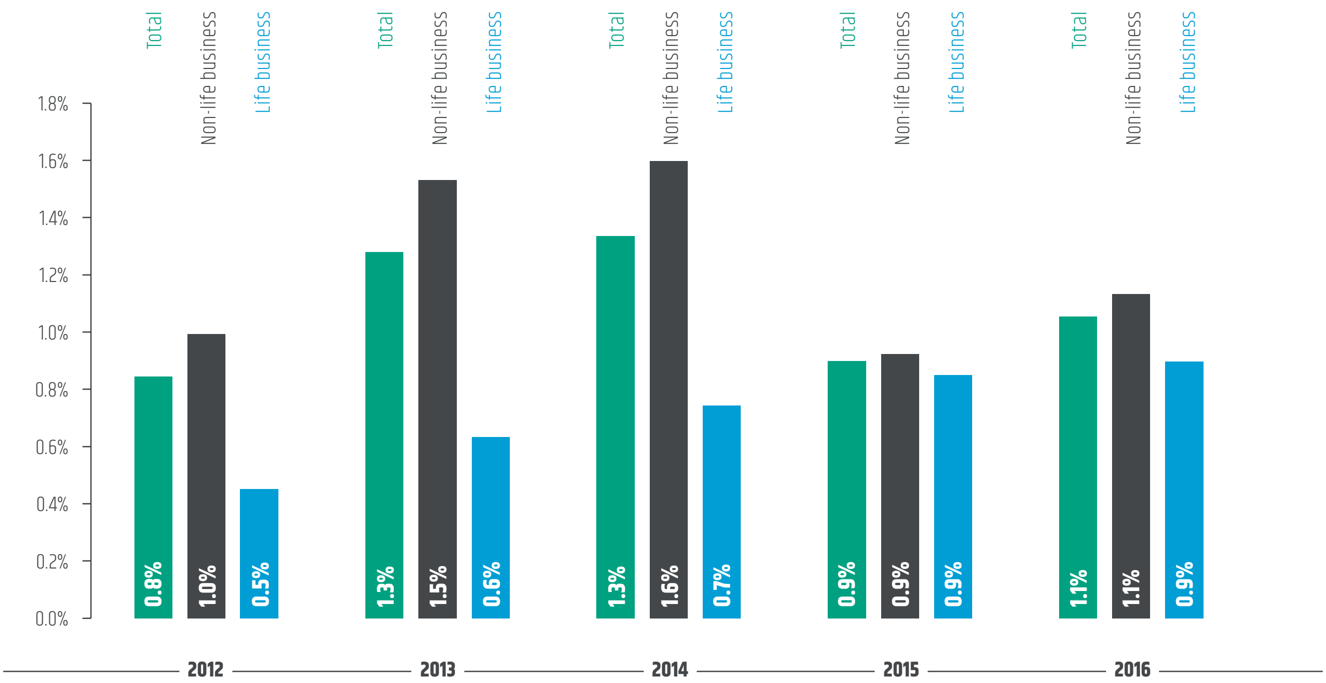


Breakdown of premiums in the Croatian insurance market in 2016



11 Source: Croatian Chamber of Commerce and Industry, EMIS database, Croatian Insurance Supervision Agency.
12 Source: Croatian Insurance Bureau.

Market shares of Zavarovalnica Sava in the Croatian insurance market[13]



Serbia[14]

Major economic indicators for Serbia

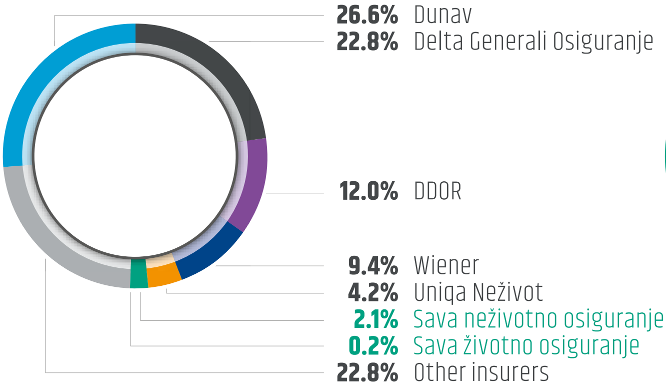
	2012	2013	2014	2015	2016
Real change in GDP (%)	-1.0	2.6	-1.8	0.7	2.5
GDP (RSD million)	3,348,689	3,618,167	3,685,457	3,849,283	4,151,610
GDP (€ million)	29,634	32,036	31,535	32,936	35,523
Registered unemployment rate (%)	23.9	22.1	20.1	17.9	20.0
Average inflation (%)	7.8	7.8	2.9	1.4	1.2
Population (million)	7.2	7.2	7.2	7.2	7.2
GDP per capita (€)	4,116	4,449	4,380	4,575	4,934
Insurance premiums (€ million)	**543.9**	**567.0**	**593.9**	**671.2**	**740.0**
- growth/decline in insurance premiums	-3.3 %	4.2 %	4.7 %	13.0 %	10.2 %
Insurance premiums – non-life (€ million)	439.0	442.5	456.9	510.6	580.0
- growth/decline in non-life insurance premiums	-5.4 %	0.8 %	3.3 %	11.8 %	13.6 %
Insurance premiums – life (€ million)	104.9	124.5	136.9	160.6	160.0
- growth/decline in life insurance premiums	6.9 %	18.7 %	10.0 %	17.3 %	-0.4 %
Insurance premiums per capita (€)	**75.5**	**78.8**	**82.5**	**93.2**	**102.8**
Non-life insurance premiums per capita (€)	61.0	61.5	63.5	70.9	80.6
Life insurance premiums per capita (€)	14.6	17.3	19.0	22.3	22.2
Premium/GDP (%)	**1.8**	**1.8**	**1.9**	**2.0**	**2.1**
Non-life premiums/GDP (%)	1.5	1.4	1.4	1.6	1.6
Life premiums/GDP (%)	0.4	0.4	0.4	0.5	0.5
Average monthly net salary (RSD)	41,367	43,932	44,530	44,437	45,862
Average monthly net salary (€)	366	389	381	369	373
Exchange rate (GBP/€)	113.0	112.9	116.9	120.6	122.9

* Insurance premiums for 2016 are estimates.

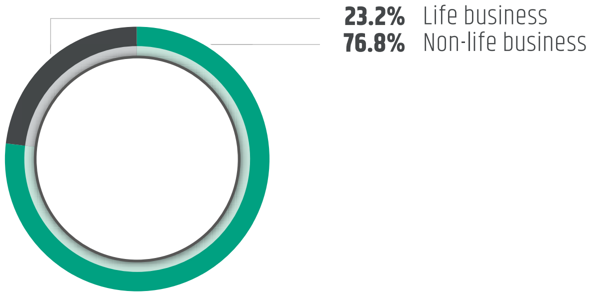
13 Source: Croatian Insurance Bureau.
14 Source: IMF: World Economic Outlook, October 2016, Raiffeisen: Central & Eastern European Strategy 4Q 2016, Serbian National Bank.

The Serbian insurance market[15]

Serbian insurance market 1-9/2016

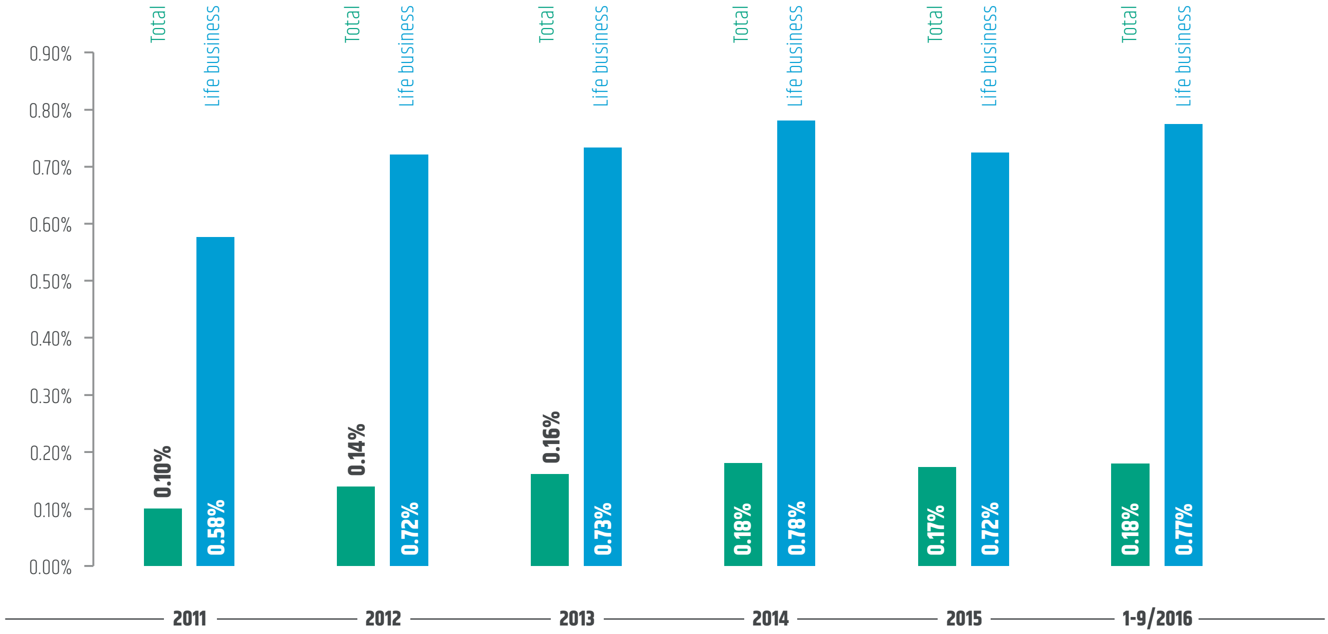


Breakdown of premiums in the Serbian insurance market 1-9/2016



Market shares of Sava neživotno osiguranje (SRB) and Sava životno osiguranje (SRB) in the Serbian insurance market[16]

15 Source: Serbian National Bank.
16 Source: Serbian National Bank.



Macedonia[17]

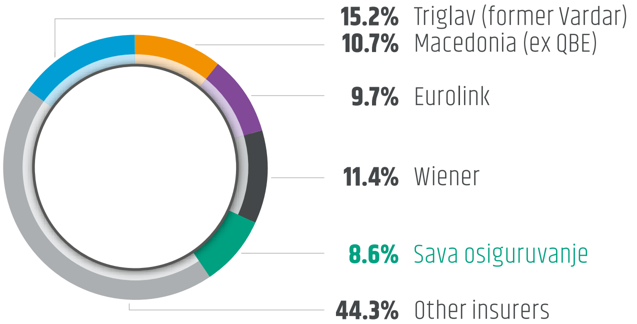
Major economic indicators for Macedonia

	2012	2013	2014	2015	2016
Real change in GDP (%)	-0.5	2.9	3.6	3.8	2.3
GDP (MKD million)	466,703	501,891	527,631	558,240	579,646
GDP (€ million)	7,573	8,104	8,571	9,076	9,407
Registered unemployment rate (%)	31.0	29.0	28.0	26.1	23.9
Average inflation (%)	3.3	2.8	-0.3	-0.3	-0.2
Population (million)	2.1	2.1	2.1	2.1	2.1
GDP per capita (€)	3,606	3,859	4,081	4,322	4,480
Insurance premiums (€ million)	**113.8**	**116.2**	**123.9**	**134.5**	**141.5**
- growth/decline in insurance premiums	3.1 %	2.1 %	6.7 %	8.5 %	5.3 %
Insurance premiums – non-life (€ million)	104.1	104.4	109.5	116.7	120.6
- growth/decline in non-life insurance premiums	1.9 %	0.3 %	4.9 %	6.6 %	3.3 %
Insurance premiums – life (€ million)	9.7	11.8	14.4	17.8	21.0
- growth/decline in life insurance premiums	18.4 %	21.4 %	22.6 %	23.2 %	17.9 %
Insurance premiums per capita (€)	**54.2**	**55.3**	**59.0**	**64.0**	**64.7**
Non-life insurance premiums per capita (€)	49.6	49.7	52.1	55.6	57.4
Life insurance premiums per capita (€)	4.6	5.6	6.9	8.5	10.0
Premium/GDP (%)	**1.5**	**1.4**	**1.4**	**1.5**	**1.5**
Non-life premiums/GDP (%)	1.4	1.3	1.3	1.3	1.3
Life premiums/GDP (%)	0.1	0.1	0.2	0.2	0.2
Average monthly net salary (€)	337	331	336	345	354
Exchange rate (MKD/€)	61.626	61.932	61.561	61.510	61.616

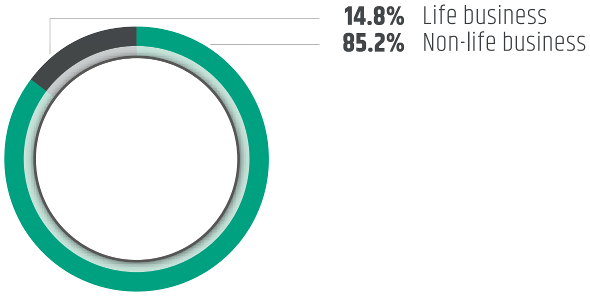
17 Source: Republic of Macedonia, Ministry of Finance: Indicators and projections 21/02/2017, National Bureau of Interview with the Republic of Macedonia.

Macedonian insurance market[18]

Macedonian insurance market 2016



Breakdown of premiums in the Macedonian insurance market in 2016



Market shares of Sava osiguruvanje (MKD) on the Macedonian insurance market[19]

18 Source: National Insurance Bureau of the Republic of Macedonia.
19 Source: National Insurance Bureau of the Republic of Macedonia.

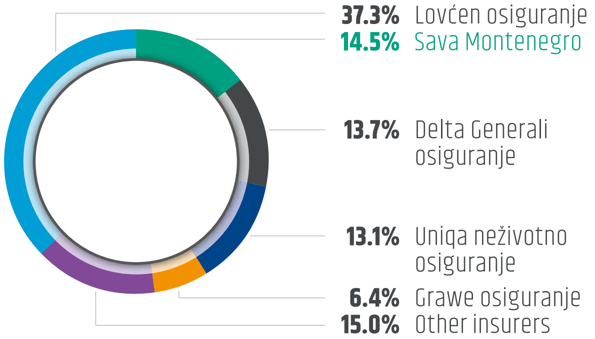
Montenegro[20]

Major economic indicators for Montenegro

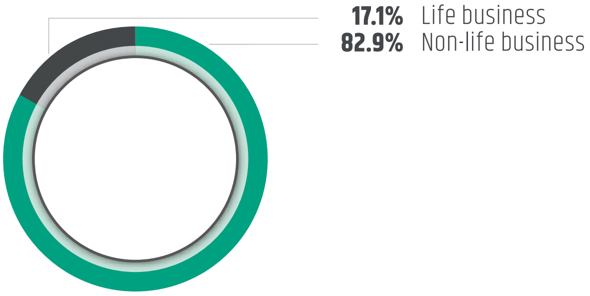
	2012	2013	2014	2015	2016
Real change in GDP (%)	-2.7	3.5	1.8	3.4	4.0
GDP (€ million)	3,181	3,362	3,458	3,625	3,134
Registered unemployment rate (%)	19.6	19.5	18.0	17.2	17.1
Average inflation (%)	4.0	2.2	-0.7	1.6	0.5
Population (million)	0.6	0.6	0.6	0.6	0.6
GDP per capita (€)	5,302	5,603	5,763	6,042	5,223
Insurance premiums (€ million)	**66.9**	**72.8**	**72.4**	**76.9**	**80.1**
- growth/decline in insurance premiums	3.3 %	8.7 %	-0.5 %	6.2 %	4.2 %
Insurance premiums – non-life (€ million)	57.4	61.9	59.9	64.0	66.5
- growth/decline in non-life insurance premiums	3.1 %	7.7 %	-3.3 %	7.0 %	3.8 %
Insurance premiums – life (€ million)	9.5	10.9	12.6	12.9	13.7
- growth/decline in life insurance premiums	4.6 %	14.8 %	15.5 %	2.7 %	6.1 %
Insurance premiums per capita (€)	**111.5**	**121.3**	**120.7**	**128.2**	**133.6**
Non-life insurance premiums per capita (€)	95.7	103.2	99.8	106.7	110.8
Life insurance premiums per capita (€)	15.8	18.1	20.9	21.5	22.8
Premium/GDP (%)	**2.1**	**2.2**	**2.1**	**2.1**	**2.6**
Non-life premiums/GDP (%)	1.8	1.8	1.7	1.8	2.1
Life premiums/GDP (%)	0.3	0.3	0.4	0.4	0.4
Average monthly net salary (€)	487	479	477	480	502

Montenegrin insurance market[21]

Montenegrin insurance market 2016



Breakdown of premiums in the Montenegrin insurance market in 2016



20 Source: Ministry of Finance of Montenegro: Macroeconomic Trends for the period 2010–2015 and two quarters of 2016, October 2016, IMF: World Economic Outlook, October 2016, Montenegrin statistical bureau, Montenegrin insurance supervision agency.
21 Source: Insurance Supervisor of Montenegro.

Market shares of Sava osiguranje (MNE) on the Montenegrin insurance market[22]

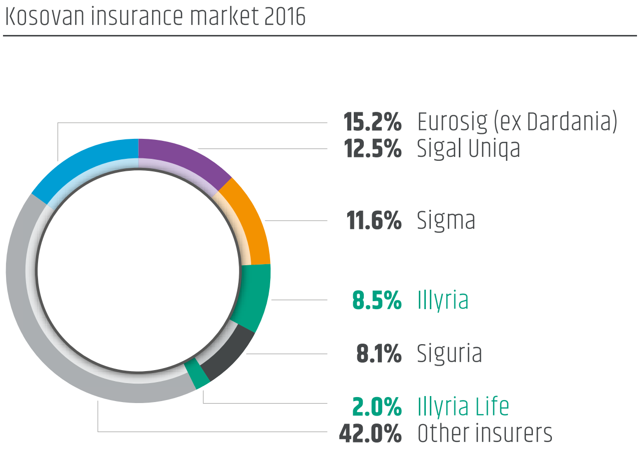
Kosovo[23]

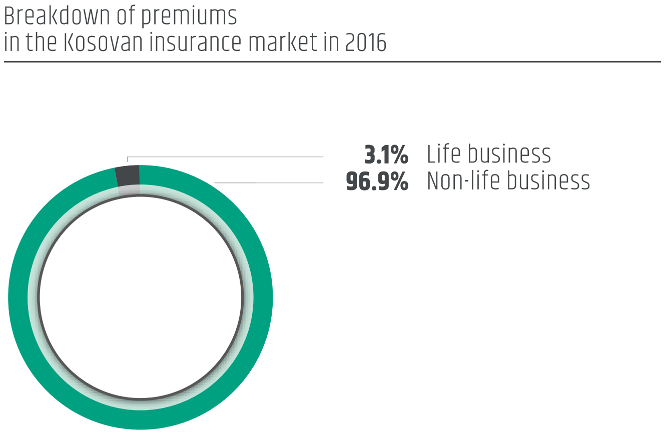
Major economic indicators for Kosovo

	2012	2013	2014	2015	2016
Real change in GDP (%)	2.8	3.4	1.2	4.0	4.1
GDP (€ million)	5,059	5,327	5,551	5,772	6,005
Registered unemployment rate (%)	30.9	30.0	35.3	32.9	32.3
Average inflation (%)	2.5	1.8	0.4	-0.5	0.2
Population (million)	1.8	1.8	1.8	1.9	1.9
GDP per capita (€)	2,786	2,913	3,009	3,038	3,161
Insurance premiums (€ million)	**71.3**	**79.4**	**82.5**	**81.4**	**83.8**
- growth/decline in insurance premiums	-9.8 %	11.5 %	3.8 %	-1.3 %	2.9 %
Insurance premiums – non-life (€ million)	69.8	77.4	80.1	78.7	81.2
- growth/decline in non-life insurance premiums	-10.5 %	10.9 %	3.5 %	-1.7 %	3.2 %
Insurance premiums – life (€ million)	1.5	2.1	2.4	2.7	2.6
- growth/decline in life insurance premiums	43.2 %	38.9 %	16.5 %	12.5 %	-4.3 %
Insurance premiums per capita (€)	**39.2**	**43.4**	**44.7**	**42.8**	**44.1**
Premium/GDP (%)	**1.4**	**1.5**	**1.5**	**1.4**	**1.4**
Average monthly net salary (€)	354	364	429	446	463

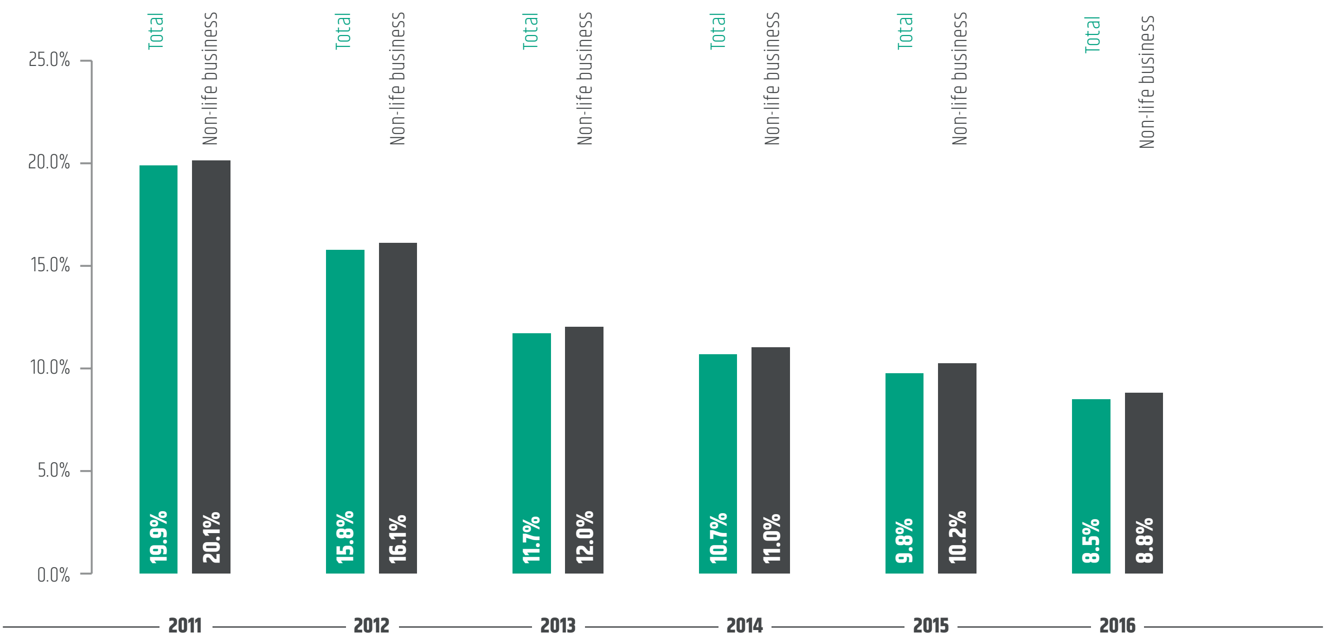
22 Source: Insurance Supervisor of Montenegro.
23 Source: Central Bank of the Republic of Kosovo, IMF: World Economic Outlook, October 2016.

Kosovan insurance market[24]





Market shares of Illyria and Illyria Life in the Kosovan insurance market[25]



24 Source: Central Bank of the Republic of Kosovo.
25 Source: Central Bank of the Republic of Kosovo.

Total
Life business
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
1.3%
100.0%
1.7%
83.4%
1.8%
69.0%
2.0%
66.4%
1.9%
56.1%
2.0%
60.4%
2011
2012
2013
2014
2015
2016

8. SAVA RE GROUP REVIEW OF OPERATIONS[26]

Business is presented by operating segments (non-life insurance, life insurance, reinsurance business and the "other" segment) and by geography (Slovenia and international). The "Slovenia" segment includes figures of the Slovenian part of Zavarovalnica Sava (pre-merger Zavarovalnica Maribor and Zavarovalnica Tilia) and Moja naložba (life segment), while the "international" segment covers the operations of the other subsidiaries, including the Croatian part of Zavarovalnica Sava (pre-merger Velebit osiguranje and Velebit životno osiguranje). 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 said 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 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). 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 said 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. Sava Re operates as a virtual holding company, so a part of its expenses relates to the administration of the Group. Such expenses of the reinsurance segment were allocated to other segments based on gross premiums written. Such reallocation has been made also for other operating expenses relating to intra-group reinsurance transactions. In the period 1–12/2016, Sava Re allocated 64.0 % of other operating expenses to operating segments as monitored (non-life and life insurance business) by premium structure (1–12/2015: 64.8 %).
- 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).

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

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 and 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).
- 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 point one 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).

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

Summary of the consolidated income statement

(€)	2016	2015	Index
Net earned premiums	458,101,526	447,559,605	102.4
Income from investments in associates	0	942,560	-
Investment income	33,136,242	39,577,855	83.7
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	17,958,678	26,631,788	67.4
Other technical income	18,237,409	19,318,601	94.4
Other income	6,489,633	4,647,977	139.6
Net claims incurred	-268,393,776	-273,129,823	98.3
Change in other technical provisions	-5,254,856	-1,282,026	409.9
Change in technical provisions for policyholders who bear the investment risk	-17,442,161	-11,036,450	158.0
Expenses for bonuses and rebates	-1,263,545	-580,091	217.8
Operating expenses	-159,563,486	-148,918,373	107.1
Expenses for investments in associates and impairment losses on goodwill	-1,693,699	-2,936,678	57.7
Expenses for financial assets and liabilities	-8,556,415	-13,005,902	65.8
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	-11,256,348	-25,930,786	43.4
Other technical expenses	-17,310,937	-20,113,718	86.1
Other expenses	-2,518,278	-1,646,568	152.9
Profit/loss before tax	**40,669,987**	**40,097,971**	**101.4**
Income tax expense	-7,751,774	-6,732,520	115.1
Net profit/loss for the period	**32,918,213**	**33,365,451**	**98.7**

Consolidated operating ratios

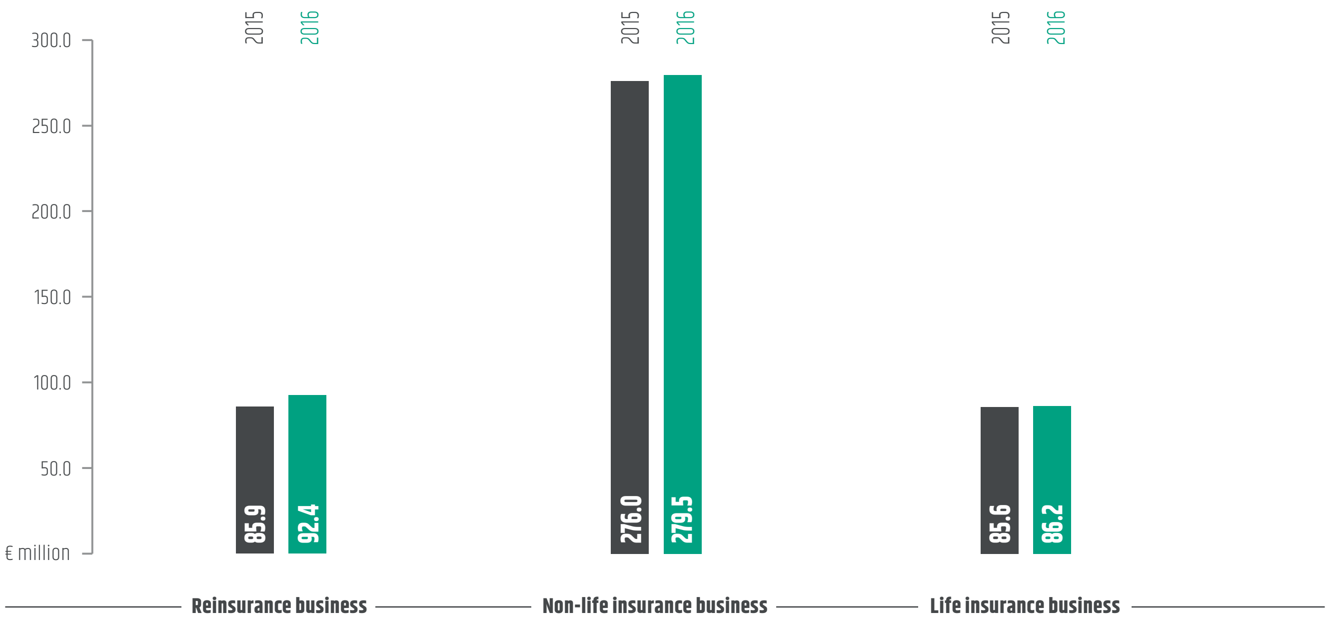
	2016	2015
Net incurred loss ratio	58.6 %	60.5 %
Net expense ratio	34.0 %	32.5 %
Return on revenue (ROR)	7.2 %	7.5 %
Investment return	2.4 %	2.7 %
Return on equity	11.3 %	12.0 %

Consolidated net earned premiums

Consolidated net earned premiums

(€)	2016	2015	Index
Gross premiums written	490,205,154	486,264,557	100.8
Net premiums written	458,962,640	455,949,810	100.7
Change in net unearned premiums	-861,114	-8,390,205	-10.3
Net premiums earned	**458,101,526**	**447,559,605**	**102.4**

Consolidated net premiums earned by operating segment



Consolidated net earned premiums by class of business

(€)	2016	2015	Index
Personal accident	30,432,580	34,250,889	88.9
Health	2,928,204	3,636,019	80.5
Land vehicles casco	81,980,726	81,894,077	100.1
Railway rolling stock	91,376	88,979	102.7
Aircraft hull	876,454	620,238	141.3
Ships hull	3,690,491	3,697,646	99.8
Goods in transit	6,580,317	5,662,254	116.2
Fire and natural forces	79,164,292	69,468,424	114.0
Other damage to property	36,019,044	34,739,112	103.7
Motor liability	98,741,014	100,790,210	98.0
Aircraft liability	167,549	-11,782	-1,422.1
Liability for ships	756,694	473,420	159.8
General liability	17,144,546	15,179,047	112.9
Credit	3,455,990	2,588,482	133.5
Suretyship	294,814	347,168	84.9
Miscellaneous financial loss	4,313,773	3,563,895	121.0
Legal expenses	451,362	248,519	181.6
Assistance	5,184,295	4,750,431	109.1
Life insurance	38,440,437	36,389,300	105.6
Unit-linked life	47,370,770	49,166,195	96.3
Capital redemption	16,798	17,082	98.3
Total	**458,101,526**	**447,559,605**	**102.4**

Consolidated gross premiums written by class of business

20.7% Motor liability
18.7% Fire and natural forces
17.4% Land vehicles casco
9.7% Unit-linked life business
8.0% Other damage to property
5.9% Personal accident
19.5% Other

21.0%
17.9%
16.7%
10.2%
8.1%
7.1%
19.1%

2016

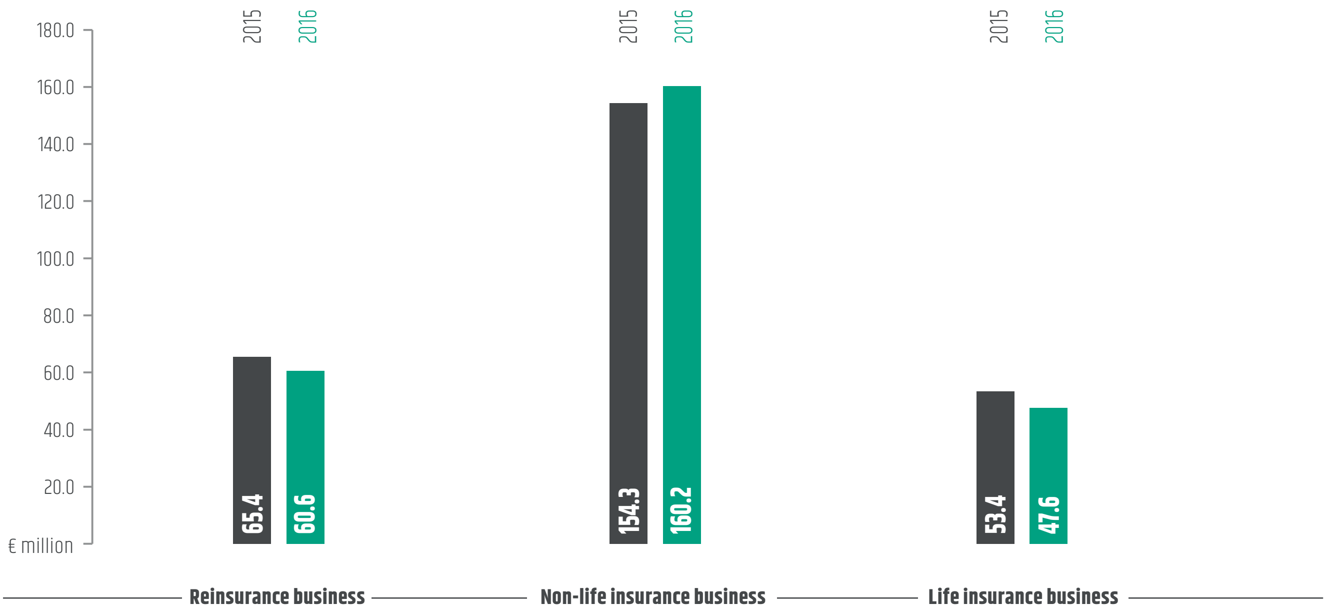
2015

Consolidated net claims incurred

Consolidated net claims incurred

(€)	2016	2015	Index
Gross claims paid	269,445,796	271,503,134	99.2
Net claims paid	254,626,142	253,784,933	100.3
Change in the net provision for outstanding claims	13,767,634	19,344,890	71.2
Net claims incurred	**268,393,776**	**273,129,823**	**98.3**

Consolidated net claims incurred by operating segment

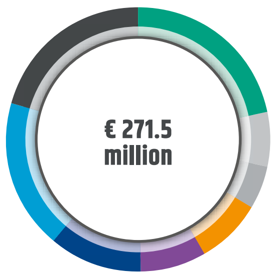


Consolidated net claims incurred by class of business

(€)	2016	2015	Index
Personal accident	16,196,842	18,090,392	89.5
Health	2,184,413	2,463,431	88.7
Land vehicles casco	61,106,817	57,713,631	105.9
Railway rolling stock	14,576	2,529	576.4
Aircraft hull	793,646	620,059	128.0
Ships hull	5,500,755	2,969,432	185.2
Goods in transit	2,598,656	3,640,492	71.4
Fire and natural forces	49,790,750	46,230,409	107.7
Other damage to property	13,050,200	17,357,079	75.2
Motor liability	56,696,628	58,943,274	96.2
Aircraft liability	-71,952	140,125	-51.3
Liability for ships	359,070	80,187	447.8
General liability	9,741,114	8,965,512	108.7
Credit	168,472	-279,989	-60.2
Suretyship	-29,873	360,978	-8.3
Miscellaneous financial loss	2,259,362	2,048,323	110.3
Legal expenses	3,087	6,832	45.2
Assistance	721,467	654,160	110.3
Life insurance	29,847,715	30,101,883	99.2
Unit-linked life	17,459,593	23,021,084	75.8
Capital redemption	2,438	0	-
Total	**268,393,776**	**273,129,823**	**98.3**

Consolidated gross premiums written by class of business

2016	Class of business	2015
22.5%	Land vehicles casco	21.7%
21.7%	Motor liability	20.7%
18.7%	Fire and natural forces	18.4%
10.9%	Life insurance	11.3%
7.2%	Other damage to property	8.1%
6.1%	Unit-linked life business	8.1%
5.2%	Personal accident	5.3%
7.7%	Other	6.5%



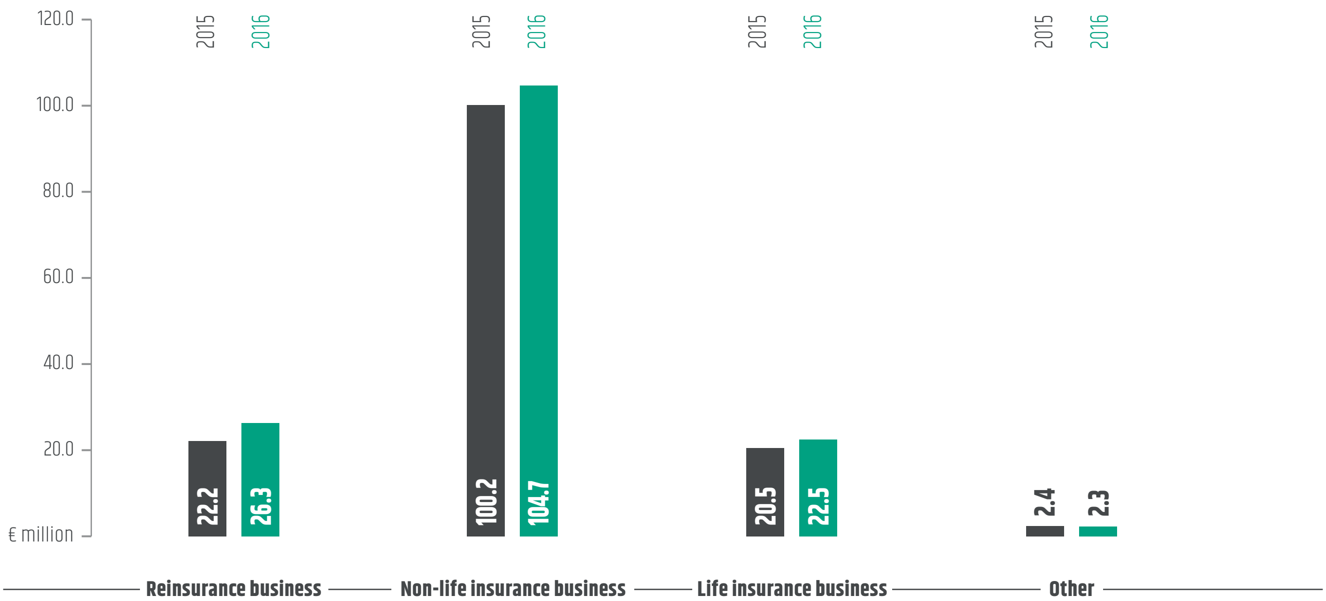
2016 2015

Consolidated operating expenses

Consolidated operating expenses

(€)	2016	2015	Index
Acquisition costs	51,882,550	49,853,683	104.1
Change in deferred acquisition costs (+/-)	1,474,454	-1,451,391	301.6
Other operating expenses	106,206,482	100,516,081	105.7
Operating expenses	**159,563,486**	**148,918,373**	**107.1**
Income from reinsurance commission	-3,732,607	-3,656,904	102.1
Net operating expenses	**155,830,879**	**145,261,469**	**107.3**
Gross expense ratio	32.2 %	30.9 %	
Net expense ratio	34.0 %	32.5 %	

Consolidated net operating expenses by operating segment



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

Consolidated net investment income

Consolidated net inv. income of the investment portfolio

(€)	2016	2015	Absolute change
Net inv. income of the investment portfolio	24,612,812	26,985,847	-2,373,035
Net inv. income of the investment portfolio, excluding exchange differences	23,122,262	23,706,782	-584,520

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 technical income/expenses and other income/expenses.

The net investment income relating to the 2016 investment portfolio totalled € 24.6 million, down € 2.4 million on 2015. The Group's net investment income from its investment portfolio, excluding exchange differences, totalled € 23.1 million, down € 0.6 million on 2015.

The net investment income declined by € 0.4 million year on year. This is because in the prior year, Zavarovalnica Sava sold an investment property realising a capital gain of € 0.4 million.

Below is a detailed overview of income and expenses relating to the investment portfolio.

Consolidated income and expenses relating to the investment portfolio

(€)	2016	2015	Absolute change
Income			
Interest income	21,233,656	22,637,172	-1,403,516
Change in fair value and gains on disposal of FVPL assets	737,997	1,359,372	-621,375
Gains on disposal of other IFRS asset categories	2,314,834	1,663,530	651,304
Income from dividends and shares – other investments	1,284,400	1,228,274	56,126
Exchange gains	7,325,123	12,513,361	-5,188,238
Other income	622,207	791,239	-169,032
Income from the investment portfolio	**33,518,217**	**40,192,948**	**-6,674,731**
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	17,958,678	26,631,788	-8,673,110
Expenses			
Interest expenses	842,126	1,161,059	-318,933
Change in fair value and losses on disposal of FVPL assets	631,525	1,504,286	-872,761
Losses on disposal of other IFRS asset categories	498,683	350,151	148,532
Impairment losses on investments	594,683	726,066	-132,041
Exchange losses	5,834,573	9,234,296	-3,399,723
Other	504,473	231,243	273,230
Expenses relating to the investment portfolio	**8,905,405**	**13,207,101**	**-4,301,696**
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	11,256,348	25,930,786	14,674,438

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

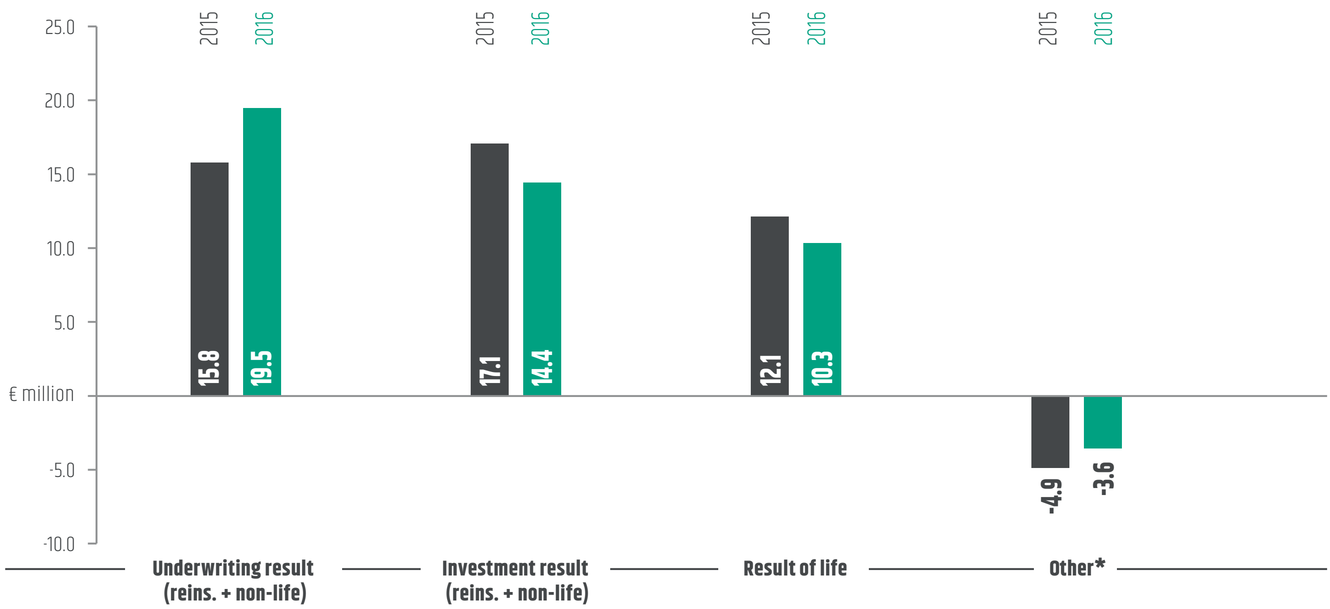
In 2016, investment income totalled € 33.5 million, down € 6.7 million year on year; excluding exchange differences, investment income declined by € 1.5 million. The largest part of income is interest income, which amounted to € 21.2 million in the period 1-12/2016, down € 1.4 million year on year.

In 2016, expenses relating to the investment portfolio decreased by € 4.3 million year on year, or by € 0.9 million on elimination of exchange differences. In addition to exchange losses, the largest contributors to expenses are interest on loans granted and expenses arising from changes in market prices.

However, the effect of exchange differences does not fully impact profit or loss since liabilities denominated in a foreign currency move in line with investments in that currency. Exchange differences mainly relate to the assets and liabilities of Sava Re. The total impact of exchange differences on the result is set out in the notes to the financial statements of the annual report, note 18.7.4.1.4 "Currency risk".

Consolidated gross profit/loss

Composition of consolidated gross profit



* Other includes the gross profit of the "other" segment (non-insurance companies) and impairment losses on goodwill of € 1.7 million (2015: € 2.9 million).

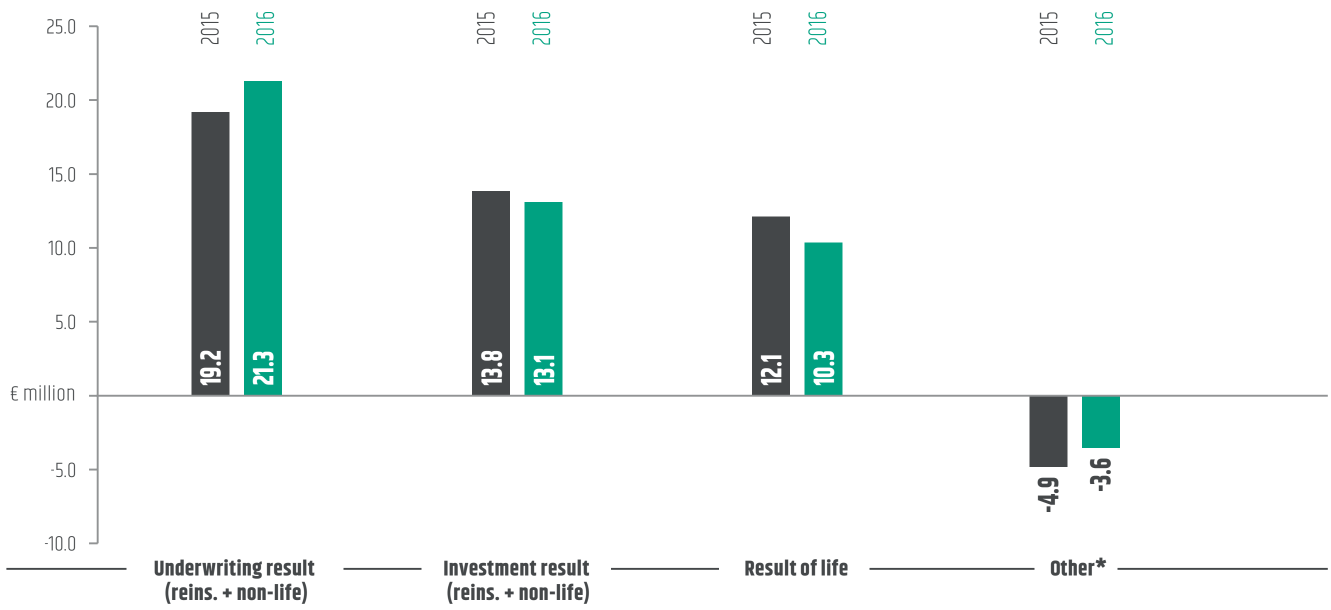
The Sava Re Group performed well in 2016, achieving a 1.4 % increase in gross profit over 2015. We consider the 2015 profit the basis for further growth, as the synergy benefits from the merger of the EU-based insurers into Zavarovalnica Sava will be realised in the coming years.

The underwriting result (reinsurance + non-life insurance) improved due to better results of the reinsurance segment achieved through larger net earned premiums and lower net incurred claims. Net claims incurred were high in 2015 due to increased claims and the change in the gross claims provision, which is discussed in more detail in section 8.1 "Reinsurance", subsection "Net claims incurred".

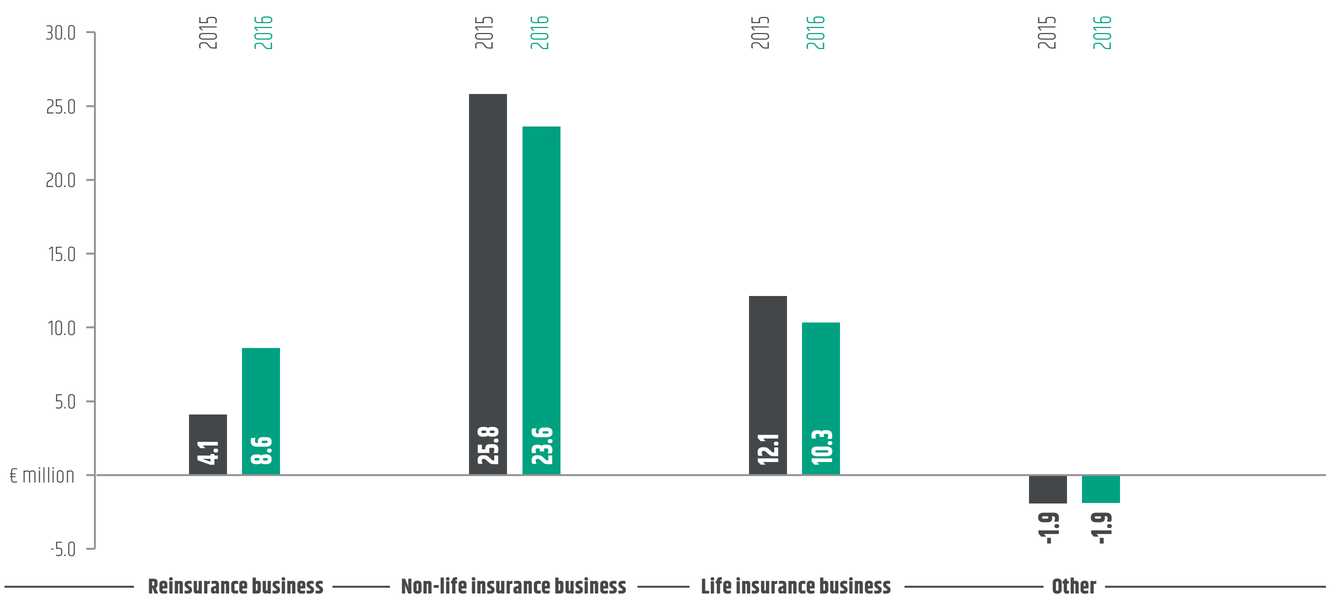
The investment result declined in 2016 year on year, both in the reinsurance as well as the non-life segments. This is mainly due to lower interest income as a result of the low interest rate environment.

In 2016 the life insurance segment performed weaker than in 2015. The result fell by 14.9 %, mainly because of increased expenses in almost all life insurance companies in the Group.

Composition of the gross consolidated result (excluding the effect of exchange differences)



Composition of the consolidated gross income statement by operating segment



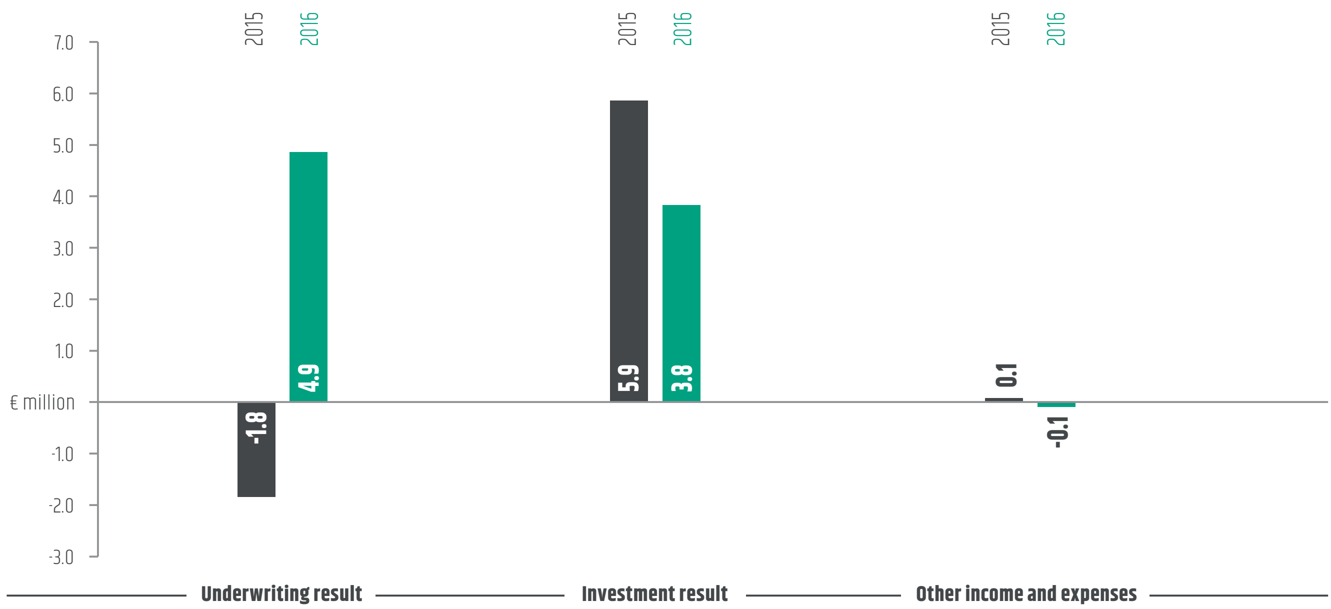
* Other includes gross profit of the "other" segment (non-insurance companies).

As mentioned above, the reinsurance segment performed better than in 2015. This is due to the improved underwriting result of this segment.
The non-life insurance segment performance fell short of 2015 mainly owing to the deterioration in the underwriting result. The largest impact came from a hailstorm event.
Life insurance business posted weaker results due to higher operating costs of almost all life insurance companies in the Group.

8.1. Reinsurance business

To a large degree, this segment reflects developments of business written abroad by Sava Re.

Composition of the consolidated gross income statement; reinsurance business



The reinsurance operations segment performed much better in 2016 compared to 2015. This is due to an improved underwriting result owing to higher net earned premiums and lower net incurred claims. Net claims incurred were high in 2015 due to the increase in claims and the change in the gross claims provision (described in greater detail in the section "Net claims incurred"). The investment result was lower in 2015 primarily due to exchange differences and lower interest income and expenses. The profits of the reinsurance segment were also affected by exchange differences, while the net effect on profit or loss is non-material 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 losses of € 1.8 million (2015: € 3.4 million); investment activities by gains of € 1.4 million (2015: € 3.2 million).
The following table shows the composition of gross profits of the reinsurance segment, excluding the effect of exchange differences.

Composition of the gross consolidated profit (excluding the effect of exchange differences); reinsurance business

Net premiums earned

Net premiums earned; reinsurance business

(€)	2016	2015	Index
Gross premiums written	92,683,719	98,151,240	94.4
Net premiums written	88,620,585	93,566,364	94.7
Change in net unearned premiums	3,786,781	-7,664,647	249.4
Net premiums earned	**92,407,367**	**85,901,717**	**107.6**

Gross reinsurance premiums of the reinsurance segment declined by 5.6 % in 2016 due to less premiums written as a result of limiting growth in response to the soft international reinsurance market. The change in net unearned premiums had a positive impact on net earned premiums in 2016 (lower balance of net unearned premiums), while in 2015 the impact was a negative one. This is because unearned premiums declined in 2016 owing to the drop in gross premiums written and a larger share of the non-proportional portfolio with relatively lower unearned premiums; in 2015 unearned premiums increased due to the growth in gross premiums written.

More on the movement of unconsolidated data is provided in section 21.1 “Sava Re review of operations”.

Net claims incurred

Net claims incurred; reinsurance business

(€)	2016	2015	Index
Gross claims paid	58,010,218	55,743,871	104.1
Net claims paid	53,730,691	54,001,608	99.5
Change in the net provision for outstanding claims	6,882,231	11,427,453	60.2
Net claims incurred	**60,612,921**	**65,429,062**	**92.6**

Gross claims increased by 4.1 % compared to 2015, mainly due to claim payment relating to previous underwriting years with greater premium volume (premiums were 5.6 % lower). Due to the settlement of major retroceded claims relating to past underwriting years, net claims paid even slightly decreased year on year.

Net claims incurred fell by 7.4 % year on year. The change in the net claims provision was smaller than in 2015 mainly because of reserving for a catastrophic event (explosion) in China, while the 2016 portfolio was not affected by any major loss. The reinsurers' share of the claims provision did not decrease significantly despite the settlement of large claims, mainly because a provision was made for a large facultative loss. The change in the net claims provision was also affected by exchange differences as the provision increased by € 1.4 million in 2016 (2015: decrease of € 3.8 million).

More details on the movement of unconsolidated data is provided in section 21.1 "Sava Re review of operations".

Operating expenses

Consolidated operating expenses; reinsurance business

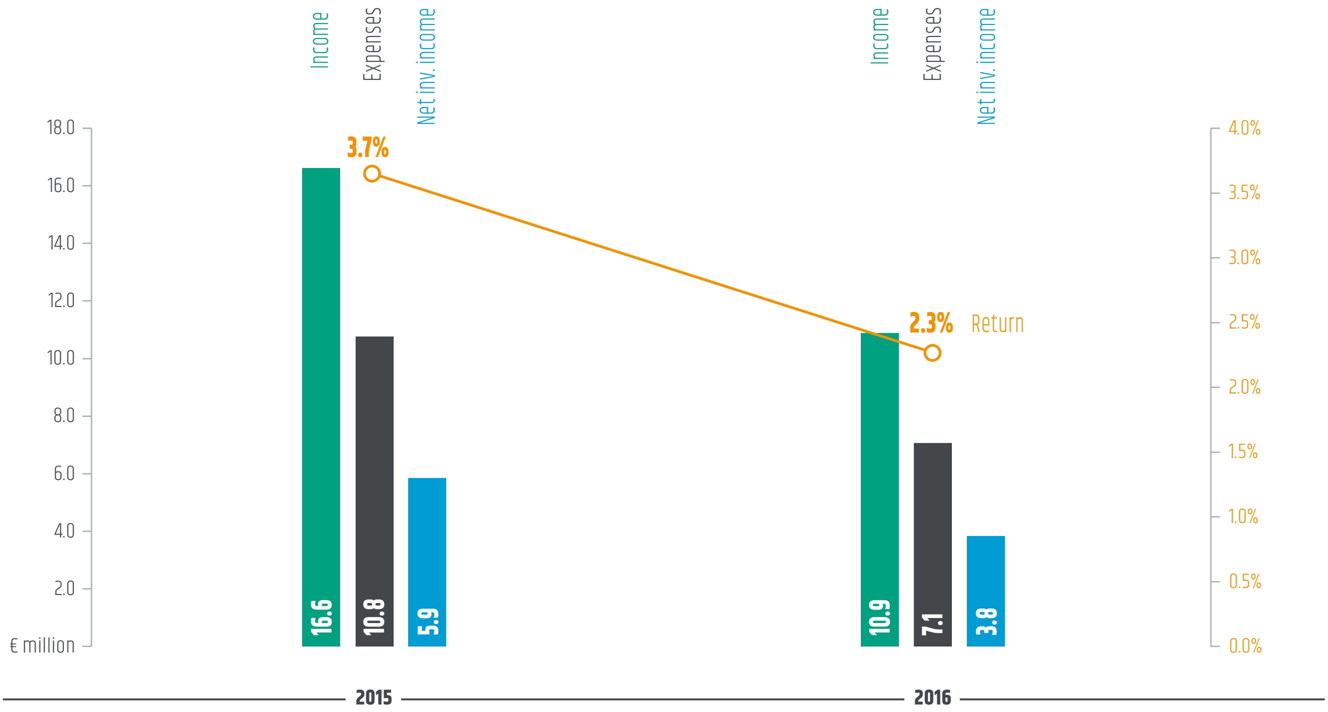
(€)	2016	2015	Index
Acquisition costs	21,919,227	21,132,677	103.7
Change in deferred acquisition costs (+/-)	937,593	-1,574,081	259.6
Other operating expenses	3,784,882	3,229,532	117.2
Operating expenses	**26,641,702**	**22,788,128**	**116.9**
Income from reinsurance commission	-350,140	-600,935	58.3
Net operating expenses	**26,291,562**	**22,187,193**	**118.5**

Acquisition costs rose despite the drop in gross premiums written. Acquisition costs accounted for 23.6 % of gross premiums written in 2016, a deterioration of 2.1 percentage points compared to 2015. The increase in acquisition costs is due to the low reinsurance rates in global markets, manifested in higher commission rates in proportional business. Deferred acquisition costs declined in 2016 in line with the decline in premiums and unearned premiums, which is why their change increases operating expenses; in 2015, premiums, unearned premiums and deferred acquisition moved in the other direction and the change in deferred acquisition costs decreased operating expenses. The growth in other operating expenses was driven by the increase in labour costs and costs of intellectual and personal services.

More details on the movement of unconsolidated data are provided in section 21.1 "Sava Re review of operations".

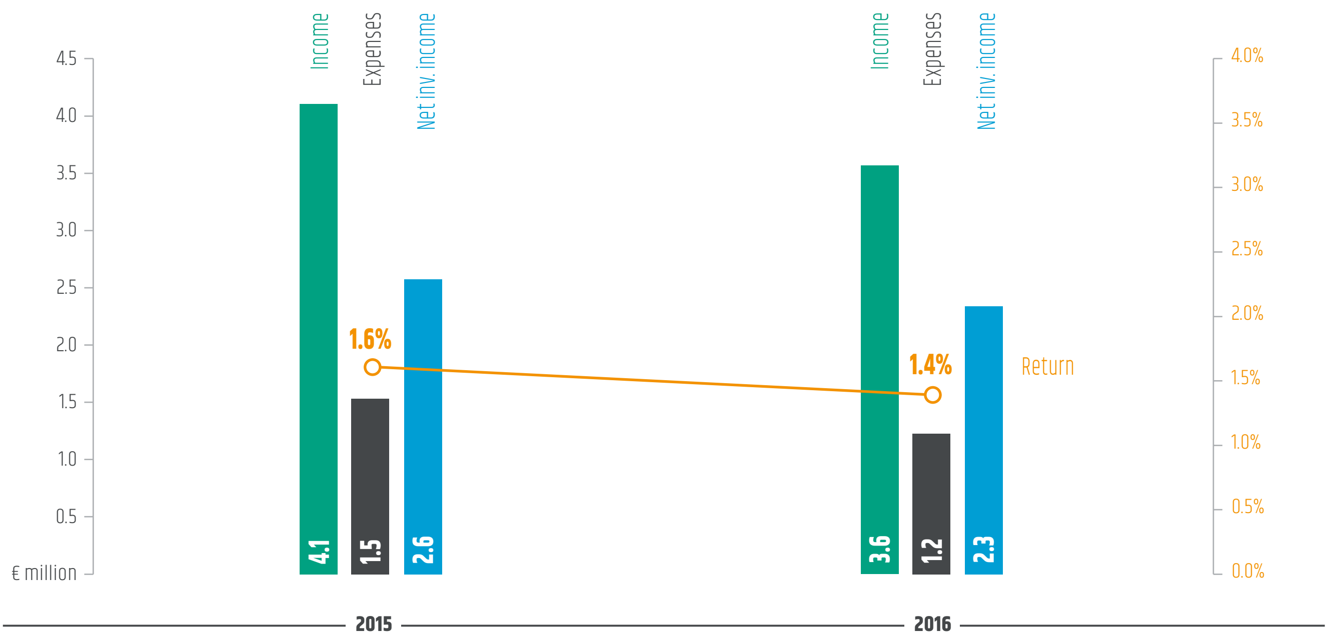
Net investment income

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 show in the income statement under other technical income/expenses and other income/expenses.

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



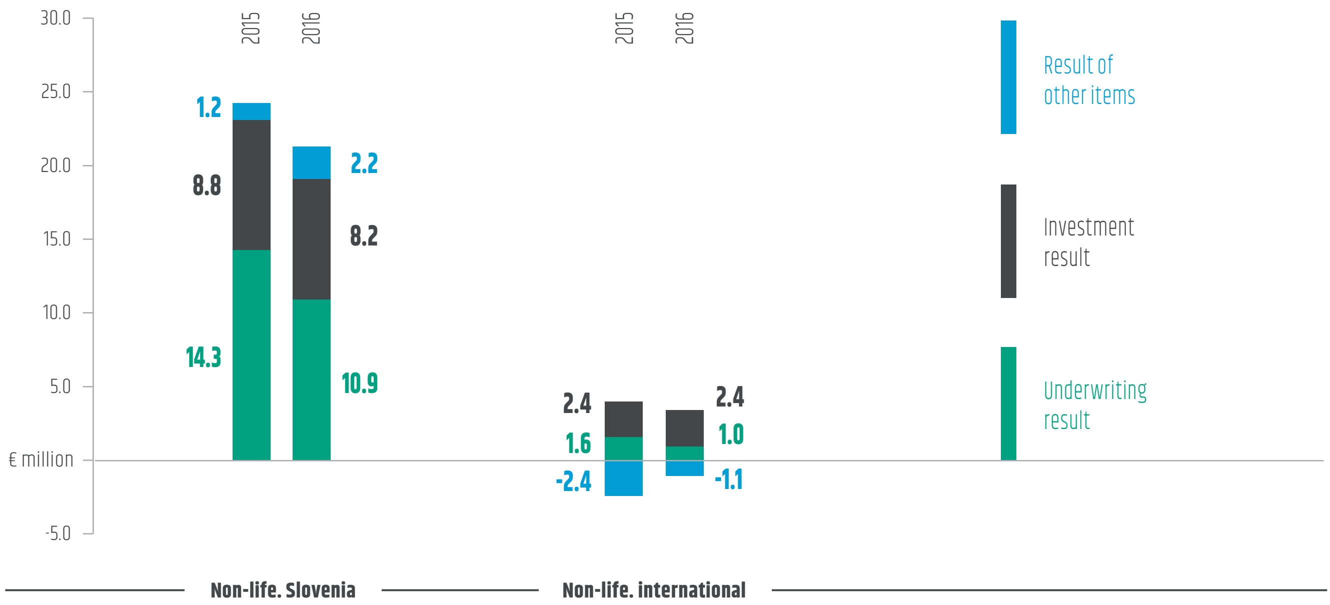
Given that the exchange differences mainly relate to Sava Re and their impact does not fully affect profit or loss, the graph above shows the net investment income of the investment portfolio, excluding exchange differences.
Compared to the same period last year, the Group realised € 0.3 million less net investment income in the reinsurance operating segment. The net investment income was lower year on year, mainly due to lower interest income, while interest expenses were also lower.

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 2015 data for Zavarovalnica Sava is the sum of the data of the Group insurers that merged on 2 November 2016 into Zavarovalnica Sava (Zavarovalnica Maribor, Zavarovalnica Tilia and Velebit osiguranje, excluding intra-group transactions).

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



The non-life operating segment posted a € 2.2 million lower result compared to the previous year. In this regard, the non-life segment of Slovenian insurance companies deteriorated by 12.3 %, while Sava's international non-life operations improved by 50.4 %.
The reason for the weaker performance of the Slovenian non-life insurers is mainly the weaker underwriting result of Zavarovalnica Sava. It deteriorated mainly due to the increase in net claims incurred (details are provided in the section "Net claims incurred") and increase in operating expenses owing to the merger process.
The underwriting result of the non-domestic non-life insurers deteriorated by € 0.7 million. The largest impact on the overall deterioration in the underwriting result of the non-Slovenian based non-life insurers came from the weaker underwriting result at Sava osiguranje (MNE), due to the increase in its gross claims provision. In the previous year, the company produced a very strong underwriting result, so this year, although weaker, it is still favourable and the best among the non-Slovenian non-life insurers in the Sava Re Group.
The investment result of Slovenian non-life insurers deteriorated by € 0.7 million as a result of lower interest income (low interest rates in capital markets) and lower gains on the disposal investments. Nevertheless, the investment result of the non-Slovenia based insurers remained at the 2015 level.
The improved result of other items posted by non-Slovenian insurers is due to lower impairment losses on goodwill: in 2015 the total amount of impairment losses on goodwill of the Kosovan and Serbian insurers was € 2.9 million (results were below plan), while in 2016 impairment losses were € 1.7 million and relating to only the Kosovan insurer.
By contrast, the better result of the other items of the Slovenian insurer is mainly due to the growth in other income. In 2016, disability funds were released, there was an increase in the interest accrued from enforced recourse receivables and income from previous years relating to the utilisation of provisions for accrued termination benefits.

Net premiums earned

Net premiums earned; non-life insurance business

	Slovenia		International	
(€)	**2016**	**2015**	**2016**	**2015**
Gross premiums written	255,823,534	249,987,788	55,114,138	52,041,312
Net premiums written	233,021,200	227,974,948	51,134,477	48,766,119
Change in net unearned premiums	-2,993,035	685,043	-1,620,239	-1,406,884
Net premiums earned	**230,028,165**	**228,659,991**	**49,514,238**	**47,359,234**

The gross non-life insurance premiums grew by 2.9 % in 2016 as a result of the growth in gross non-life premiums of all companies, except the Kosovan insurer. The Slovenian gross non-life insurance premiums rose by 2.3 %, mainly owning to an increased premium volume of motor, credit and property business. The Slovenian non-life insurance market grew at a rate of 2.9 % in the period. Gross non-life insurance premiums written abroad grew by 5.9 %. The largest growth (26.1 %) was posted by the Croatian branch of Zavarovalnica Sava, where premium growth was achieved in most classes of business against the background of an overall Croatian non-life insurance market growth of 2.2 %.
Net non-life insurance premiums grew by 2.7 % in 2016. The reinsurers' shares of premiums and unearned premiums increased in line with the growth in gross premiums written.

Overall, this led to a 1.2 % increase in net premiums earned.

Unconsolidated gross non-life premiums of Sava Re Group companies

(€)	2016	2015	Index
Zavarovalnica Sava, Slovenian part (non-life)	255,985,530	250,127,369	102.3
Zavarovalnica Sava, Croatian part (non-life)	8,801,827	6,982,360	126.1
Sava neživotno osiguranje (SRB)	14,745,052	14,401,839	102.4
Illyria	7,120,933	8,073,035	88.2
Sava osiguruvanje (MKD)	12,197,976	11,406,863	106.9
Sava osiguranje (MNE)	11,656,792	11,185,622	104.2
Total	**310,508,111**	**302,177,088**	**102.8**

In Slovenia Zavarovalnica Sava managed to grow motor, credit and property premiums. Motor premium growth was driven both by growth achieved with individuals, with increases in the number of policies and sums insured on casco policies, as well as in the commercial sector through new clients and partly increased coverages.

The Croatian branch of Zavarovalnica Sava posted the highest overall growth in the Group, 26.1 %, achieved through good positioning in Internet sales, improved premium collection and increased efficiency of the own sales network. The Group's Serbian insurer also posted growth, mainly in casco business and due to the increased number of policies written in assistance insurance. The Macedonian insurer achieved premium growth through more intensive cooperation with a bank and increased sales in its subsidiary, the Sava Station vehicle inspection centre. The Montenegrin insurer grew its MTPL premiums, while the Kosovan insurer lost some of its MTPL business. The decline is owing to the entry of two new players in the market in 2015, resulting in fierce competition including recruitment of agents from competitors. Another reason for the decline in motor business is the halving of border insurance business. The company could compensate part of its lost MTPL business with increased health insurance premiums.

Consolidated gross non-life insurance premiums by class of business

Net claims incurred

Net claims incurred; non-life insurance business

(€)	Slovenia 2016	Slovenia 2015	International 2016	International 2015
Gross claims paid	143,614,923	143,752,543	22,536,325	20,618,761
Net claims paid	134,776,285	129,037,732	20,962,591	19,490,921
Change in the net provision for outstanding claims	3,691,798	6,172,457	787,659	-416,787
Net claims incurred	**138,468,083**	**135,210,189**	**21,750,251**	**19,074,134**

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

(€)	2016	2015	Index
Zavarovalnica Sava, Slovenian part (non-life)	144,268,145	144,069,921	100.1
Zavarovalnica Sava, Croatian part (non-life)	3,757,231	3,564,014	105.4
Sava neživotno osiguranje (SRB)	6,156,554	5,335,878	115.4
Illyria	3,497,451	3,191,168	109.6
Sava osiguruvanje (MKD)	4,875,105	4,784,826	101.9
Sava osiguranje (MNE)	4,166,875	3,727,792	111.8
Total	**166,721,360**	**164,673,599**	**101.2**

The increase in gross non-life claims paid of 1.1 % in 2016 was mainly due to the increase in gross non-life claims paid of non-Slovenian non-life insurers. Claims paid of Zavarovalnica Sava in 2016 remained on the level of 2015.

Gross claims of non-Slovenian insurers were up by 9.3 % mainly due to growth in claims of the Group's non-life insurers in Serbia, Montenegro and Kosovo. The Serbian non-life insurer posted increased claims because of the portfolio assumption from AS osiguranje. Excluding the claims relating to AS osiguranje, the Serbian non-life claims would have posted an increase of 4.0 %. In Kosovo most claims related to a major property loss (flood), motor and health business. The Group's insurer in Montenegro posted increased claims mainly due to a hail event and a falling aircraft.

In August 2016, the north-eastern and central parts of Slovenia were hit by a hail storm. In this regard, Zavarovalnica Sava paid € 4.6 million in gross claims and set aside further € 2.8 million as provisions. The net effect on the profit of Zavarovalnica Sava was € 4.1 million. In addition, Zavarovalnica Sava paid € 0.9 million to reinstate the reinsurance coverage.

Net non-life claims paid rose by 4.9 % (faster than gross claims) in 2016 as a result of a lower amount of the reinsurers' share. This is because in 2015, there were high reinsurance claim payments relating to ice damage and flood losses of 2014, which is why net claims were lower.

The 2016 change in the net claims provision of the Group's Slovenian non-life insurer was lower year on year. The change in the company's provision for claims had a negative effect on the net claims incurred in 2016 (increase in the provision for a hail event in August 2016 – € 2.8 million, a Slovenian fire loss of 2016 – € 1.5 million), while in 2015 it had a positive effect (due to claim payments relating to a 2014 ice damage event).

The change in the reinsurance claims provision had a positive effect in 2016 (increase in reinsurers' share of the claims provision for the same reasons as the increase in the claims provision), while in 2015 it had a negative effect owing to a decrease in the reinsurers' share of the claims provision after the settlement of the 2014 ice damage losses. Zavarovalnica Sava settled the 2014 ice damage claims in 2014 and 2015, with the reinsurers' share fully paid in 2015. This is the reason behind the different movement of the gross claims provision and the reinsurers' share of the claims provision in 2015; therefore, the net change in the claims provision in 2015 was higher.

Operating expenses

Consolidated operating expenses; non-life insurance business

(€)	2016	2015	Index
Acquisition costs	24,091,300	23,087,514	104.3
Change in deferred acquisition costs (+/-)	343,311	85,962	399.4
Other operating expenses	83,583,937	80,046,562	104.4
Operating expenses	**108,018,548**	**103,220,038**	**104.6**
Income from reinsurance commission	-3,313,876	-3,015,182	109.9
Net operating expenses	**104,704,672**	**100,204,856**	**104.5**

Consolidated acquisition costs rose by 4.3 % due to the growth in consolidated non-life premiums and the related increase in commissions for agents.

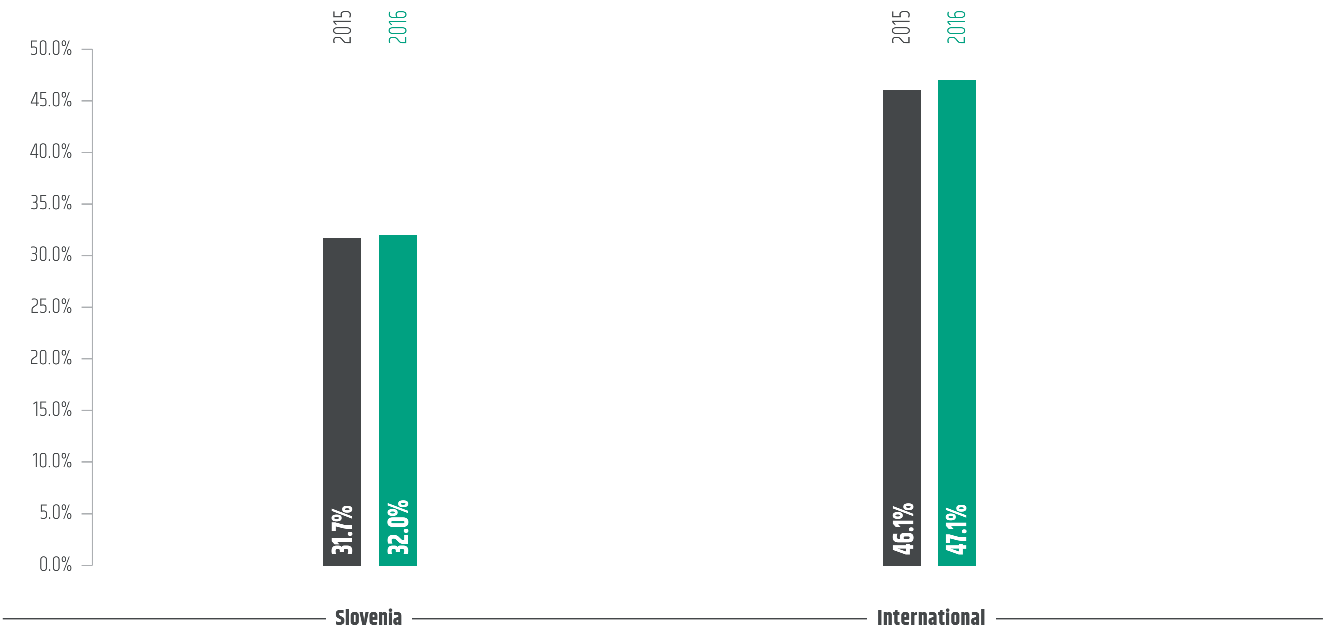
The rise in other operating expenses is mainly due to the increase in expenses of Zavarovalnica Sava in Slovenia and its subsidiary in Croatia. The reason for the increase in expenses in 2016 was the merger project, involving the merger of Zavarovalnica Tilia into and the cross-border merger of the companies Velebit osiguranje and Velebit životno osiguranje into Zavarovalnica Maribor with the associated costs.

Consolidated gross operating expenses (net of changes in deferred acquisition costs) of non-life business grew by 4.4 %, while gross consolidated premiums written rose by 2.9 % as a result of which the gross expense ratio increased by 0.5 percentage points.

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

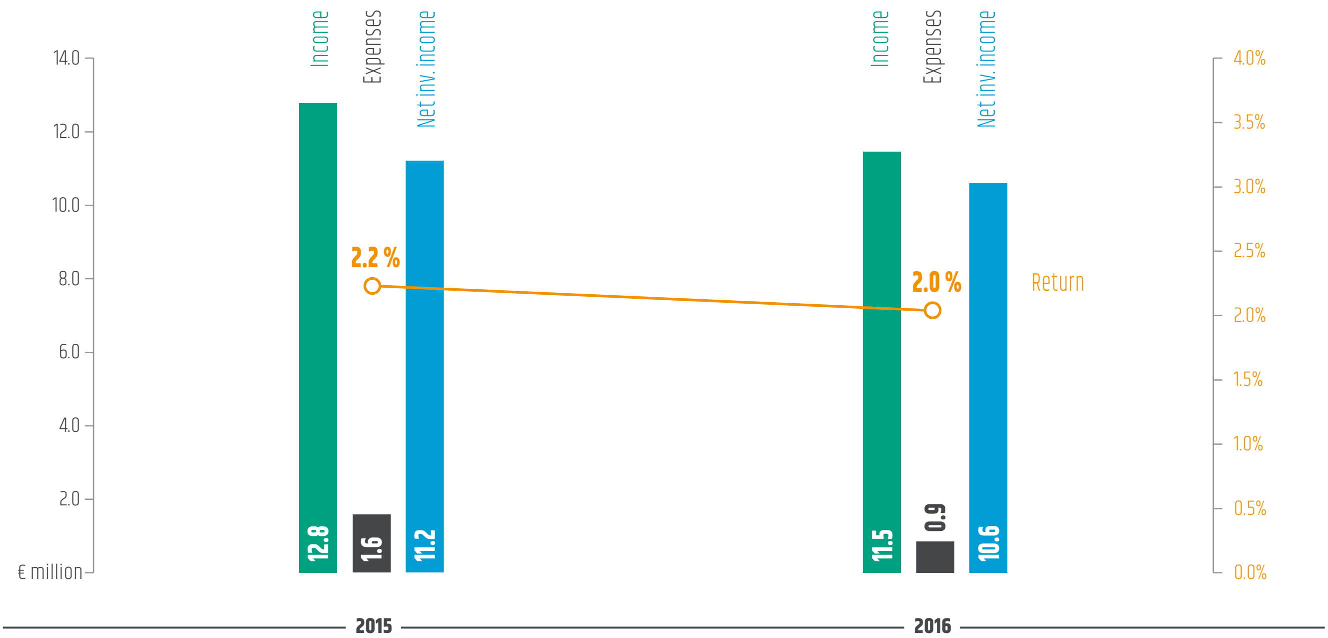
(€)	2016	2015	Index
Zavarovalnica Sava, Slovenian part (non-life)	74,700,751	72,491,291	103.0
Zavarovalnica Sava, Croatian part (non-life)	4,567,819	3,844,724	118.8
Sava neživotno osiguranje (SRB)	7,778,202	7,415,417	104.9
Illyria	2,666,892	2,753,201	96.9
Sava osiguruvanje (MKD)	5,024,561	4,519,888	111.2
Sava osiguranje (MNE)	5,613,168	5,497,774	102.1
Total	**100,351,393**	**96,522,296**	**104.0**

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 non-life insurance business amounted to € 10.6 million in 2016, down by € 0.6 million from 2015. The net investment income was lower largely because of lower interest income (€ 1.1 million). The investment return for the period was 2.0 %.

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
- Moja naložba

The 2015 data for Zavarovalnica Sava is the sum of the data of the Group insurers that merged on 2 November 2016 into Zavarovalnica Sava (Zavarovalnica Maribor, Zavarovalnica Tilia and Velebit životno osiguranje, excluding intra-group transactions).

Net premiums earned

Net premiums earned; life insurance business

	Slovenia		International	
(€)	**2016**	**2015**	**2016**	**2015**
Gross premiums written	80,073,263	80,211,496	6,510,500	5,872,721
Net premiums written	79,697,487	79,779,368	6,488,891	5,863,011
Change in net unearned premiums	-8,761	1,537	-25,861	-5,253
Net premiums earned	**79,688,726**	**79,780,905**	**6,463,030**	**5,857,758**

In 2016, both gross and net life insurance premiums increased by 0.6 % as a result of an increase in life premiums outside Slovenia. In 2016, gross life premiums also included single premiums for annuity business of Moja naložba of € 1.1 million. Without these premiums, gross life premiums written in Slovenia would have decreased by 1.6 %, since the life portfolio of Zavarovalnica Sava shrank. This is because new business was not sufficient to offset premiums lost due to surrenders and maturities. The Slovenian insurance market posted a 4.3 % drop in life business in 2016.

Unconsolidated gross life premiums written by Sava Re Group companies

(€)	**2016**	**2015**	**Index**
Zavarovalnica Sava, Slovenian part (life)	78,962,673	80,211,496	98.4
Zavarovalnica Sava, Croatian part (life)	3,505,085	3,261,327	107.5
Sava životno osiguranje (SRB)	1,312,639	1,160,709	113.1
Illyria Life	1,692,776	1,527,038	110.9
Moja naložba*	1,110,590	-	-
Total	**86,583,762**	**86,160,569**	**100.5**

* Moja naložba was not included in the 2015 consolidated accounts.

In 2016 gross life insurance premiums grew in both non-Slovenia companies as well as in the Croatian part of Zavarovalnica Sava. Both life insurers and the Croatian branch of Zavarovalnica Sava have been implementing measures to improve their own sales network through regular education and training events for sales personnel, measures that have already translated into larger and better portfolios.

Consolidated gross life insurance premiums by class of business

2016		2015
35.0%	Life insurance	33.2%
18.2%	Additional personal accident	17.8%
46.8%	Unit-linked life business	49.0%

Net claims incurred

Net claims incurred; life insurance business

	Slovenia		International	
(€)	2016	2015	2016	2015
Gross claims paid	43,515,230	49,683,764	1,769,100	1,704,195
Net claims paid	43,389,751	49,551,433	1,766,823	1,703,239
Change in the net provision for outstanding claims	2,414,190	2,075,915	-8,244	85,852
Net claims incurred	**45,803,941**	**51,627,348**	**1,758,579**	**1,789,091**
Change in other net provisions*	5,821,095	34,238	2,146,811	1,993,277
Net claims incurred, including change in net other provisions	**51,625,036**	**51,661,586**	**3,905,390**	**3,782,368**

* These provisions mainly comprise mathematical provisions.

The decline in the net life insurance claims paid in Slovenia is due to the decline in claims of Zavarovalnica Sava because of lower claim payments relating to maturities than last year as well as fewer surrenders and accelerated benefits. Gross claims paid relating to non-Slovenian life business increased since the Croatian part of Zavarovalnica Sava recorded an increase in gross claims, and so did the Kosovan company Illyria Life. In contrast, the Serbian insurer's gross claims decreased year on year.

The change in other technical provisions increased due to an increase in the mathematical provisions of Zavarovalnica Sava. Generally, mathematical provisions increase over the term of policies and as portfolios mature, but decrease when claims are paid out. Since there were fewer surrenders and maturities in 2016 than in the prior year, the 2016 decrease in mathematical provisions was lower than in the previous year; therefore, the change in other technical provisions in 2016 was larger than in 2015.

Unconsolidated gross claims paid relating to the life business of Sava Re Group companies

(€)	2016	2015	Index
Zavarovalnica Sava, Slovenian part (life)	43,231,245	49,683,764	87.0
Zavarovalnica Sava, Croatian part (life)	1,102,122	1,022,000	107.8
Sava životno osiguranje (SRB)	370,532	443,257	83.6
Illyria Life	296,446	238,938	124.1
Moja naložba*	283,985	-	-
Total	**45,284,330**	**51,387,958**	**87.6**

* Moja naložba was not included in the 2015 consolidated accounts.

Sava životno osiguranje (SRB) posted a decline in gross life claims paid in 2016 as the insurer paid less maturity and surrender claims than year on year, while Illyria Life paid more gross claims due to more death benefits paid out than in 2015. Gross life claims paid by the Croatian part of Zavarovalnica Sava increased because of the increase in the number of maturities and surrenders.

Operating expenses

Consolidated operating expenses; life insurance business

(€)	2016	2015	Index
Acquisition costs	5,872,023	5,633,492	104.2
Change in deferred acquisition costs (+/-)	193,550	36,728	527.0
Other operating expenses	16,494,852	14,880,652	110.8
Operating expenses	**22,560,425**	**20,550,872**	**109.8**
Income from reinsurance commission	-68,591	-40,787	168.2
Net operating expenses	**22,491,834**	**20,510,085**	**109.7**

Acquisition costs increased because of the increase in the consolidated acquisition costs of Zavarovalnica Sava. This is due to the elimination of transactions among Zavarovalnica Sava and its Slovenian subsidiaries who underwrite life policies for the parent. In 2016 Zavarovalnica Sava wrote more business through its external sales channels and less through its subsidiaries and therefore paid less fees to its subsidiaries than in the previous year, resulting in a lower cost recovered from consolidation. Thus, the consolidated acquisition costs of Zavarovalnica Sava increased, although the non-consolidated costs declined.

Other operating expenses increased by € 1.6 million, mainly as a result of the inclusion of Moja naložba in the consolidated accounts with € 1.2 million of other operating expenses in 2016, while it had not been included in the 2015 consolidated accounts. The remaining part of the increase in other operating expenses was contributed by all the Group's life insurers, except Illyria Life. In the Slovenian part of Zavarovalnica Sava it is due to increased material costs and advertising expenses (also related to the merger), in the Croatian part of Zavarovalnica Sava, it is due to increased costs of services and personnel costs. Personnel costs also grew in Sava životno osiguranje (SRB), which is the main reason for the growth of other operating costs in this company.

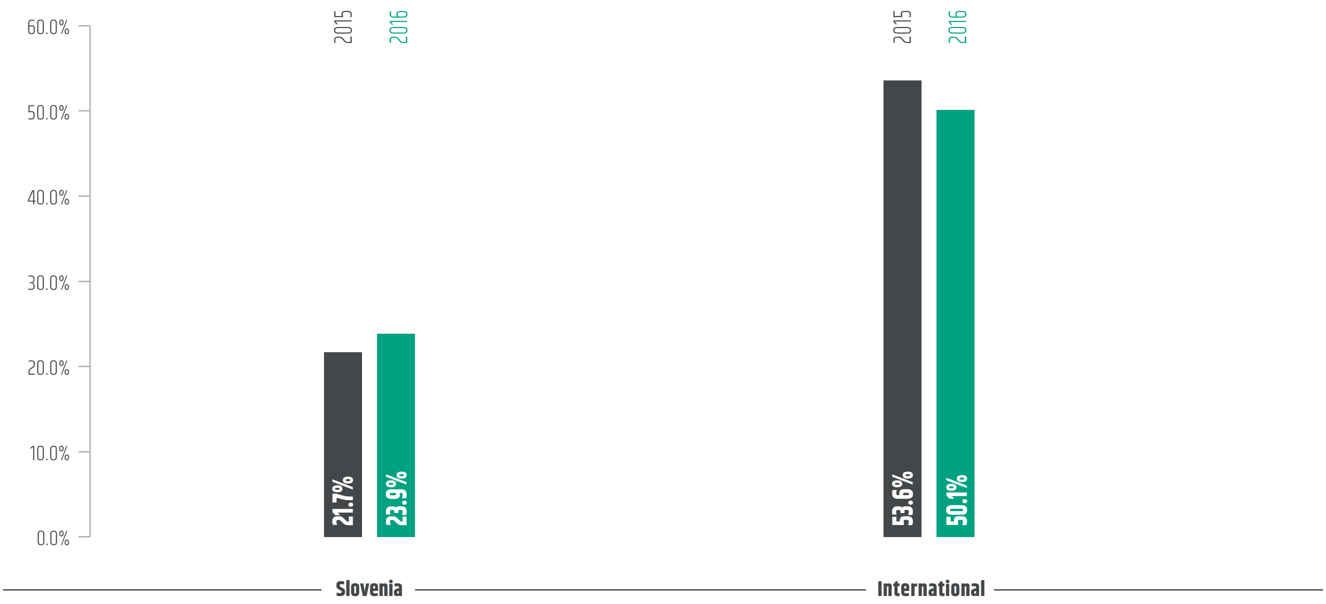
The consolidated gross expense ratio for the Slovenian companies rose by 2.2 percentage points compared to 2015, which is partly due to the inclusion of Moja naložba in the consolidated accounts in 2016 and partly a result of the increase in the gross expense ratio of Zavarovalnica Sava. If the impact of Moja naložba in 2016 is excluded, the ratio increases by 0.8 percentage points compared to 2015 as a result of less gross premiums written by Zavarovalnica Sava.
The consolidated gross expense ratio of non-Slovenian life insurers dropped by 3.5 percentage points due to the increase in gross premiums written. The consolidated gross expenses of the non-Slovenian companies, by contrast, increased by € 0.1 million due to the above reasons.

Unconsolidated gross life operating expenses of Sava Re Group companies

(€)	2016	2015	Index
Zavarovalnica Sava, Slovenian part (life)	17,096,681	17,233,828	99.2
Zavarovalnica Sava, Croatian part (life)	1,796,973	1,720,525	104.4
Sava životno osiguranje (SRB)	919,592	881,651	104.3
Illyria Life	487,408	502,797	96.9
Moja naložba*	1,335,107	-	-
Total	**22,067,944**	**20,338,801**	**108.5**

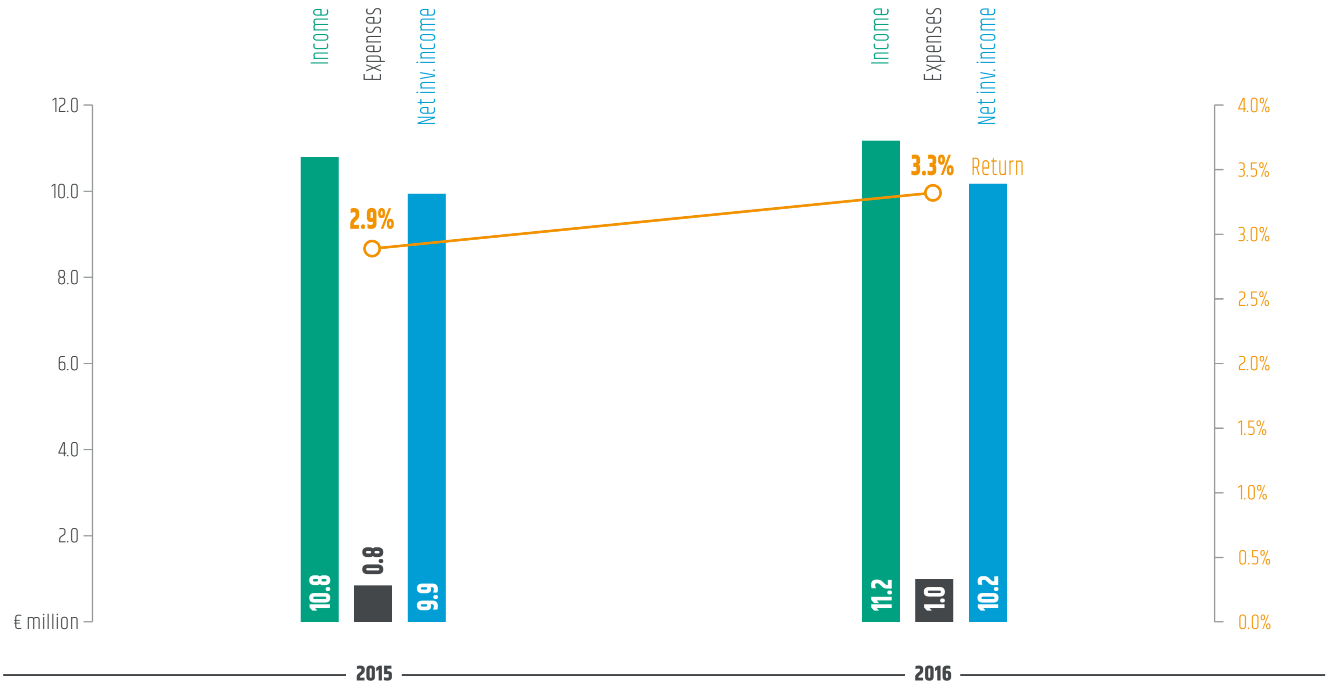
* Moja naložba was not included in the 2015 consolidated accounts.

Gross expense ratio; life insurance business



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 rose by € 0.3 million year on year. The improved net investment income was supported by slightly higher interest income (€ 0.1 million) and income from pension business, included in the life segment as of 1 January 2016. In the reporting period, the Group's expenses relating to the investment portfolio totalled € 1.0 million, up € 0.2 million year on year. Expenses rose mainly due to impairment losses on investments (€ -0.2 million).

9. FINANCIAL POSITION OF THE SAVA RE GROUP

At 31 December 2016, total assets of the Sava Re Group stood at € 1,671.2 million, an increase of 4.0 % over year-end 2015. Below we set out items of assets and liabilities in excess of 5 % of total assets/liabilities as at 31 December 2016, or items that changed by more than 2 % of equity.

9.1. Assets

Consolidated total assets by type

(€)	31/12/2016	As % of total as at 31/12/2016	31/12/2015	As % of total as at 31/12/2015
ASSETS	**1,671,189,179**	**100.0 %**	**1,607,281,060**	**100.0 %**
Intangible assets	25,508,583	1.5 %	30,465,315	1.9 %
Property and equipment	51,887,127	3.1 %	47,217,311	2.9 %
Deferred tax assets	2,326,063	0.1 %	2,371,857	0.1 %
Investment property	7,933,786	0.5 %	8,040,244	0.5 %
Financial investments	1,030,235,239	61.6 %	1,015,056,805	63.2 %
Funds for the benefit of policyholders who bear the investment risk	224,175,076	13.4 %	214,189,117	13.3 %
Reinsurers' share of technical provisions	28,444,628	1.7 %	23,877,277	1.5 %
Investment contract assets	121,366,122	7.3 %	111,418,244	6.9 %
Receivables	127,408,527	7.6 %	130,663,929	8.1 %
Deferred acquisition costs	16,510,536	1.0 %	17,992,485	1.1 %
Other assets	1,366,844	0.1 %	1,173,159	0.1 %
Cash and cash equivalents	33,939,160	2.0 %	4,710,904	0.3 %
Non-current assets held for sale	87,488	0.0 %	104,413	0.0 %

9.1.1. Investment portfolio

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

Sava Re Group investment portfolio by class of asset[27]

(€)	2016	2015**	Absolute change	Index
Deposits	24,737,308	53,052,297	-28,314,989	46.6
Government bonds	595,132,601	554,117,154	41,015,447	107.4
Corporate bonds*	368,357,333	369,448,048	-1,090,715	99.7
Shares	16,980,847	18,906,610	-1,925,763	89.8
Mutual funds	16,531,807	12,758,487	3,773,320	129.6
Loans granted and other investments	659,484	1,075,435	-415,951	61.3
Deposits with cedants	7,835,859	5,698,774	2,137,085	137.5
Total financial investments	**1,030,235,239**	**1,015,056,805**	**15,178,434**	**101.5**
Investment property	7,933,786	8,040,244	-106,458	98.7
Cash and cash equivalents of the insurer***	21,481,381	4,598,802	16,882,579	467.1
Total investment portfolio	**1,059,650,406**	**1,027,695,851**	**31,954,555**	**103.1**
Funds for the benefit of policyholders who bear the investment risk	236,632,854	214,301,219	22,331,635	110.4
- financial investments	224,175,075	214,189,117	9,985,958	104.7
- cash and cash equivalents of policyholders who bear the investment risk	12,457,779	112,102	12,345,677	
Investment contract assets	121,366,122	111,418,244	9,947,878	108.9

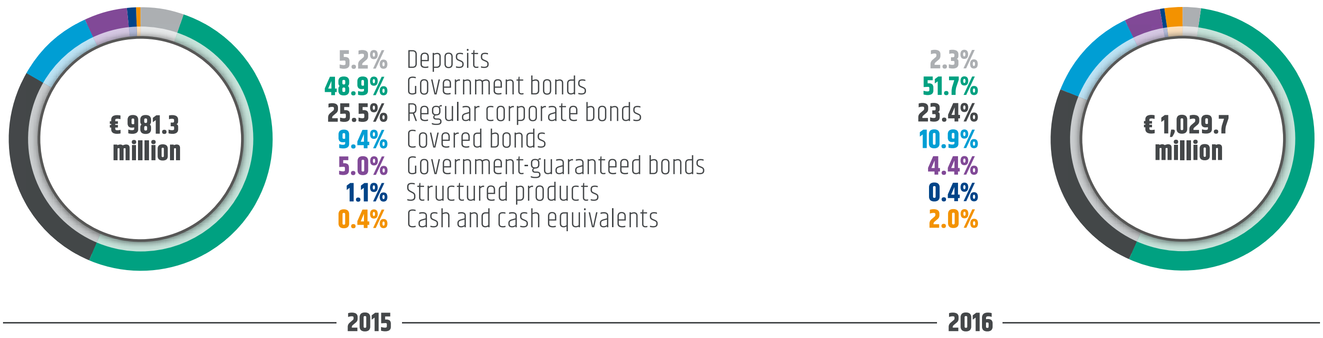
*/** In 2015 corporate bonds did not include government guaranteed corporate bonds (€ 51.9 million); they were classified as government bonds.
*** Cash and cash equivalents of policyholders who bear the investment risk (2016: € 12.5 million; 2015: € 0.1 million) are excluded from the investment portfolio.

The Sava Re Group investment portfolio totalled € 1,059.7 million as at 31 December 2016. Compared to 31 December 2015, the investment portfolio grew by € 32.0 million, primarily due to the positive cash flow from core insurance business.

Composition of the Sava Re Group investment portfolio as at 31 December 2015 and 31 December 2016

27 Effective as of 1 January 2016 the Company changed the recording of demand deposits under cash and cash equivalents (in 2015 shown under the deposit item).

Composition of fixed-income financial investments as at 31 December 2015 and 31 December 2016



* As at 31 December 2015, fixed-income financial investments included cash and cash equivalents, and investment property, which is why the percentages given for 2015 differ from those published in the 2015 annual report.

Compared to 31 December 2015, the composition of the investment portfolio changed in line with the Group's investment policy. Fixed-income investments, accounting for 95.5 % of the investment portfolio as at 31 December 2016 (31/12/2015: 95.3 %), included a smaller share of deposits compared to 31 December 2015. The decline in the share was mainly due to the change in the recording of demand deposits, which were reclassified to cash and cash equivalents as of 1 January 2016. There was an increase in the share of investments in government bonds.

9.1.2. 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. Funds of policyholders who bear the investment risk are recorded as financial investments (mainly in mutual funds selected by policyholders) and cash. As at 31 December 2016, financial investments totalled € 224.2 million and cash € 12.5 million. Thus funds increased by € 22.4 million compared to 31 December 2015. The increase in funds of policyholders who bear the investment risk is due to the growth in mutual fund unit prices selected by the policyholders (€ 6.7 million); other increase in investments is a result of positive cash flow. The large balance of cash and cash equivalents is related to scheduled liabilities maturing in January 2017.

9.1.3. Receivables

As at year-end 2016, the total amount of receivables of the Sava Re Group was 2.5 % lower compared to the previous year.
Receivables from primary insurance and reinsurance operations were € 0.9 million lower than at the year-end 2015 (improved recoveries, lower volume of reinsurance premiums because of low premium rates in global reinsurance markets). Current tax assets decreased by € 1.6 million (overpayments relating to tax advances on profits paid in 2015), while other receivables decreased by € 0.7 million. The receivables ageing analysis has remained broadly the same as at the end of 2015, with a 78 % share of non-past-due receivables.

9.1.4. Investment contract assets

Investment contract assets and liabilities were included in the consolidated statement of financial position for the first time as at 31 December 2015 as a result of the inclusion of Moja naložba in the consolidated accounts at year-end 2015.
The investment contract assets item includes liability fund assets relating to MOJI skladi življenjskega cikla managed by the Moja naložba pension company for the benefit of policyholders. As of 1 January 2016, the Company started managing a group of long-term business funds MOJI skladi življenjskega cikla, consisting of three long-term business funds: MOJ dinamični sklad (MY Dynamic Fund, MDF), and MOJ uravnoteženi sklad (MY Balanced Fund, MBF), and MOJ zajamčeni sklad (MY Guaranteed Fund, MGF) where policyholders bear the investment risk in excess of the guaranteed funds. As at 31 December 2016, investment contract assets totalled € 121.4 million, up 8.9 % compared to 31 December 2015. The increase in investment contract assets was mainly due to a positive change in the fair value reserve (€ 2.3 million) and new premiums (€ 3.4 million); there were € 12.0 million of payins and € 8.6 million of payouts.
Financial investments accounted for 94.9 % of total assets, the remaining amount relates to receivables and cash and cash equivalents.
As with the previous category, the movement in investment contract assets depends on new premium contributions, payouts and changes in the unit prices of funds.

9.1.5. Cash and cash equivalents

Cash and cash equivalents increased in 2016 because of the changed treatment of demand deposits. As of 1 January 2016, demand deposits are classed as items of cash and cash equivalents. At 31 December 2016, demand deposits totalled € 15.8 million.
The increased balance of cash and cash equivalents of policyholders who bear the investment risk is the result of scheduled payments based on maturities in January 2017.

9.2. Liabilities

Balance and structure of equity & liabilities

(€)	31/12/2016	As % of total as at 31/12/2016	31/12/2015	As % of total as at 31/12/2015
EQUITY AND LIABILITIES	**1,671,189,179**	**100.0 %**	**1,607,281,060**	**100.0 %**
Equity	297,038,327	17.8 %	286,401,678	17.8 %
Share capital	71,856,376	4.3 %	71,856,376	4.5 %
Capital reserves	43,681,441	2.6 %	43,388,724	2.7 %
Profit reserves	145,893,612	8.7 %	122,954,429	7.6 %
Treasury shares	-24,938,709	-1.5 %	-10,319,347	-0.6 %
Fair value reserve	17,458,948	1.0 %	12,721,705	0.8 %
Reserve due to fair value revaluation	351,655		-37,472	
Retained earnings	36,778,941	2.2 %	23,490,926	1.5 %
Net profit/loss for the period	9,049,238	0.5 %	24,849,678	1.5 %
Translation reserve	-3,854,182	-0.2 %	-3,467,155	-0.2 %
Equity attributable to owners of the controlling company	296,277,319	17.7 %	285,437,863	17.8 %
Non-controlling interest in equity	761,008	0.0 %	963,815	0.1 %
Subordinated liabilities	23,570,771	1.4 %	23,534,136	1.5 %
Technical provisions	911,221,323	54.5 %	887,068,500	55.2 %
Technical provision for the benefit of life insurance policyholders who bear the investment risk	226,994,200	13.6 %	207,590,086	12.9 %
Other provisions	8,080,877	0.5 %	7,389,695	0.5 %
Deferred tax liabilities	6,038,631	0.4 %	4,598,731	0.3 %
Investment contract liabilities	121,229,675	7.3 %	111,304,383	6.9 %
Other financial liabilities	393,996	0.0 %	206,047	0.0 %
Liabilities from operating activities	48,790,646	2.9 %	54,467,303	3.4 %
Other liabilities	27,830,733	1.7 %	24,720,501	1.5 %

9.2.1. Technical provisions

Gross technical provisions are the largest item of liabilities. The balance as at 31 December 2016 was 2.7 % or € 24.1 million higher than at year-end 2015.

The gross provisions for the reinsurance segment rose by 1.9 % or € 2.8 million. The provision for outstanding claims rose by 5.2 % (as described in the section "Net claims incurred"), unearned premiums decreased by 12.2 % (due to the decline in the premium volume and an increase in the share of non-proportional reinsurance business).

The gross technical provisions for the non-life insurance segment increased by 2.5 % or € 11.6 million as at year-end 2016. The increase was due to both unearned premiums and the provision for outstanding claims. The provisions increased for the Slovenian and non-Slovenian non-life business, due to the growth in premium volume. The increase in the claims provision for Slovenian non-life business was impacted by a major hail event in August 2016.

The gross provision for traditional life policies at year-end 2016 was 3.5 % or € 9.8 million larger than at the previous year-end, mainly as a result of the increase in the mathematical provision.

Movements in consolidated gross technical provisions

(€)	Sava Re Group 31/12/2016	31/12/2015	Index
Gross unearned premiums	157,678,496	156,039,680	101.1
Gross mathematical provisions	269,762,815	262,052,426	102.9
Gross provision for outstanding claims	475,157,985	459,012,655	103.5
Gross provision for bonuses, rebates and cancellations	1,831,420	1,132,456	161.7
Other gross technical provisions	6,790,607	8,831,283	76.9
Total gross technical provisions	**911,221,323**	**887,068,500**	**102.7**

9.2.2. Equity

The second largest item on the liabilities side is equity (17.8 %), which increased by € 10.6 million from year-end 2015. The change in equity is due to the following factors:

- the net profit amounted to € 32.9 million (increase in equity);
- positive change in the fair value reserve of € 4.7 million (increase in equity);
- own share repurchases of € 14.6 million (charged against equity);
- the dividend payout of € 12.4 million (charged against equity).

9.2.3. Technical provision for the benefit of life insurance policyholders who bear the investment risk

The technical provision for the benefit of policyholders who bear the investment risk at 31 December 2016 grew by 9.3 % or € 19.4 million compared to year-end 2015. This provision moves in line with funds of policyholders who bear the investment risk (depending on contributions, payouts and unit prices).

9.2.4. Investment contract liabilities

Investment contract liabilities of Moja naložba totalled € 121.2 million at 31 December 2016, up 8.9 % or € 9.9 million from year-end 2015. They move in line with assets under investment contracts.

9.3. Capital structure

As at 31 December 2016, the Sava Re Group held € 297.0 million of equity, € 23.6 million of subordinated liabilities and € 0.4 million of other financial liabilities. Subordinated liabilities and other financial liabilities accounted for 8.1 % of equity (31/12/2015: 8.3 %). Subordinated liabilities relate to the subordinated debt of Sava Re taken out to expand to the Western Balkans. Details relating to the subordinate debt are described in note 21 of section 18.8 “Notes to the financial statements – statement of financial position”.

9.4. Cash flow

In 2016 net cash from operating activities at the Group level amounted to € 42.2 million mainly as a result of cash flows from core business (insurance, reinsurance), which largely reflects the balance of premium income, claim payments and expenses. Sava Re had a net cash of € 11.4 million, Zavarovalnica Sava of € 33.7 million. Strong net cash-flow from operating activities provides sufficient funds for the development of key Group areas. Net cash used in financing activities of € 27.8 million were a result of:

- dividend payouts of € 12.4 million;
- Sava Re own share repurchases of € 14.6 million;
- interest expense relating to subordinated debt of € 0.8 million.

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

10. HUMAN RESOURCES MANAGEMENT

10.1. Strategic guidelines for human resources management

The Sava Re Group follows the below strategic guidelines for human resources management:

- attracting and retaining the best talent,
- developing future leaders, functional expertise and competent and responsible employees,
- providing effective leadership and employee motivation,
- organising work in a secure, diverse and sustainable-oriented work environment and
- promoting a modern corporate culture.

10.2. Key activities in human resources management in 2016

In 2016, the Group's human resources management focused on the implementation and use of the new unified human resources information system, preparing the basic human resources documents required in the merger of four Group subsidiaries into Zavarovalnica Sava, and the development of internal trainers for the training of sales staff. A human resources conference was organised on the Group level intended for the presentation of modern practices in the field and the implementation of human resources strategies into day-to-day operations. In the workshop, assessments were conducted of the human resources processes as implemented in Group companies and ways were discussed to improve them.

10.3. Recruitment and staffing levels

Recruitment has been carefully planned and implemented in accordance with the objectives and requirements of each company. In line with the Group's strategic focus and goals, we encourage Group internal recruitment.

Number of employees as at year-end

	31/12/2016	31/12/2015
Zavarovalnica Sava	1,404	1,428*
Sava neživotno osiguranje (SRB)	352	398
Sava osiguruvanje (MKD)	212	196
Illyria	181	228
Sava osiguranje (MNE)	147	148
Sava Re	102	97
Illyria Life	94	125
Sava životno osiguranje (SRB)	77	82
Moja naložba	15	14
Sava Car	50	44
Sava Agent	48	52
Sava Station	9	8
ZM Svetovanje	16	12*
ZS Vivus	25	29*
Ornatus KC	10	11*
Total	**2,742**	**2,872**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group and because of split employment in the companies that have merged.

Full-time equivalent as at year-end

	31/12/2016	31/12/2015
Zavarovalnica Sava	1,322.9	1,349.3*
Sava neživotno osiguranje (SRB)	325.6	327.5
Sava osiguruvanje (MKD)	199.0	185.5
Illyria	175.0	227.0
Sava osiguranje (MNE)	137.0	136.3
Sava Re	94.6	83.0
Illyria Life	35.0	35.4
Sava životno osiguranje (SRB)	72.1	74.6
Moja naložba	14.3	13.3
Sava Car	38.0	31.3
Sava Agent	18.0	20.5
Sava Station	6.0	5.0
ZM Svetovanje	15.5	11.8*
ZS Vivus	25.0	29.0*
Ornatus KC	10.0	11.0*
Total	**2,488.0**	**2,540.3**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group and because of split employment in the companies that have merged.

Major changes in the number of employees in individual Group companies primarily reflect agent fluctuations and recruitment in sales.

The below tables give details on employees (under employment contracts) by various criteria.

Number of employees by employment type (part-time, full-time)

	2016		2015	
Employees by working hours	**Number**	**As % of total**	**Number**	**As % of total**
Part-time	311	11.3	411	14.3
Full-time	2,431	88.7	2,461	85.7
Total	**2,742**	**100.0**	**2,872**	**100.0**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group and because of split employment in the companies that have merged.

Most employees work on a full-time employment contract. Part-time employment is common with sales personnel.

Employee qualification profile

	2016		2015	
Level of formal education	**Number**	**As % of total**	**Number**	**As % of total**
Primary and lower secondary education	228	8.3	238	8.3
Secondary education	1,135	41.4	1,280	44.6
Higher education	285	10.4	287	10.0
University education	988	36.0	975	33.9
Master's degree and doctorate	106	3.9	92	3.2
Total	**2,742**	**100.0**	**2,872**	**100.0**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group and because of split employment in the companies that have merged.

The staffing levels by level of education have not changed significantly over the year. The largest group is staff with secondary school education. Group companies encourage employees to join formal education programmes.

Employees by age group

	2016		2015	
Age groups	**Number**	**As % of total**	**Number**	**As % of total**
20–25	109	4.0	141	4.9
26-30	280	10.2	304	10.6
31-35	387	14.1	437	15.2
36-40	499	18.2	540	18.8
41-45	499	18.2	522	18.2
46-50	431	15.7	402	14.0
51-55	284	10.4	278	9.7
56 and more	253	9.2	248	8.6
Total	**2,742**	**100.0**	**2,872**	**100.0**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group and because of split employment in the companies that have merged.

The age structure shows that that the majority of employees are between 36 and 50 years old. The average age of employees has been increasing over years.

Employees by gender

Gender	2016 Number	2016 As % of total	2015 Number	2015 As % of total
Women	1,528	55.7	1,575	54.8
Men	1,214	44.3	1,297	45.2
Total	**2,742**	**100.0**	**2,872**	**100.0**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group and because of split employment in the companies that have merged.

The Group's employee structure by gender is balanced. Both men and women are represented at all levels of management and in all professional areas.

Number of employees by years of service

Years of service	2016 Number	2016 As % of total	2015 Number	2015 As % of total
0–5 years	908	33.1	1,108	38.6
5–10 years	581	21.2	618	21.5
10–15 years	326	11.9	418	14.6
15–20 years	474	17.3	253	8.8
20–30 years	201	7.3	344	12.0
Over 30 years	252	9.2	131	4.6
Total	**2,742**	**100.0**	**2,872**	**100.0**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group.

The largest years of service groups are the first two groups, reflecting recent recruitment and the low staff turnover among these employees.

10.4. Employee training and development

Employee training and development is vital to sharpen the strategic focus and realise the goals of the Group and its individual companies. We strive to provide all employees with training opportunities in either internal or external professional events to develop their business, leadership and other skills. In some companies, we also facilitate additional formal education.

Companies foster the obtaining and retaining of licenses required by the sales personnel and other professional staff.

In 2016, training in sales was organised for Group companies outside Slovenia. The first set of training sessions was intended for heads of sales teams to improve their leadership skills as well as the cooperation and communication within sales teams. The second set of training sessions was intended for the identification and development of internal trainers for internal sales training of sales staff. In each non-Slovenian Group company, two or three internal trainers were developed.

We strongly foster intra-Group transfer of knowledge. And therefore maintain the good practice of joint Group training events. In 2016, the Group organised professional training in sales, internal auditing, information technology, finance, accounting, controlling, risk management, actuarial affairs, human resources management and strategic procurement. Training sessions were regularly accompanied with topics on soft skills.

Traditionally, the Group organises two strategic conferences to encourage the Group-wide transfer of best practices in governance and management. This year's focus was on corporate communication, the future of the insurance industry, teamwork and creative thinking.

10.5. Management and motivation

All Group companies conduct annual performance appraisal interviews with management. Most companies implement or have started implementing annual performance appraisal interviews for all employees in order to manage employees by objectives and provide feedback about their work and performance.

Individual companies offer employees additional financial benefits (e.g. supplementary pension or other insurance) and non-financial benefits (e.g. flexible working hours, recreation, use of leisure facilities).

All companies consider safety and health issues, carrying out all activities required by local legislation.

Additionally, social events for employees are organised during the year. In 2016, the "First Time Together" event received much publicity. It was intended to bring together in one place all the employees of the Group's four insurers based in Slovenia and Croatia to merge into Zavarovalnica Sava. In addition, Group employees are involved in voluntary charitable activities on the Sava Re Day.

The management boards of the Group members closely cooperate with employee representatives where employees are organised in any form.

Sava Re Group employees are regularly informed of developments through the Sava Re portal.

11. RISK MANAGEMENT

11.1. Risk management system

The Sava Re Group management is aware that risk management is key to achieving operational and strategic objectives and to ensuring long-term solvency of the Group. The Sava Re Group is therefore continuously upgrading both its own risk management system and the risk management system in all Group companies.
When the Solvency II legislation came into force on 1 January 2016, it introduced a number of new requirements in risk management, for which the Sava Re Group had been systematically preparing.

Risk management policies

In order to systematise risk management in 2015, the Sava Re Group shaped and adopted, at Group level, policies that cover the entire framework of risk management, own risk and solvency assessments, and risk management for each risk category. The policies provide guidance for all Group companies and serve as the basis on which they shape, with consideration of local specifics, their own policies for individual areas of risk management.

Risk management organisation

At the Save Re Group, we are aware that an appropriate organisational structure and a clear segregation of responsibilities are key to systematic risk management. This is also what guided us in the reorganisation of the risk management system based on the Solvency II principles.

Efficient functioning of the risk management system in the Sava Re Group and Sava Re is primarily the responsibility of the Sava Re management board. To ensure efficient risk management, the Sava Re Group uses a three lines of defence model with clearly defined division of responsibilities and tasks:

- The first line of defence constitutes all organisational units with operational responsibilities (e.g. underwriting, sales, claims management, asset management, accounting, controlling).
- The second line of defence consists of the risk management function, actuarial function, compliance function and the risk management committee.
- The third line of defence consists of the internal audit function.

The first line of defence involves all company employees responsible for operational performance of tasks working in a manner that reduces or eliminates risks. Additionally, risk owners are responsible for individual risks listed in the risk register. Departmental executive directors, line and service directors are obliged to ensure that the operational performance of the processes for which they are responsible is conducted in a manner that reduces or eliminates risks while taking into account the frameworks laid down in the risk strategy. The frameworks are outlined below in this section.

Sava Re has in place four key functions responsible for tasks related to the Sava Re Group and Sava Re. Each key function is headed by a key function holder. The key functions include:

- the actuarial function,
- the risk management function,
- the compliance function, and
- the internal audit function.

At Sava Re, the key functions are organised as support services reporting directly to the controlling company's management board. Their roles and responsibilities are clearly defined in the policy of each key function or in the risk management policy that defines the risk management function.

The second line of defence includes activities of the key functions as well as the risk management committee of Sava Re and the Group. The committee's activities also include asset and liability management (ALM). The committee is actively involved in the monitoring and developing of systematic risk management within the Sava Re Group and Sava Re.

Sava Re transfers its good practices from the risk management model and the organisation of risk management also to its subsidiary companies.

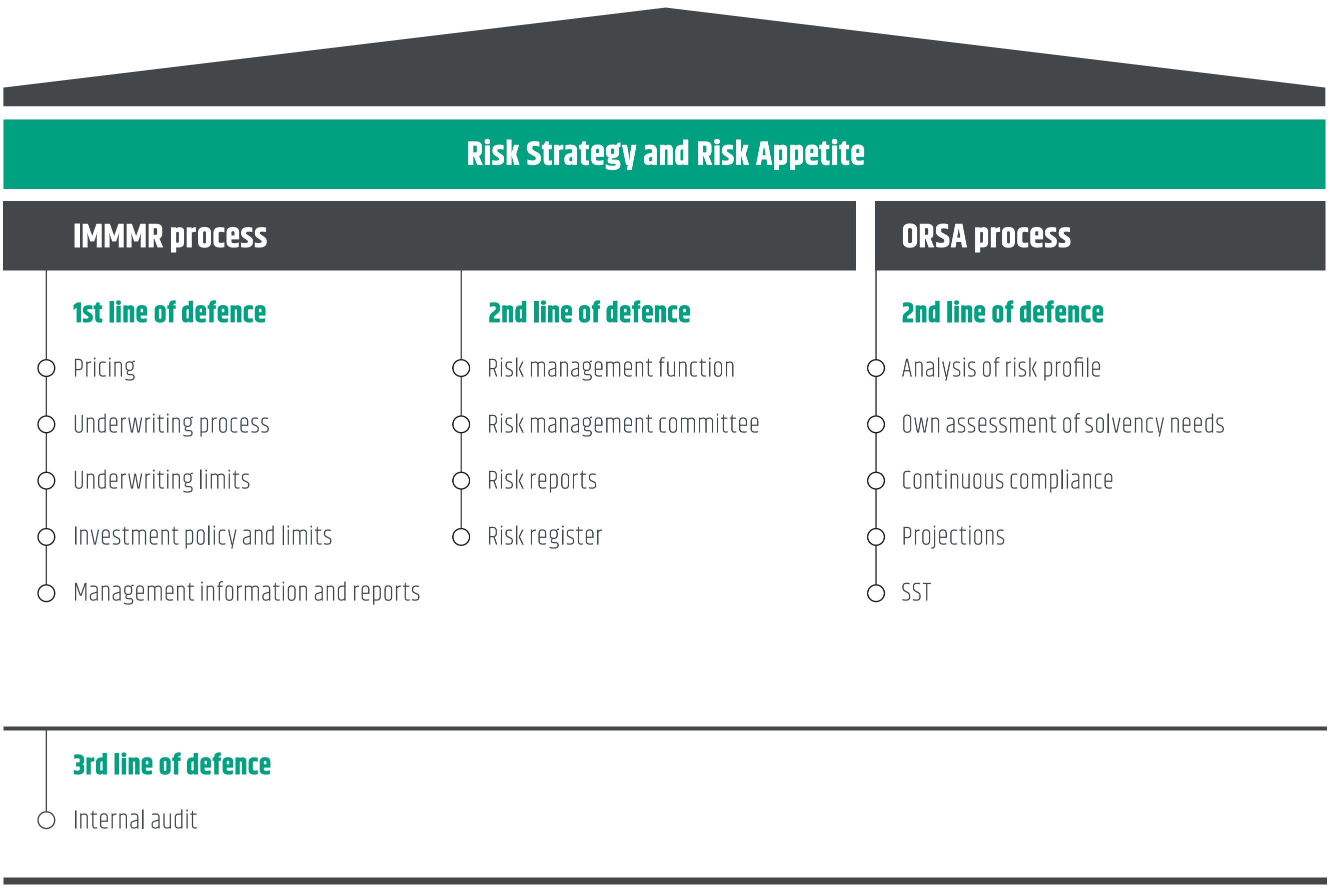
Components of the risk management system

Risk management is integrated into all stages of business management and is composed of the following key elements:

- risk strategy,
- risk management processes within the first and second line of defence, and
- own risk and solvency assessment (hereinafter ORSA).

The components of the risk management system are shown in the figure below.

Elements of the Group risk management function



11.2. Risk strategy

In order to establish a solid risk management framework, the management board of Sava Re approved the document "Sava Re Group Risk Strategy" in 2016, which defines the Group's risk strategy based on the risk bearing capacity. The document specifies:

- risk appetite,
- permissible levels of certain performance indicators and
- risk tolerance limits.

The risk strategy thus defines the framework for the risk management system in the Sava Re Group. The basic principle of the Group is to pursue its business strategy and meet the key strategic objectives while maintaining an adequate capital level.
The Sava Re Group's risk appetite is based on four key areas:

- capital,
- liquidity,
- product profitability, and
- reputation.

Each Group company choses to either assume the Sava Re Group's risk strategy or define its own risk strategy within the framework of that of the Group. The companies will also align the operating limits and thresholds for individual business areas and risk categories with the current risk strategy. This way, the risk appetite framework and risk tolerance limit will be integrated in all day-to-day risk taking.

11.3. Risk management processes and ORSA

In the Sava Re Group, risk management processes are conducted both at the level of individual Group companies and at the Group level. Risk management processes are inherently connected with and incorporated into the basic processes carried out in individual Group companies and in the Group as a whole. All organisational units are involved in risk management processes.
The Sava Re Group carries out the following risk management processes:

- risk identification,
- risk assessment (measuring),
- risk monitoring,
- determining appropriate risk control measures (risk management), and
- risk reporting.

Risk management processes are incorporated into all three lines of defence. The roles of individual lines of defence within the risk management policy are clearly segregated. Risk management processes are also integrated in the decision-making system; all important business decisions are also evaluated in terms of risk.
The process of risk identification is aimed at identifying all the risks to which individual Group companies or the Group as a whole are exposed. The key risks to which an individual Group company or the Group as a whole is exposed are recorded in the risk register and constitute its risk profile.
Regular risk assessment is conducted for all the risks to which an individual company is exposed. Both qualitative and quantitative methods are used for risk evaluation. With a

view to a quantitative risk assessment, the Sava Re Group develops support risk assessment models on an ongoing basis.

At both Group and company level, risk monitoring is carried out at several levels: at the level of individual organisational units, in the risk management service, at the level of the risk management committee, at the top management and management board level. Both risks and risk management measures are subject to monitoring and control. Monitoring of risks and measures serves as the basis for risk reporting.

Whenever the need arises to adopt a new risk control measure, the Company conducts an analysis of the measure in terms of its economic and financial viability. Elimination or mitigation of individual risks must be more cost effective than mitigation of the potential impact should the risk materialise, taking into full account the probability of such an event and all of its implications.

Own risk and solvency assessment (ORSA)

ORSA is one of the requirements of the Solvency II legislation. The ORSA process ensures alignment of the business strategy with risk appetite and capital requirements in the context of the overall risk management framework. It establishes a link between the business strategy, the risks taken in the short term as well as the medium to long-term and the capital requirements arising from those risks.

In line with legislation ORSA incorporates the following three key elements:

- the insurer's assessment of solvency needs,
- the assessment of compliance, on a continuous basis, with the capital requirements and with the requirements regarding technical provisions, and
- the assessment of the significance of the deviation of the insurance company's risk profile from the assumptions underlying the solvency capital requirement in accordance with the standard formula.

The ORSA process is defined in detail in the ORSA policy.

The Sava Re Group carries out the ORSA process in order to understand the own risk profile and the standard formula and to analyse the impact of the changes in the risk profile in the business planning period on capital adequacy. The ORSA is part of the decision-making process, which allows for key decisions in a Group company to be adopted with consideration of its risks and for the business strategy to be determined with full awareness of the risks and associated capital requirements.

11.4. Risk profile

The Sava Re Group and Group members are exposed to the following risks:

- underwriting risks arising from (re)insurance contracts; these are associated with the risks covered under (re)insurance contracts as well as with accompanying procedures.
- Market risk related to volatile prices of financial instruments and market prices of other assets.
- Credit risk[28] related to non-performance and change in the credit rating of securities issuers related to the investment portfolio of (re)insurers and of reinsurers, intermediaries and other business partners who have outstanding liabilities to the (re) insurers.

28 The risk register used in the Sava Re Group used a classification of risk consistent with the classification within the standard formula: credit risk is covered partly by market risk and partly by counterparty risk. Nevertheless, for the sake of clarity, all credit risk is presented in one place.

- Operational risk associated with inadequate or failed internal processes, people and computer systems, or from external events.
- Liquidity risks related to loss resulting from insufficient liquid assets when liabilities become due or increased costs of realisation of less liquid assets.
- Strategic risk associated with achieving the Company's strategic plans, and reputational risk, including any implications.

Individual risks are described in detail in the notes to the financial statements of the Sava Re Group (section 18.7) and the notes to the financial statements of Sava Re (section 24.5).

12. SOLVENCY II

On 1 January 2016 the Solvency II regime came into force. The Sava Re Group regularly reports in accordance with the requirements of the following three areas of regulation:

- Quantitative requirements: calculation of eligible own funds and the solvency capital requirement in line with the standard Solvency II formula;
- Qualitative requirements: Qualitative requirements: enhanced governance, risk management and introduction of ORSA;
- Disclosure requirements: additional requirements for public and regulatory reporting.

In 2016, the emphasis was primarily on the integration of processes related to Solvency II into the Company's regular processes and the setting up of IT support for the preparing of required quantitative reports. We completed the first official capital adequacy reporting to the regulator in accordance with Solvency II as at 1 January 2016. The calculations revealed a high level of capitalisation of the Group.
At the Group level, we prepared the first report on the own risk and solvency assessment (ORSA) for Sava Re and the Sava Re Group. ORSA includes the development of own models for quantifying risks with an emphasis on measuring underwriting and market risks, which are the key risks to which the Group is exposed.

13. OPERATION OF THE INTERNAL AUDIT

The aim of the internal audit is to provide assurance and advice to the management board in order to add value as well as improve the effectiveness and efficiency of operations. Internal audit assists the Company in achieving its goals based on systematic, methodical assessment and improvement of the effectiveness and efficiency of governance, risk management and control procedures, and by giving recommendations for their improvement.

Internal auditing in the Company is carried out by an independent organisational unit, namely the Internal Audit Service (IAS), which reports to the management board and is functionally and organisationally separate from other organisational units of the Company. Its position in the Company ensures autonomy and independence of operation.

In 2016, the IAS carried out audit reviews and other activities in accordance with its 2016 work plan, which included 13 audit engagements, of which 12 were completed. One audit review was completed with an interim report and is scheduled to be continued in 2017.

Regular reviews have also been targeted to establishing the probability of fraud, and exposure and vulnerability to IT risks. In areas subject to internal audit engagements, control systems have been set up and are operating so as to prevent fraud.

The IAS reports regularly – on a quarterly basis – to the management board, the audit committee and the supervisory board on the results of completed auditing engagements, the effectiveness and efficiency of control systems, corporate governance, risk management, identified breaches and irregularities and on monitoring the implementation of recommendations. In addition, the IAS prepared an annual report on its activities in 2016, which is part of the materials for the general meeting of shareholders.

As part of developing the internal audit function, the IAS continued the transfer of internal auditing methodologies to internal audit services of other Sava Re Group members. The transfer of the internal audit methodology across the Group was continued in 2016, mainly through audits at Sava Re in which the auditors of subsidiaries participated.

The IAS also conducted a self-assessment in 2016. The results showed that the operations of the IAS complied with the definition of internal auditing, the Standards and the IAS's code of ethics.

14. SUSTAINABLE DEVELOPMENT IN THE SAVA RE GROUP

Sava Re nurtures common values that are reflected in our positive work environment, sound business culture and lasting relationships. These can be seen in the directions we set and follow, in our daily work, behaviour, communication, relationships and decisions. Our basic mission is to ensure security of life and property in order to improve the quality of life and management of risks so as to avoid uncertain outcomes. We are creating conditions that ensure a secure and carefree life as well as favourable business results, which is an investment for the future.

The Group is preparing a strategy for sustainable development, which will more precisely and uniformly regulate the area and will comply with the directive on the disclosure of non-financial information. Under current guidelines, all Group companies are active in terms of social responsibility. Such guidelines are set out in various documents at the Group level (the corporate governance policy of the Sava Re Group, the compliance policy, the Sava Re Group financial control manual, the Sava Re Group code of ethics) and recommendations that the Group is seeking to comply with, such as the environmental and social policy of the European Bank for Reconstruction and Development (EBRD), the recommendations and expectation of the Slovenian Sovereign Holding, and recommendations of the Ljubljana Stock Exchange for listed companies.

Sava Re uses as its reference code the Corporate Governance Code adopted by the Ljubljana Stock Exchange, the Managers' Association of Slovenia and the Association of Supervisory Board Members on 8 December 2009.

New commitments in 2016 – Never Alone

The year 2016 was a landmark year for the parent company and the Group. It was dominated by the project of merging the Group's EU-based insurers into one company. In the process, we made new commitments. All our actions and words leave traces. On the environment, on people, on relationships. That is why in the merger process, we paid particular attention to communication and relations with employees, shareholders, local communities and other stakeholders. Our ambitions are high as we know we are building the second-largest insurance company in the region. By caring for our employees, we strengthen business and personal culture; through sponsorships in sports and the arts, we can reached beyond the borders of our country; by supporting charitable organisations, we help those in need; by using innovative services, we provide security; by following environmental-friendly practices and promoting environmental awareness, we invest in the natural environment.

"Never Alone" is a powerful promise that we have committed to. It is a promise to all our stakeholders that we will always be there for them – with socially responsible products, with products tailored to our clients' actual needs, with friendly gestures, with concern for our employees, with humanitarian actions, with support for social activities, with an environmental-friendly attitude, in short, a commitment to comprehensive care for each individual.

Responsibility to all stakeholders

We are committed to the cultivation of responsible and sincere relations with our stakeholders. In this regard, we follow the recommendations and rules for public communication and we are looking for additional opportunities to facilitate access to information and exchange of views, making use of information technology, which is unconstrained by time and space.

The Group companies use an online platform for internal communication and for posting news relating to companies.

Our redesigned website www.sava-re.si provides all relevant information to our stakeholders, but primarily to investors. Published information is automatically forwarded to email addresses of stakeholders who have signed up to receive news.

In accordance with EBRD guidelines for sustainable development in all business areas, the Company reports to EBRD, annually, on the implementation of and compliance with these guidelines, namely in human resources management, prevention of money laundering and terrorist financing, prevention of corruption, environmental protection and sustainable development in all business areas.

Responsibility to employees

Our responsibility to our employees is also reflected in our efforts to build a work environment that respects the dignity and integrity of each employee. One of the Sava Re Group's strategic guidelines in the field of human resources management is a safe, diverse and sustainable work environment. Our leaders are expected to lead by their example and encourage the creation of the right conditions. Furthermore, our HRM policy provides that HRM objectives are aligned with sustainable development policies of the Company and the Group, promoting equal opportunities and diversity of our workforce. For this reason, a leadership model was set up in 2016 defining the key competencies expected of leaders in a modern organisational culture that promotes constructive collaboration, open communication, openness to change and continuous development. The leadership model is the basis and steers development activities of leaders who are key to creating and maintaining a secure, diverse and sustainable-oriented work environment.

In collaboration with the HRM service, leaders strive to meet goals for recruitment, training and development, leadership and employee motivation. The main activities and objectives are included in the annual report. Sustainable development is also monitored through certain indicators, such as number of employees, staffing structure, turnover, absenteeism, based on which appropriate action plans are made.

The structure of employees within companies is balanced. Both men and women of different age groups and seniority are employed at all levels of management and in all professional areas. We encourage leadership and organisation that allows the integration of all employees and ensures equal opportunities.

Employees have access to the latest news about the Company and to the latest contents. We foster good relationships and engage in two-way communication by means of regular all-staff meetings, idea collection, the intranet, internal media, email, management meetings, personal meetings, internal training, informal staff meetings (including also retired staff), team training, meetings with union and workers' council representatives, annual interviews and regular strategic conferences.

Through adjusted organisation of work and flexitime, we help young parents balance their professional and private life.

Employee satisfaction in organisational units is measured through regular staff meetings and individual conversations. We find that employees are particularly satisfied with the conditions of work and interpersonal relationships.
The Company has appointed two persons for the prevention of mobbing, who are to provide assistance and support to employees who feel they have been subject to aggression, bullying, harassment and other forms of psychosocial risks in the workplace that are dangerous to health. In the past year, no such cases were reported.
Group companies do not receive related complaints of employees and the number of labour relation disputes is negligible. In addition, we have developed a solid relationship with labour representatives, and companies are prompt and efficient in meeting contractual liabilities to employees, which contributes to employee satisfaction. The Group also seeks to establish a specific value system and code of conduct, emphasising mutual respect, effective communication and co-operation.
In 2016, Sava Montenergo was awarded the first prise for social responsibility by the Association of Employers of Montenegro.

Responsibility to policyholders

Trust is the foundation of any quality long-term relationship. The Group takes its commitments to its policyholders very seriously. In 2016 we devoted considerable attention to our communications with clients, in which we gradually and openly announced the planned changes, emphasizing the benefits they would bring. We wanted to maintain the trust of policyholders of the four merging insurers and connect it with the new brand of Zavarovalnica Sava.
Brochures were prepared for policyholders and a special website with information on the benefits of the merger, why it was good for our policyholders and what this entailed for the policies in force. Our message was clear that there were no changes for policyholders other than that they would trust second largest insurance company in the region. In early November, policyholders received a letter.
In a strong advertising campaign run in Slovenia and Croatia, we wanted to reach different target groups with the message that Zavarovalnica Sava was a trustworthy business partner, not only larger in workforce but also more knowledgeable and experienced. A survey conducted subsequently showed an enormous increase in brand recognition.

Responsibility to business partners

We believe that the satisfaction of our clients is the mirror of our success. We believe in building lasting partnerships by providing good services. In reinsurance client relationships, we have due regard to internal underwriting regulations and internal rules for account managers. We maintain relationships with our existing business partners. Meetings are arranged during international conferences and individual meetings. Each year we organise our traditional Sava Summer Seminar, offering training in reinsurance-related areas to make our partners familiar with our activities and the characteristics of our business
As regards their relationships with the insured, Group members follow the rules and procedures on complaints, which are compliant with the directives issued by the European Insurance and Occupational Pensions Authority (EIOPA).

In the Group we also strengthen relationships with business partners through different forms of social events. In 2016, a number of training and social events were organised within the context of the merger, in which business partners were informed about the merger process, but also served to develop friendship and business cooperation.

Responsibility to the financial community

A public limited company, Sava Re is responsible to ensure uniform informing of all its shareholders and communicating in accordance with the recommendations and legislation. With regard to the financial community, we pay special attention to our shareholders and other potential investors. We communicate with this group of stakeholders by organising regular meetings with analysts and investors, direct or through events organised by the Ljubljana Stock Exchange and other organisers, and by participating in local and international road shows. We ensure prompt and uniform information also via our official website at www.sava-re.si, the SEOnet portal of the Ljubljana Stock exchange, via the media, press conferences and letters to shareholders sent to keep them updated and to invite them to the general meeting. In all our announcements, we comply with the standards applicable to the prime market of the Ljubljana Stock Exchange. More information about investor relations is provided in section 3.3 “Investor relations”.

Supervising the implementation of provisions

The Company regularly and upon request reports to the Insurance Supervision Agency, in accordance with the Slovenian Insurance Act (ZZavar) and implementing regulations. We also report to the Securities Market Agency (ATVP) in accordance with the Financial Instruments Market Act (ZTFI) and the internal rules on trading with POSR shares.

Investments

Sava Re views environmental policy as a set of principles and practices aimed at protecting the environment, the landscape, as well as the natural and cultural heritage. It therefore pursues the environmental and social policy developed by the EBRD. We avoid investing in securities with harmful effects of any kind on people and the environment. Part of our funds are invested in debt securities issued by international organisations such as the EBRD, the World Bank and the European Investment Bank, as we believe that these organisations invest in environment-friendly projects, in accordance with their environmental and social policies.

Social responsibility

All Sava Re Group companies again celebrated the Sava Re Day in 2016, which is a day that all employees dedicate to local community service so that the encouragement of social responsibility is supported by concrete activities. In 2016 the efforts of employees in intergenerational integration in homes for the elderly, occupational activity centres and similar establishments throughout Slovenia brought some brightness into the lives of the persons in care.

Individual Group companies provide financial support to organisations and individuals in accordance with the adopted policy on sponsorships and donations.

In December, Zavarovalnica Sava carried out two humanitarian projects. The purpose of the 'Sharing Christmas' project was to bring the merriments of Christmas into selected homes for the elderly and the youth homes. The response surpassed all expectations. So the event will become a regular one. The purpose of the 'Christmas Dinner on Every Table' project was to promote the generosity of employees to donate food for the needy in local communities of our business units. The project was not just about donation of food, but wanted to raise awareness about poverty in our communities and the need to care for each other, while building relations among socially sensitive staff members.

Certain members of our Group are among the co-founders of the Network for Social Responsibility of Slovenia, and are members of the Institute for the Development of Social Responsibility and of the Partnership for National Strategy and Social Responsibility. Our members, established in various countries, have nation-wide networks, which makes it easier to identify the needs and potentials of local communities. We firmly believe in co-operation, and therefore support team sports, team efforts and projects that connect organisations with their communities and that allow us to become part of social developments.

15. BUSINESS PROCESSES AND IT SUPPORT

Key information technology activities in 2016 consisted in:

- continuous, uninterrupted provision of the Group's data centre services to all of the companies;
- ensuring the operation of all IT systems upon the merger of Slovenian and Croatian insurance companies into Zavarovalnica Sava;
- development of programmes to support operations;
- development of a joint platform for websites and online sales;
- continued introduction of shared services: document management system, archival system, SharePoint, intranet, email, risk register and similar.

Most of the IT services for the Group companies are provided by the Group's virtual data centre, which operates at locations in Maribor and Novo Mesto. For the majority of IT services provided by the two centres, we already ensured back in 2015 mirroring of all data and systems at another data centre that can assume provision of services in case they are not available from the primary location. In the first quarter of 2016, all equipment necessary for the mirroring of Zavarovalnica Maribor systems was installed in the data centre in Novo Mesto, which now ensures full continuity of operations in the case of a failure in either of the two data centres.

Although there are two data centres, the backup systems of the "Novo Mesto" data centre in Maribor were physically separated from the rest of the system in Maribor, while the backup systems of the "Maribor" data centre in Novo Mesto were physically separated from the rest of the system in Novo Mesto. In 2016 we initiated consolidation processes in order to simplify and unify the network infrastructure, with the aim of enabling optimal use of IT resources and rationalising administration.

In 2016, activities designed to support the Group companies were somewhat subordinated to those activities related to the merger of Slovenian and Croatian insurance companies into Zavarovalnica Sava. Up until the actual merger we had to unify services such as e-mail and telephony and set up all insurance sales and processing systems. Those activities were largely carried out within Zavarovalnica Sava, so they are not described in detail here.

A new online platform for websites and online insurance sales was set up for all of the companies in 2016. However, the implementation of such was carried out gradually. In mid-2016 the company Sava Osiguruvanje started to use new websites and online sales schemes for tourist insurance. In autumn Zavarovalnica Sava and its Croatian subsidiary used the same platform to set up their website. Work began on the preparation of websites for all other companies in the Group. The goal is to use a uniform platform for all of the companies after the redesign of corporate identity design by end-March 2017.

The gradual introduction of portals at a single SharePoint continued for the Group companies. In addition to Zavarovalnica Sava, Sava Osiguruvanje and Sava Montenegro also began using the portal more actively in 2016, while the company Illyria began introducing the solution.

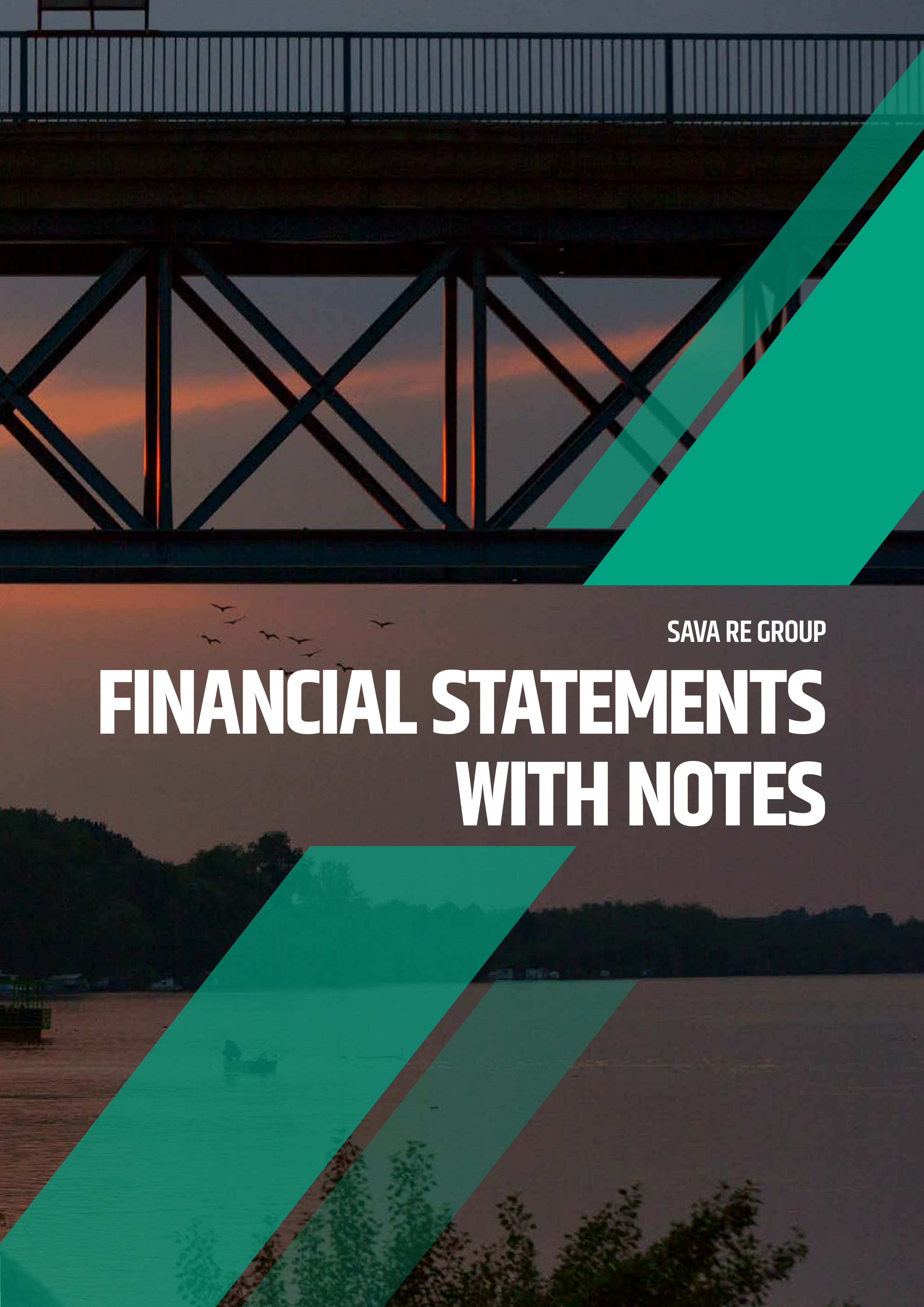
Despite different plans for companies outside Slovenia, we still have not started using the mDocs solution for the settling of invoices, which is connected to Navision software.

This was due to two reasons: the transition to the new version of mDocs, and the consolidation of all mDocs operations at one instance with the introduction of multi-company support. Due to technical issues the new version of mDocs has only been introduced in Slovenia. When Zavarovalnica Sava began operations, transition to the single instance of mDocs for the companies in Slovenia and Croatia was carried out. In 2017 the same solution will be introduced in other Group companies.

We continued with the development of applications supporting insurance and reinsurance operations within the Group. The most demanding task was to unify and connect the systems for the merger of insurance companies into Zavarovalnica Sava. Procedures ensured that all insurance contracts would be concluded through a single online SPS application after the merger. Procedures also ensured that data on insurance policies, claims and obligations would be transferred into a single reporting tool in order to enable uniform monitoring of operations.

In companies outside Slovenia, emphasis was put on unifying the software application designed to conclude insurance contracts and related commercial principles and operations. For all the companies that use the ASP.ins application we transitioned to a single version that uses a unified system of commercial transaction management, and the integration of such in the Navision software scheme. We also changed the method of version management in order to ensure faster and more uniform development in the future. In the framework of ASP.ins we started to introduce paperless administration, the first in the field of claims management. At the end of 2016 the new module started to be used in Sava Osiguruvanje, and it will be gradually introduced in other companies as well.

At the strategic level we performed an analysis of application architecture together with an external partner and examined the possibilities to transform the existing infrastructure into a new model that will be better adapted to requirements related to the fast introduction of changes. Said analysis will serve as the basis for the preparation of the Group's new IT development strategy.



SAVA RE GROUP

FINANCIAL STATEMENTS WITH NOTES

16. AUDITOR'S REPORT

EY
Building a better
working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pozavarovalnica Sava d.d.

Opinion

We have audited the consolidated financial statements of the Sava Re Group ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Sava Re Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Estimations concerning premium recognition, technical provisions, reinsurance assets and liabilities – reinsurance

Technical provisions of the Group include also provisions related to reinsurance business. Part of those provisions are related to estimates based on input data received from cedants, underwriters' assumptions and internal historical data developed internally by the Group. The Group estimates claims provision for business outside the Sava Re Group, taking into account expected premiums and expected combined ratios.

Those estimates also influence other significant areas within the consolidated financial statements, such as gross premium income, commission and premium receivables. Premium estimates are made based on expected premiums from reinsurance contracts

We involved actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material or complex and/or requiring significant judgement in setting of assumptions.

We assessed the design and verified the operating effectiveness of internal controls over the estimation process including the initial input of the data in the model based on reinsurance contracts as well as the later update of assumptions based on current information from cedants.

We have reviewed the methodology and assumptions used by the Group to establish its IBNR provision and performed recalculation of Group IBNR provisions.

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which, according to due dates, are already in force, although the Group has yet to receive reinsurance accounts.

The Group prepares back testing analyses to assess correctness of previous period assumptions and builds projections on experience.

Additionally, incurred but not reported ("IBNR") provisions are calculated independently by the Group to confirm reasonability of ceded amounts, using development triangles of cumulative claim payments by underwriting year.

There is a risk that the estimates and judgements made by the underwriters and the actuary may result in a material misstatement in the consolidated financial statements. We determined this to be a significant item for our audit and a key audit matter.

We have reviewed the methodology used by the Group to calculate claim provisions established by estimation using actuarial methods.

We performed detailed analytical procedures on estimates relating to premiums, commissions and technical provisions and assessed the experience (back testing) analyses performed by the Group in their assumption setting processes. We tested, on a sample basis, whether the input data in the model for recalculation of estimates is accurate and complete.

We assessed the adequacy of the disclosures included in notes 18.4.24 and 18.8.22 of the consolidated financial statements.

Estimates used in calculation of insurance liabilities, DAC and Liability Adequacy Test (LAT) – insurance

The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. Various economic and non-economic assumptions are being used to estimate these long-term liabilities, both in the insurance contract liabilities as reported in the statement of financial position and in the provisions adequacy test. We determined this to be a significant item for our audit and a key audit matter.

We involved internal actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in setting of assumptions, particularly long-tail business in non-life operations and Liability Adequacy Test ("LAT") cash flows in life products. We assessed the design and verified the operating effectiveness of internal controls over the actuarial process including claim provisions calculation, process of setting economic and actuarial assumptions as well as cash flow derivation approach.

We assessed the Group's approach and methodology for the actuarial analyses including estimated versus actual results and experience studies. Our assessments included evaluation, as necessary, of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied, along with comparison to applicable industry experiences considering the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. We also performed audit procedures to determine the models and systems were calculating the insurance contracts liabilities accurately and completely, including sample recalculations of the results produced by the models. We tested the validity of management's liability adequacy testing, which is a test performed to evaluate whether the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessment of the projected cash flows and assessment of the assumptions

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adopted in the context of both the Group and industry experience and specific product features.
We assessed the adequacy of the disclosures included in notes 18.4.24 and 18.8.22 of the consolidated financial statements.

Other information

Other information comprises the information included in the consolidated annual report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, supervisory board and audit committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

▸ identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ljubljana, 31 March 2017

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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Primož Kovačič
Certified auditor

17. CONSOLIDATED FINANCIAL STATEMENTS

17.1. Consolidated statement of financial position

(€)	Notes	31/12/2016	31/12/2015
ASSETS		1,671,189,179	1,607,281,060
Intangible assets	1	**25,508,583**	**30,465,315**
Property and equipment	2	**51,887,127**	**47,217,311**
Deferred tax assets	3	**2,326,063**	**2,371,857**
Investment property	4	**7,933,786**	**8,040,244**
Financial investments:	5	**1,030,235,239**	**1,015,056,805**
- loans and deposits		31,605,347	57,721,961
- held to maturity		130,812,195	165,444,270
- available for sale		858,641,003	773,486,797
- at fair value through profit or loss		9,176,694	18,403,777
Funds for the benefit of policyholders who bear the investment risk	6	**224,175,076**	**214,189,117**
Reinsurers' share of technical provisions	7	**28,444,628**	**23,877,277**
Investment contract assets	8	**121,366,122**	**111,418,244**
Receivables	9	**127,408,527**	**130,663,929**
Receivables arising out of primary insurance business		51,340,821	51,510,767
Receivables arising out of reinsurance and co-insurance business		68,005,582	68,757,586
Current tax assets		124,720	1,734,294
Other receivables		7,937,404	8,661,282
Deferred acquisition costs	10	**16,510,536**	**17,992,485**
Other assets	11	**1,366,844**	**1,173,159**
Cash and cash equivalents	12	**33,939,160**	**4,710,904**
Non-current assets held for sale	13	**87,488**	**104,413**
EQUITY AND LIABILITIES		1,671,189,179	1,607,281,060
Equity		**297,038,327**	**286,401,678**
Share capital	14	71,856,376	71,856,376
Capital reserves	15	43,681,441	43,388,724
Profit reserves	16	145,893,612	122,954,429
Treasury shares	17	-24,938,709	-10,319,347
Fair value reserve	18	17,458,948	12,721,705
Reserve due to fair value revaluation		351,655	-37,472
Retained earnings		36,778,941	23,490,926
Net profit/loss for the period	19	9,049,238	24,849,678
Translation reserve		-3,854,182	-3,467,155
Equity attributable to owners of the controlling company		**296,277,319**	**285,437,863**
Non-controlling interest in equity	20	**761,008**	**963,815**
Subordinated liabilities	21	**23,570,771**	**23,534,136**
Technical provisions	22	**911,221,323**	**887,068,500**
Unearned premiums		157,678,496	156,039,680
Mathematical provisions		269,762,815	262,052,426
Provision for outstanding claims		475,157,985	459,012,655
Other technical provisions		8,622,027	9,963,739
Technical provision for the benefit of life insurance policyholders who bear the investment risk	22	**226,994,200**	**207,590,086**
Other provisions	23	**8,080,877**	**7,389,695**
Deferred tax liabilities	3	**6,038,631**	**4,598,731**
Investment contract liabilities	8	**121,229,675**	**111,304,383**
Other financial liabilities	24	**393,996**	**206,047**
Liabilities from operating activities	25	**48,790,646**	**54,467,303**
Liabilities from primary insurance business		11,910,253	10,968,865
Liabilities from reinsurance and co-insurance business		36,292,698	39,739,412
Current income tax liabilities		587,695	3,759,026
Other liabilities	26	**27,830,733**	**24,720,501**

The notes to the financial statements in sections 18.4–18.12 form an integral part of these financial statements.

17.2. Consolidated income statement

(€)	Notes	2016	2015
Net earned premiums	**28**	**458,101,526**	**447,559,605**
Gross premiums written		490,205,154	486,264,557
Written premiums ceded to reinsurers and co-insurers		-31,242,514	-30,314,747
Change in gross unearned premiums		-1,829,377	-7,972,818
Change in unearned premiums, reinsurers' and co-insurers' shares		968,263	-417,387
Income from investments in associates	**29**	**0**	**942,560**
Profit from investments in equity-accounted associate companies		0	165,067
Other income		0	777,493
Investment income	**30**	**33,136,242**	**39,577,855**
Interest income		21,233,656	22,637,172
Other investment income		11,902,586	16,940,683
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	**30**	**17,958,678**	**26,631,788**
Other technical income	**31**	**18,237,409**	**19,318,601**
Commission income		3,732,607	3,656,904
Other technical income		14,504,802	15,661,697
Other income	**35**	**6,489,633**	**4,647,977**
Net claims incurred	**32**	**-268,393,776**	**-273,129,823**
Gross claims payments, net of income from recourse receivables		-269,445,796	-271,503,134
Reinsurers' and co-insurers' shares		14,819,654	17,718,201
Change in the gross claims provision		-15,832,894	-5,373,020
Change in the provision for outstanding claims, reinsurers' and co-insurers' shares		2,065,260	-13,971,870
Change in other technical provisions	**33**	**-5,254,856**	**-1,282,026**
Change in technical provisions for policyholders who bear the investment risk	**33**	**-17,442,161**	**-11,036,450**
Expenses for bonuses and rebates		**-1,263,545**	**-580,091**
Operating expenses	**34**	**-159,563,486**	**-148,918,373**
Acquisition costs		-51,882,550	-49,853,683
Change in deferred acquisition costs		-1,474,454	1,451,391
Other operating expenses		-106,206,482	-100,516,081
Expenses for investments in associates and impairment losses on goodwill	**29**	**-1,693,699**	**-2,936,678**
Impairment loss on goodwill		-1,693,699	-2,936,678
Expenses for financial assets and liabilities	**30**	**-8,556,415**	**-13,005,902**
Impairment losses on financial assets not at fair value through profit or loss		-594,025	-726,066
Interest expense		-842,126	-1,161,059
Other investment expenses		-7,120,264	-11,118,777
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	**30**	**-11,256,348**	**-25,930,786**
Other technical expenses	**35**	**-17,310,937**	**-20,113,718**
Other expenses	**35**	**-2,518,278**	**-1,646,568**
Profit/loss before tax		**40,669,987**	**40,097,971**
Income tax expense	**36**	**-7,751,774**	**-6,732,520**
Net profit/loss for the period		**32,918,213**	**33,365,451**
Net profit/loss attributable to owners of the controlling company		**32,824,911**	**33,377,857**
Net profit/loss attributable to non-controlling interests		**93,302**	**-12,406**
Earnings per share (basic and diluted)	**19**	**2.08**	**2.02**

The notes to the financial statements in sections 18.4–18.12 form an integral part of these financial statements.

17.3. Consolidated statement of comprehensive income

(€)	2016 Attributable to owners of the controlling company	2016 Attributable to non-controlling interest	2016 Total	2015 Attributable to owners of the controlling company	2015 Attributable to non-controlling interest	2015 Total
PROFIT/LOSS FOR THE PERIOD, NET OF TAX	**32,824,911**	**93,302**	**32,918,213**	**33,377,857**	**-12,406**	**33,365,451**
OTHER COMPREHENSIVE INCOME, NET OF TAX	**4,739,343**	**2,689**	**4,742,032**	**-5,742,230**	**-5,167**	**-5,747,397**
a) Items that will not be reclassified subsequently to profit or loss	**389,127**	**726**	**389,853**	**108,540**	**0**	**108,540**
Other items that will not be reclassified subsequently to profit or loss	392,921	726	393,647	105,795	0	105,795
Tax on items that will not be reclassified subsequently to profit or loss	-3,794	0	-3,794	2,745	0	2,745
b) Items that may be reclassified subsequently to profit or loss	**4,350,216**	**1,963**	**4,352,179**	**-5,850,770**	**-5,167**	**-5,855,937**
Net gains/losses on remeasuring available-for-sale financial assets	**6,216,376**	**3,994**	**6,220,370**	**-7,013,374**	**-4,835**	**-7,018,209**
Net change recognised in the fair value reserve	5,245,968	1,017	5,246,985	-9,411,317	-4,835	-9,416,152
Net change transferred from fair value reserve to profit or loss	970,408	2,977	973,385	2,397,943	0	2,397,943
Net gains/losses attributable to the Group recognised in fair value reserve and retained profit/loss relating to investments in equity-accounted associate companies	**0**	**0**	**0**	**-33,187**	**0**	**-33,187**
Tax on items that may be reclassified subsequently to profit or loss	**-1,479,133**	**0**	**-1,479,133**	**1,173,513**	**-2,881**	**1,170,632**
Net gains/losses from translation of financial statements of non-domestic companies	**-387,027**	**-2,031**	**-389,058**	**22,278**	**2,549**	**24,827**
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**37,564,254**	**95,991**	**37,660,245**	**27,635,627**	**-17,573**	**27,618,054**
Attributable to owners of the controlling company	**37,564,254**	**0**	**37,564,254**	**27,635,627**	**0**	**27,635,627**
Attributable to non-controlling interest	**0**	**95,991**	**95,991**	**0**	**-17,573**	**-17,573**

The notes to the financial statements in sections 18.4–18.12 form an integral part of these financial statements.

17.4. Consolidated statement of cash flows

(€)			Notes	2016	2015
A.	**Cash flows from operating activities**				
	a)	**Items of the income statement**	**37**	**49,825,078**	**54,416,596**
	1.	Net premiums written in the period	28	458,962,640	455,949,810
	2.	Investment income (other than financial income)	30	210,989	170,904
	3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables		24,727,042	23,909,835
	4.	Net claims payments in the period	32	-254,626,142	-253,784,934
	5.	Expenses for bonuses and rebates		-1,263,545	-580,091
	6.	Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	34	-150,471,848	-142,784,022
	7.	Investment expenses (excluding amortisation and financial expenses)		-133,069	-28,843
	8.	Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	35	-19,829,215	-21,703,543
	9.	Tax on profit and other taxes not included in operating expenses	36	-7,751,774	-6,732,520
	b)	**Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the income statement**		**-7,642,805**	**-9,205,052**
	1.	Change in receivables from primary insurance	9	169,946	2,722,257
	2.	Change in receivables from reinsurance	9	752,004	-6,873,365
	3.	Change in other receivables from (re)insurance business	9	669,194	1,146,740
	4.	Change in other receivables and other assets	9	-4,301,734	-694,694
	5.	Change in deferred tax assets	3	45,794	-1,169,476
	6.	Change in inventories		4,428	-9,635
	7.	Change in liabilities arising out of primary insurance	25	941,388	10,968
	8.	Change in liabilities arising out of reinsurance business	25	-3,446,714	6,873,365
	9.	Change in other operating liabilities	26	-4,410,572	-7,861,875
	10.	Change in other liabilities (except unearned premiums)	26	493,561	-2,198,888
	11.	Change in deferred tax liabilities	3	1,439,900	-1,150,449
	c)	**Net cash from/used in operating activities (a + b)**		**42,182,273**	**45,211,544**
B.	**Cash flows from investing activities**				
	a)	**Cash receipts from investing activities**		**1,577,964,374**	**1,125,832,461**
	1.	Interest received from investing activities		21,233,656	22,637,172
	2.	Cash receipts from dividends and participation in the profit of others		1,284,400	1,228,274
	3.	Proceeds from sale of intangible assets		5,664	1,745
	4.	Proceeds from sale of property and equipment		4,162,273	1,705,395
	5.	Proceeds from sale of financial investments		1,551,278,381	1,100,259,875
	b)	**Cash disbursements in investing activities**		**-1,563,064,826**	**-1,154,141,693**
	1.	Purchase of intangible assets		-1,022,400	-802,637
	2.	Purchase of property and equipment		-6,895,120	-2,522,994
	3.	Purchase of long-term financial investments		-1,555,147,306	-1,150,816,062
	c)	**Net cash from/used in investing activities (a + b)**		**14,899,548**	**-28,309,232**
C.	**Cash flows from financing activities**				
	b)	**Cash disbursements in financing activities**		**-27,853,565**	**-17,838,511**
	1.	Interest paid		-842,126	-1,161,059
	3.	Repayment of long-term financial liabilities		0	-5,375,567
	4.	Repayment of short-term financial liabilities		6,080	-2,031,583
	5.	Dividends and other profit participations paid		-12,398,157	-9,065,978
	6.	Own share repurchases		-14,619,362	-204,324
	c)	**Net cash from/used in financing activities (a + b)**		**-27,853,565**	**-17,838,511**
C2.	**Closing balance of cash and cash equivalents**			**33,939,160**	**4,710,904**
	x)	**Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)**		**29,228,256**	**-936,199**
	y)	**Opening balance of cash and cash equivalents**		**4,710,904**	**5,643,200**
	Opening balance of cash and cash equivalents – acquisition			0	3,902

The notes to the financial statements in sections 18.4–18.12 form an integral part of these financial statements.

17.5. Consolidated statement of changes in equity for the year ended 31 December 2016

(€)	I. Share capital	II. Capital reserves	III. Profit reserves: Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Credit risk reserve	Catastrophe equalisation reserve	Other
	1.	2.	3.	4.	5.	6.	7.
Closing balance in previous financial year	**71,856,376**	**43,388,724**	**11,242,766**	**10,319,347**	**976,191**	**11,225,068**	**89,191,057**
Opening balance in the financial period	**71,856,376**	**43,388,724**	**11,242,766**	**10,319,347**	**976,191**	**11,225,068**	**89,191,057**
Comprehensive income for the period, net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**
a) Net profit/loss for the period	0	0	0	0	0	0	0
b) Other comprehensive income	0	0	0	0	0	0	0
Net purchase/sale of treasury shares	0	0	0	14,619,362	0	0	0
Dividend payouts	0	0	0	0	0	0	0
Allocation of net profit to profit reserve	0	0	168,784	0	0	0	9,127,228
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-976,191	0	0
Merger of insurers (effect of exchange ratio and purchase of non-controlling interests)	0	292,717	0	0	0	0	0
Transfer of profit	0	0	0	0	0	0	0
Closing balance in the financial period	**71,856,376**	**43,681,441**	**11,411,550**	**24,938,709**	**0**	**11,225,068**	**98,318,285**

17.6. Consolidated statement of changes in equity for the year ended 31 December 2015

(€)	I. Share capital	II. Capital reserves	III. Profit reserves: Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Credit risk reserve	Catastrophe equalisation reserve	Other
	1.	2.	3.	4.	5.	6.	7.
Closing balance in previous financial year	**71,856,376**	**44,638,799**	**11,140,269**	**10,115,023**	**876,938**	**11,744,474**	**81,269,632**
Prior-period adjustments	**0**	**0**	**0**	**0**	**0**	**-822,582**	**0**
Opening balance in the financial period	**71,856,376**	**44,638,799**	**11,140,269**	**10,115,023**	**876,938**	**10,921,892**	**81,269,632**
Comprehensive income for the period, net of tax	0	0	0	0	0	0	0
a) Net profit/loss for the period	0	0	0	0	0	0	0
b) Other comprehensive income	0	0	0	0	0	0	0
Net purchase/sale of treasury shares	0	0	0	204,324	0	0	0
Dividend payouts	0	0	0	0	0	0	0
Allocation of net profit to profit reserve	0	0	102,497	0	0	0	7,921,425
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	99,253	303,176	0
Acquisition of non-controlling interest	0	-1,250,075	0	0	0	0	0
Transfer of profit	0	0	0	0	0	0	0
Closing balance in the financial period	**71,856,376**	**43,388,724**	**11,242,766**	**10,319,347**	**976,191**	**11,225,068**	**89,191,057**

The notes to the financial statements in sections 18.4–18.12 form an integral part of these financial statements.

IV. Fair value reserve	V. Reserve due to fair value revaluation	VI. Retained earnings	VII. Net profit/loss for the period	VIII. Treasury shares	IX. Translation reserve	X. Equity attributable to owners of the controlling company	XI. Non-controlling interest in equity	Total (14 + 15)
8.	**9.**	**10.**	**11.**	**12.**	**13.**	**14.**	**15.**	**16.**
12,721,705	**-37,472**	**23,490,926**	**24,849,678**	**-10,319,347**	**-3,467,155**	**285,437,863**	**963,815**	**286,401,678**
12,721,705	**-37,472**	**23,490,926**	**24,849,678**	**-10,319,347**	**-3,467,155**	**285,437,863**	**963,815**	**286,401,678**
4,737,243	**389,127**	**0**	**32,824,911**	**0**	**-387,027**	**37,564,254**	**95,991**	**37,660,245**
0	0	0	32,824,911	0	0	32,824,911	93,302	32,918,213
4,737,243	389,127	0	0	0	-387,027	4,739,343	2,689	4,742,032
0	0	0	-14,619,362	-14,619,362	0	-14,619,362	0	-14,619,362
0	0	-12,398,157	0	0	0	-12,398,157	0	-12,398,157
0	0	-139,699	-9,156,313	0	0	0	0	0
0	0	976,191	0	0	0	0	0	0
0	0	0	0	0	0	292,717	-298,797	-6,080
0	0	24,849,678	-24,849,678	0	0	0	0	0
17,458,948	**351,655**	**36,778,941**	**9,049,238**	**-24,938,709**	**-3,854,182**	**296,277,319**	**761,008**	**297,038,327**

IV. Fair value reserve	V. Reserve due to fair value revaluation	VI. Retained earnings	VII. Net profit/loss for the period	VIII. Treasury shares	IX. Translation reserve	X. Equity attributable to owners of the controlling company	XI. Non-controlling interest in equity	Total (14 + 15)
8.	**9.**	**10.**	**11.**	**12.**	**13.**	**14.**	**15.**	**16.**
18,594,753	**-146,012**	**15,652,780**	**17,474,558**	**-10,115,023**	**-3,489,433**	**269,613,133**	**1,915,490**	**271,528,623**
0	**0**	**-467,936**	**0**	**0**	**0**	**-1,290,518**	**0**	**-1,290,518**
18,594,753	**-146,012**	**15,184,844**	**17,474,558**	**-10,115,023**	**-3,489,433**	**268,322,615**	**1,915,490**	**270,238,105**
-5,873,048	108,540	0	33,377,857	0	22,278	27,635,627	-17,573	27,618,054
0	0	0	33,377,857	0	0	33,377,857	-12,406	33,365,451
-5,873,048	108,540	0	0	0	22,278	-5,742,230	-5,167	-5,747,397
0	0	0	-204,324	-204,324	0	-204,324	0	-204,324
0	0	-9,065,978	0	0	0	-9,065,978	0	-9,065,978
0	0	-102,497	-7,921,425	0	0	0	0	0
0	0	0	-402,429	0	0	0	0	0
0	0	0	0	0	0	-1,250,075	-934,102	-2,184,177
0	0	17,474,558	-17,474,558	0	0	0	0	0
12,721,705	**-37,472**	**23,490,926**	**24,849,678**	**-10,319,347**	**-3,467,155**	**285,437,863**	**963,815**	**286,401,678**

18. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18.1. General information

Reporting company

Sava, d.d. (hereinafter also “Sava Re” or “the Company”) is the controlling company of the Sava Re Group (hereinafter also “the Group”). It was established under the Foundations of the Life and Non-Life Insurance System Act, and was entered in the company register kept by the Ljubljana Basic Court, Ljubljana Unit (now Ljubljana District Court), on 10 December 1990. Its legal predecessor, Pozavarovalna skupnost Sava, was established in 1977.

The controlling company, Sava Re, d.d., has its registered office at Dunajska cesta 56, Ljubljana, Slovenia.

The Group transacts reinsurance business (19 % of gross premiums written), life insurance business (18 % of gross premiums written) and non-life insurance business (63 % of gross premiums written).

In 2016 the Group employed on average 2,465 people (2015: 2,491 employees). As at 31 December 2016, the Group employed 2,488 people (31/12/2015: 2,540[29] employees) on a full-time equivalent basis. Statistics on employees in regular employment by various criteria are given in section 10.3. “Recruitment and staffing levels”.

Number of employees by degree of formal education

	31/12/2016	31/12/2015
Primary and lower secondary education	208	225
Secondary education	1,003	1,087
Higher education	272	270
University education	912	877
Master’s degree and doctorate	93	81
Total	**2,488**	**2,540**

* The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group.

The controlling company has the following bodies: the general meeting of shareholders, the supervisory board and the management board.

The largest shareholder of the controlling company is Slovenian Sovereign Holding (previously the Slovenian Restitution Fund, SOD), which holds 25 % plus one share. The second largest shareholder is Zagrebačka banka (fiduciary account) with a 14.34 % stake. The table “Ten largest shareholders of Sava Re as at 31 December 2016” is followed by a note regarding the share of voting rights (section 5.6).

It is the responsibility of the controlling company’s management board to prepare the consolidated annual report and authorise it for issue to the supervisory board. The audited consolidated annual report is then approved by the supervisory board of the controlling company. If the annual report is not approved by the supervisory board, or if the management board and supervisory board leave the decision about its approval to the general meeting of shareholders, the general meeting decides on the approval of the annual report.

The owners have the right to amend the financial statements after they have been authorised for issue to the supervisory board by the Company’s management board.

18.2. Business combinations and overview of Group companies

In November 2016, a merger was finalised, combining four of the Group’s insurers (Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje) into Zavarovalnica Sava. In 2016, the controlling company recapitalised the life insurer Sava životno osiguranje (SRB) with € 0.25 million.

Below are presented individual items of the statement of financial position and the income statement based on the separate financial statements of subsidiaries and associates, as prepared in line with IFRSs, together with the controlling company’s share of voting rights.

29 The figure for 2015 differs from the one published in the 2015 annual report as it includes non-insurance companies of the Sava Re Group.

Subsidiaries as at 31 December 2016

(€)	Activity	Registered office	Assets	Liabilities	Equity as at 31/12/2016	Profit/loss for 2016	Total income	Share of voting rights (%)
Zavarovalnica Sava	insurance	Slovenia	1,139,425,984	981,596,820	157,829,165	24,685,939	314,884,660	99.74 %
Sava neživotno osiguranje (SRB)	insurance	Serbia	25,387,084	20,316,459	5,070,625	116,929	15,379,795	100.00 %
Illyria	insurance	Kosovo	14,538,265	10,841,158	3,697,107	-171,970	7,300,855	100.00 %
Sava osiguruvanje (MKD)	insurance	Macedonia	21,377,413	16,348,215	5,029,198	465,490	11,850,287	92.44 %
Sava osiguranje (MNE)	insurance	Montenegro	22,112,854	16,725,274	5,387,580	1,204,218	11,889,234	100.00 %
Illyria Life	insurance	Kosovo	7,866,533	4,213,820	3,652,713	128,266	1,813,319	100.00 %
Sava životno osiguranje (SRB)	insurance	Serbia	5,834,828	2,389,128	3,445,700	-206,975	1,612,217	100.00 %
Illyria Hospital	currently, no activities are performed	Kosovo	1,800,772	4,495	1,796,277	-84	0	100.00 %
Sava Car	research and analysis	Montenegro	481,718	36,624	445,094	39,883	708,948	100.00 %
ZS Vivus	consulting and marketing of insurances of the person	Slovenia	267,008	54,548	212,460	-103,271	598,713	99.74 %
ZM Svetovanje	insurance agent	Slovenia	33,767	128,609	-94,842	-122,823	162,848	99.74 %
Ornatus KC	ZM call centre	Slovenia	46,896	25,166	21,730	7,494	216,000	99.74 %
Sava Agent	insurance agent	Montenegro	2,322,627	2,129,557	193,070	72,788	641,735	100.00 %
Sava Station	motor research and analysis	Macedonia	281,143	32291	248,852	38,537	171,424	92.44 %
Moja naložba	pension fund	Slovenia	134,444,848	126,401,679	8,043,169	581,695	3,210,125	100.00 %

Subsidiaries as at 31 December 2015

(€)	Activity	Registered office	Assets	Liabilities	Equity as at 31/12/2015	Profit/loss for 2015	Total income	Share of voting rights (%)
Zavarovalnica Maribor	insurance	Slovenia	908,898,300	790,328,325	118,569,975	23,968,366	248,119,066	100.00 %
Zavarovalnica Tilia	insurance	Slovenia	165,237,444	136,299,998	28,937,446	4,319,400	78,633,144	100.00 %
Sava neživotno osiguranje (SRB)	insurance	Serbia	23,857,347	18,990,278	4,867,069	-579,545	14,748,214	100.00 %
Illyria	insurance	Kosovo	14,679,093	10,822,466	3,856,627	40,997	7,919,776	100.00 %
Sava osiguruvanje (MKD)	insurance	Macedonia	21,060,203	16,406,655	4,653,548	452,959	11,025,527	92.44 %
Sava osiguranje (MNE)	insurance	Montenegro	22,274,653	16,313,528	5,961,125	1,991,841	11,697,891	100.00 %
Illyria Life	insurance	Kosovo	6,923,299	3,402,448	3,520,851	82,020	1,470,572	100.00 %
Sava životno osiguranje (SRB)	insurance	Serbia	5,399,994	1,956,335	3,443,659	-288,182	1,279,062	100.00 %
Velebit usluge in liquidation	wholesale, retailer	Croatia	12,324,595	577	12,324,018	-763	11,107	100.00 %
Velebit osiguranje	insurance	Croatia	17,462,301	13,180,789	4,281,512	4,477	6,791,189	92.08 %
Velebit životno osiguranje	insurance	Croatia	9,365,330	6,173,033	3,192,297	-420,647	3,253,363	88.71 %
Illyria Hospital	currently, no activities are performed	Kosovo	1,800,772	4,495	1,796,277	-30	0	100.00 %
Sava Car	research and analysis	Montenegro	396,944	31,633	365,311	49,011	663,824	100.00 %
ZS Vivus	consulting and marketing of insurances of the person	Slovenia	405,873	74,894	330,979	123,966	1,099,289	100.00 %
ZM Svetovanje	insurance agent	Slovenia	48,831	20,850	27,981	-49150	28565	100.00 %
Ornatus KC	ZM call centre	Slovenia	35,540	21,137	14,403	3,068	226,724	100.00 %
Sava Agent	insurance agent	Montenegro	2,478,916	2,352,786	126,130	92,907	656,955	100.00 %
Sava Station	motor research and analysis	Macedonia	227,010	15,740	211,270	11,436	108,352	92.44 %
Moja naložba	pension fund	Slovenia	122,707,805	115,412,757	7,295,048	366,815	2,653,260	100.00 %

18.3. Consolidation principles

The controlling company prepared both separate and consolidated financial statements for the year ended 31 December 2016. The consolidated financial statements include Sava Re as the controlling company and all its subsidiaries, i.e. companies in which Sava Re holds, directly or indirectly, more than half of the voting rights and has the power to control the financial and operating policies so as to obtain benefits from their activities. It is also of key importance for the satisfaction of the conditions mentioned above that, in the event of a takeover of the insurance company, the controlling company obtains all required approvals and consents (from the Insurance Supervision Agency and other supervisory institutions).

All subsidiaries were fully consolidated in the Sava Re Group. The financial year of the Group is the same as the calendar year. Business acquisitions are accounted for by applying the purchase method of accounting. Subsidiaries are fully consolidated as of the date of obtaining control and they are deconsolidated as of the date that such control is lost. At the time of an entity's first consolidation, its assets and liabilities are measured at fair value. Any excess of the market value

over the share of the fair value of the acquired identifiable assets, liabilities and contingent liabilities is capitalised as goodwill.
When acquiring a non-controlling interest in a subsidiary (when the Group already holds a controlling interest), the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid, and attributes it to the owners of the controlling company. The difference between cost and the carrying amount of the non-controlling interest is accounted for in equity under capital reserves.
Profits earned and losses made by subsidiaries are included in the Group's income statement. Intra-group transactions (receivables and liabilities, expenses and income between the consolidated companies) have been eliminated.

18.4. Significant accounting policies

Below is a presentation of significant accounting policies applied in the preparation of the consolidated financial statements. The Group applied the same accounting policies in 2016 as in 2015, except for minor changes as described in section 18.5 "Changes in accounting policies and correction of errors".

18.4.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee's ("IFRIC"), as adopted by the European Union. They were also prepared in accordance with applicable Slovenian legislation (the Companies Act, ZGD-1).
Interested parties can obtain information on the results of operations of the Sava Re Group by consulting the annual report. Annual reports are available on Sava Re's website and at its registered office.
In selecting and applying accounting policies, as well as in preparing the financial statements, the management board of the controlling company aims at providing understandable, relevant, reliable and comparable accounting information.
The financial statements have been prepared based on the going-concern assumption.
The management board of the controlling company approved the financial statements on 31 March 2017.

18.4.2. Measurement bases

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, which are measured at fair value. Assets of policyholders who bear the investment risk are also measured at fair value.

18.4.3. Presentation currency, translation of events and items

The financial statements are presented in euros (€), rounded to the nearest euro. The euro is the functional and presentation currency of the Group. Due to rounding, figures in tables may not add up to the totals.
Assets and liabilities as at 31 December 2016 denominated in foreign currencies were translated into euros using the mid-rates of the European Central Bank (ECB) as at 31 December 2016. Amounts in the income statements were translated using the average exchange rate. As at 31 December 2015 and 31 December 2016, they were translated using the then applicable mid-rates of the ECB. Foreign exchange differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve. Since equity items in the statement of financial position at 31 December 2016 are translated using the exchange rates of the ECB on that day and since interim movements are translated using the average exchange rates of the ECB, any differences arising therefrom are disclosed in the equity item translation reserve.

18.4.4. Use of major accounting estimates and sources of uncertainty

Assumptions and other sources of uncertainty relate to estimates that require management to make difficult, subjective and complex judgements. Areas that involve major management judgement are presented below.

- The calculation of goodwill, its measurement and impairment is determined using the accounting policy under 18.4.8 and note 1.
- Deferred tax assets are recognised if Group entities plan to realise a profit in the medium-term projections.
- Receivables are impaired based on the accounting policy set out in section 18.4.18.2. Any recognised impairment loss is shown in note 9.
- Financial investments: Classification, recognition, measurement and derecognition, as well as investment impairment and fair value measurement are made based on the accounting policy set out in section 18.4.14. Movements in investments and their classification are shown in note 6, while the associated income and expenses, and impairment, are shown in note 30.
- Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are shown in sections 18.4.24–27. Movements in these provisions are shown in note 22.

18.4.5. Materiality

To serve as a starting point in determining a materiality threshold for the consolidated financial statements, the management used the equity of the Sava Re Group, specifically 2 % thereof as at 31 December 2016, which is € 5.9 million. The disclosures and notes required to meet regulatory or statutory requirements are presented, despite their being below the materiality threshold.

18.4.6. Cash flow statement

The cash flow statement has been prepared using the indirect method. The Group cash flow statement was prepared as the sum of all cash flows of all Group companies less any inter-Group cash flows. Cash flows from operating activities have been prepared based on data from the 2016 statement of financial position and income statement, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities have been disclosed based on actual disbursements. Items relating to changes in net operating assets are disclosed in net amounts.

18.4.7. Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the period. Profit reserves also include the treasury share reserve and the catastrophe equalisation reserve. As at 31 December 2016, the Group dismantled its credit risk equalisation reserve.

18.4.8. Intangible assets

Intangible assets, except goodwill, are stated at cost, including any expenses directly attributable to preparing them for their intended use, less accumulated amortisation and any impairment losses. Amortisation is calculated for each item other than goodwill separately, on a straight-line basis. Intangible assets are first amortised upon their availability for use.

Intangible assets in the Group include computer software, licences pertaining to computer software (their useful life is assumed to be five years) and goodwill described in greater detail below. This item also includes the value of assumed liabilities upon the integration of Zavarovalnica Maribor into the Sava Re Group, being the equivalent of the difference between the fair value of acquired contractual insurance rights and assumed insurance liabilities. The useful life of intangible assets mentioned above is also five years.

18.4.9. Goodwill

Goodwill arises on the acquisition of subsidiaries. In acquisitions, goodwill relates to the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company. If the excess is negative (badwill), it is recognised directly in the income statement. The recoverable amount of the cash-generating unit so calculated is compared against its carrying amount, including goodwill belonging to such unit. The recoverable amount is value in use.

For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made. Movement in goodwill is discussed in detail in note 1 of section 18.8.

Goodwill of associate companies is included in their carrying amount. Any impairment losses on goodwill of associate companies are treated as impairment losses on investments in associate companies.

Section 18.8, note 1, sets out the main assumptions for cash flow projections used in the calculation of the value in use.

18.4.10. Property and equipment

Property and equipment assets are initially recognised at cost, including cost directly attributable to acquisition of the asset. Subsequently, the cost model is applied: assets are carried at cost, less any accumulated depreciation and any impairment losses. For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made.
Property and equipment assets are first depreciated upon their availability for use. Depreciation is calculated for each item separately, on a straight-line basis. Depreciation rates are determined so as to allow the cost of property and equipment assets to be allocated to expenses over their estimated useful lives.

Depreciation rates of property and equipment assets

Depreciation group	Rate
Land	0 %
Buildings	1.3-2 %
Transportation	15.5-20 %
Computer equipment	33.0 %
Office and other furniture	10-12.5 %
Other equipment	6.7-20 %

The Group assesses annually whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.
Gains and losses on the disposal of items of property and equipment, calculated as the difference between sales proceeds and carrying amounts, are included in profit or loss. The costs of property and equipment maintenance and repairs are recognised in profit or loss as incurred. Investments in property and equipment assets that increase future economic benefits are recognised in their carrying amount.

18.4.11. Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, its sale must be highly probable and it must be available for immediate sale in its present condition. The Group must be committed to the sale and must realise it within one year. Such assets are measured at the lower of the assets' carrying amount or fair value less costs to sell, and are not depreciated.

18.4.12. Deferred tax assets and liabilities

Deferred tax assets and liabilities are amounts of income taxes expected to be recoverable or payable, respectively, in future periods depending on taxable temporary differences. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.
The Group establishes deferred tax assets for temporary tax non-deductible impairments of portfolio investments and for Group companies in liquidation. Deferred tax assets are additionally established for impairment losses on receivables, unused tax losses and for provisions for employees. Deferred tax liabilities were recognised for the credit risk and catastrophe equalisation reserves transferred (as at 1 January 2007) from technical provisions to profit reserves, which used to be tax-deductible when set aside (prior to 1 January 2007).
In addition, the Group establishes deferred tax assets and liabilities for that part of value adjustments recorded under negative fair value reserve. Deferred tax assets and liabilities are also accounted for actuarial gains/losses when calculating provisions for severance pay upon retirement. This is because actuarial gains/losses affect comprehensive income as well as the related deferred tax assets/liabilities.
Upon acquiring Zavarovalnica Maribor, the Group recognised deferred tax liabilities relating to property, equipment and intangible assets, representing the value of the assumed liabilities when Zavarovalnica Maribor joined the Group, being the difference between the fair value of the contractual insurance rights acquired and assumed insurance liabilities and the value of assets acquired.
The Group does not set off deferred tax assets and liabilities.
A deferred tax asset is recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In 2016, no deferred tax assets of this kind were recognised by the Group.
In 2016, deferred tax assets and liabilities were accounted for using tax rates that in the management's opinion will be used to actually tax the differences; these are from 9 % to 20 % (2015: the same).

18.4.13. Investment property

Investment property relates to assets that the Group does not use directly for carrying out its activities, but holds to earn rent or to realise capital gains at disposal. The Group uses the cost model and the straight-line depreciation method to account for investment property. Investment property is depreciated at the rate of 1.3–2 %. The basis for calculating the depreciation rate is the estimated useful life. All leases where the Group acts as lessor are cancellable operating leases. Payments and/or rentals received are recognised as income on a straight-line basis over the term of the lease. For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made. The Group assesses annually whether there is an indication of impairment of investment property. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of the value in use and the net selling price less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.
The Group measures the fair value of investment property using fair value models. The fair values of investment property in Slovenia were verified based on appraisals made by certified property appraisers.

18.4.14. Financial investments and funds for the benefit of policyholders who bear the investment risk

18.4.14.1. Classification

The Group classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss
This category consists of the following two sub-categories:
- financial assets held for trading, and
- financial assets designated as at fair value through profit or loss.

Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e. realising gains in the short term. Financial assets at fair value through profit or loss also comprise funds for the benefit of policyholders who bear the investment risk.

Held-to-maturity financial assets
Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Group can, and intends to, hold to maturity.

Available-for-sale financial assets
Available-for-sale financial assets are assets that the Group intends to hold for an indefinite period and are not classified as financial assets at fair value through profit or loss or held-to-maturity financial assets.

Loans and receivables (deposits)
This category includes loans and bank deposits with fixed or determinable payments that are not traded in any active market, and deposits with cedants. Under some reinsurance contracts, part of the reinsurance premium is retained by cedants as guarantee for payment of future claims, and generally released after one year. These deposits bear contractually agreed interest.

18.4.14.2. Recognition, measurement and derecognition

Available-for-sale financial assets and held-to-maturity financial assets are initially measured at fair value plus any transaction costs. Financial assets at fair value through profit or loss are initially measured at fair value, with any transaction costs recognised as investment expenses.
Acquisitions and disposals of financial assets, loans and deposits are recognised on the trade date.
Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in the statement of comprehensive income, and transferred to the income statement upon disposal or impairment. Gains and losses arising from fair value revaluation of financial assets at fair value through profit or loss are recognised directly in the income statement. Held-to-maturity financial assets are measured at amortised cost less any impairment losses.
Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the assets are transferred and the transfer qualifies for derecognition in accordance with IAS 39.
Loans and receivables (deposits), and held-to-maturity financial assets are measured at amortised cost.

18.4.14.3. Determination of fair values

The Group measures all financial instruments at fair value, except for deposits, shares not quoted in any regulated market, loans and subordinated debt (assuming that the carry-

ing amount is a reasonable approximation of fair value) and financial instruments held to maturity, which are measured at amortised cost. The fair value of investment property and land and buildings used in business operations and the fair value of financial instruments measured at amortised cost are set out in note 27. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
The Group determines the fair value of a financial asset on the valuation date by determining the price on the principal market based on:

- for stock exchanges: the quoted closing price on the stock exchange on the measurement date or on the last day of operation of the exchange on which the investment is quoted;
- for the OTC market: quoted closing bid CBBT price or, if unavailable, the Bloomberg bid BVAL on the valuation date or on the last day of operation of the OTC market;
- the price is calculated on the basis of an internal valuation model.

Assets and liabilities measured or disclosed at fair value in the consolidated financial statements are measured and presented in accordance with the IFRS 13 fair-value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.
Assets and liabilities are classified in accordance with IFRS 13 especially based on the availability of market information, which is determined by the relative levels of trading identical or similar instruments in the market, with a focus on information that represents actual market activity or binding quotations of brokers or dealers.
Investments measured or disclosed at fair value, are presented in accordance with the levels of fair value under IFRS 13, which categorises the inputs to measure fair value into the following three levels of the fair value hierarchy:

- Level 1 financial investments are those for which the fair value is determined based on quoted prices (unadjusted) in active markets for identical financial assets that the Company can access at the measurement date.
- Level 2 financial investments are those whose fair value is determined using data that are directly or indirectly observable other than the prices quoted within level 1.
- Level 3 comprise financial investments for which observed market data are unavailable. Thus the fair value is determined based on valuation techniques using inputs that are not directly or indirectly observable in the market.

The Group discloses and fully complies with its policy of determining when transfers between levels of the fair value hierarchy are deemed to have occurred. Policies for the timing of recognising transfers are the same for transfers into as for transfers out of any level. Examples of policies include: (a) the date of the event or change in circumstances that caused the transfer, (b) the beginning of the reporting period, (c) at the end of the reporting period.

18.4.14.4. Impairment of investments

A financial asset other than at fair value through profit or loss is impaired and an impairment loss incurred provided there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that such events have an impact on future cash flows that can be reliably estimated. The Group assesses whether there is any objective evidence that individual financial assets are impaired on a three-month basis (when preparing interim and annual reports).

18.4.14.4.1. Debt securities

Investments in debt securities are impaired if one of the following conditions is met:

- the issuer fails to make a coupon or principal payment, and it is likely that such liabilities will not be settled in the short term;
- the issuer is subject to a bankruptcy, liquidation or compulsory settlement procedure.

If the first condition above is met, an impairment loss is recognised in the income statement in the amount of the difference between the fair value and carrying amount of the debt security (if the carrying amount exceeds the fair value).
If the second condition above is met, an impairment loss is recognised in profit or loss, being the difference between the potential payment out of the bankruptcy or liquidation estate and the cost of the investment. The potential payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement proceedings, or, if such information is not available, based on experience or estimates made by credit rating or other financial institutions.
In respect of debt securities, only impairment losses recognised pursuant to indent one above (first condition) may be reversed. An impairment loss is reversed when the issuer's liability is settled. Impairment losses are reversed through profit or loss.

18.4.14.4.2. Equity securities

Investments in equity securities are impaired if on the statement of financial position date:

- their market price is more than 40 % below cost;
- their market price has remained below cost for more than one year;
- the model based on which the Group assesses the need for impairment of unquoted securities indicates that the asset needs to be impaired.

An impairment loss is recognised in the amount of the difference between market price and cost of financial assets.

18.4.15. Reinsurers' share of technical provisions

The amount of the reinsurers' share of technical provisions represents the proportion of gross technical provisions and unearned premiums for transactions that the Group ceded to reinsurers outside the Sava Re Group. The amount is determined in accordance with reinsurance (retrocession) contracts and in line with movements in the portfolio based on gross technical provisions for the business that is the object of these reinsurance (retrocession) contracts at the close of each accounting period.
The Group tests these assets for impairment on the reporting date. Assets retroceded to counterparties are tested strictly individually. For an estimation of retrocession risks, see section 18.7.3.6 "Risk management: Retrocession programme – non-life business)".

18.4.16. Investment contract assets and liabilities

Investment contract assets and liabilities only include the assets and liabilities from investment contracts of the company Moja naložba. Investment contracts asset comprise the assets supporting the liability funds "Moji skladi življenjsega cikla" for the transaction of voluntary supplementary pension business. Investment contract liabilities comprise liabilities arising out of pension insurance business under group and individual plans for voluntary supplementary pension insurance, under which the administrator maintains personal accounts for pension plan members.

18.4.17. Receivables

Receivables include receivables for premiums from policyholders or insurers as well as receivables for claims and commissions due from reinsurers.

18.4.17.1. Recognition of receivables

Receivables are initially recognised based on issued policies, invoices or other authentic documents (e.g. confirmed reinsurance or co-insurance accounts). In financial statements, receivables are reported in net amounts, i.e. net of any allowances made.
Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commissions relating to retrocession business are invoiced to cedants or reinsurers, respectively. For existing reinsurance contracts for which no confirmed invoices have been received from cedants or reinsurers, receivables are recognised in line with policies outlined in sections 18.4.30 "Net premiums earned" and 18.4.31 "Net claims incurred".

18.4.17.2. Impairment of receivables

The Group classifies receivables into groups with similar credit risk. It assesses receivables in terms of recoverability or impairment, making allowances based on payment history. Individual assessments are carried for all material items of receivables.
In addition to age, the method for accounting for allowances takes into account the phase of the collection procedure,

historical data on the percentage of write-offs made and the ratio of recoverability. Assumptions are reviewed annually.
Recourse receivables are recognised as assets only if, on the basis of a recourse claim, an appropriate legal basis exists (a final order of attachment, a written agreement with or payments by the policyholder or debtor, or subrogation for credit risk insurance). Even if subrogation is applicable, recourse receivables are recognised only after the debtor's existence and contactability have been verified. Recognition of principal amounts to which recourse receivables relate decreases claims paid. Group companies recognise impairment losses on recourse receivables based on past experience.
No receivables have been pledged as security.

18.4.18. Deferred acquisition costs

Acquisition costs that are deferred include the part of operating expenses associated with policy underwriting.
The Group discloses under deferred acquisition costs, mostly deferred commissions. These are booked commissions relating to the next financial year and are recognised based on (re)insurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line amortisation.

18.4.19. Other assets

Other assets include capitalised short-term deferred costs and short-term accrued income. Short-term deferred costs comprise stamps and prepayments of unearned commissions to counterparties.

18.4.20. Cash and cash equivalents

The statement of financial position and cash flow item "cash and cash equivalents" comprises:
- cash, including cash in hand, cash in bank accounts of commercial banks or other financial institutions, overnight deposits, and
- cash equivalents, including demand deposits and deposits with an original maturity of up to three months.

18.4.21. Equity

Composition:
- share capital comprises the par value of paid-up ordinary shares, expressed in euro;
- capital reserves comprise amounts in excess of the par value of shares;
- profit reserves comprise reserves provided for by the articles of association, legal reserves, treasury share reserves, catastrophe equalisation reserves and other profit reserves;
- treasury shares;
- fair value reserve;
- retained earnings;
- net profit/loss for the year;
- translation reserve;
- non-controlling interest.

Reserves provided for by the articles of association are used:
- to cover the net loss that cannot be covered (in full) out of retained earnings or other profit reserves, or if these two sources of funds are insufficient to cover the net loss in full (an instrument of additional protection of tied-up capital);
- to increase share capital;
- to regulate the dividend policy.

Profit reserves also include catastrophe equalisation reserves set aside pursuant to the rules on technical provisions and reserves as approved by appointed actuaries. These are tied-up reserves.
Pursuant to the Companies Act, the management board has the power to allocate up to half of the net profit to other reserves.

18.4.22. Subordinated liabilities

Subordinated liabilities represent a long-term liability of the Group in the form of a subordinated loan that was to be used by the Group for its expansion since 2006. The controlling company has applied with the supervisory agency for permission for the early repayment of the subordinated loan.

18.4.23. Classification of insurance contracts

The Group transacts traditional and unit-linked life business, non-life business and reinsurance business, the basic purpose of which is the transfer of underwriting risk. Underwriting risk is considered significant, if the occurence of an insured event would result in significant additional payments. Accordingly, the Group classified all such contracts concluded as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, which are insurance contracts. Since non-proportional reinsurance contracts provide for the payment of significant additional pay-outs in case of loss events, they also qualify as insurance contracts.

At the end of 2015, the controlling company acquired the Moja naložba pension company. As a result, the Group has assets and liabilities from investment contracts relating to this company.

18.4.24. Technical provisions

Technical provisions are shown gross in the statement of financial position. The share of gross technical provisions for the business ceded by the Group to non-Group reinsurers is shown in the statement of financial position under the asset item reinsurers' share of technical provisions. Technical provisions must be set at an amount that provides reasonable assurance that liabilities from assumed (re)insurance contracts can be met. The main principles used in calculations are described below.

Unearned premiums are the portions of premiums written pertaining to periods after the accounting period. Unearned premiums for primary insurance are calculated on a pro rata temporis basis at insurance policy level, except for decreasing term contracts (credit life). For reinsurance, data may be unavailable for calculation on insurance policy level; in such cases, nominal percentages are used at reinsurance account level for periods for which premiums are written.

Mathematical provisions for life insurance contracts represent the actuarial value of obligations arising from policyholders' guaranteed entitlements. In most cases, they are calculated using the net Zillmer method with the same parameters as those used for premium calculation, except for the discount rate applied, which was a technical interest rate not exceeding 1.5 %. Other parameters are the same as those used in the premium calculation. Calculated negative liabilities arising out of mathematical provisions are set to nil. The Zillmer method was used for amortising acquisition costs. The calculation of mathematical provisions is based on the assumption that the full agent commission was paid at conclusion of the contract, while agents actually receive the commission within two to five years depending on the policy term. The mathematical provision includes all deferred commission. The insurance company set aside deferred acquisition costs, showing them under assets in the event of commission prepayments, or shows the difference between the positive Zillmerised mathematical provision and the Zillmerised mathematical provision.

Provisions for outstanding claims (claims provision) are established in the amount of expected liabilities for incurred but not settled claims, including loss adjustment expenses. These comprise provisions for both reported claims calculated based on case estimates and claims incurred by not reported (IBNR) calculated using actuarial methods. Future liabilities are generally not discounted, with the exception of a relatively small part relating to annuities under certain liability insurance contracts. In such cases, the related provisions are established based on the expected net present value of future liabilities.

Provisions for incurred but not reported claims are calculated for the major part of the portfolios of primary insurers using actuarial methods based on paid claims triangles; the result is the total claims provision, and IBNR provision is calculated as the difference between the result of the triangle method and the provision based on case reserves. In classes where the volume of business is not large enough for reliable results from the triangle methods, the calculation is made based on either (i) the product of the expected number of subsequently reported claims and the average amount of subsequently reported claims or (ii) methods based on expected loss ratios. The consolidated IBNR provision also includes the IBNR provision for the part of business written outside the Sava Re Group. For this part of the portfolio, technical categories based on reinsurance accounts are not readily available; therefore, it is necessary to estimate items that are received untimely, including claims provisions, taking into account expected premiums and expected combined ratios for each underwriting year, class of business and form of reinsurance as well as development triangles for underwriting years succeeding accounted quarters; The IBNR provision is then established at the amount of the claims provision thus estimated.

The provision for outstanding claims is thus established based on statistical data and using actuarial methods; therefore, its calculation also constitutes a liability adequacy test.

The provision for bonuses, rebates and cancellations is intended for agreed and expected pay-outs due to good results of insurance contracts and expected payment due to cancellations in excess of unearned premiums.

Other technical provisions solely include the provision for unexpired risks derived from a liability adequacy test of unearned premiums, as described below.
Unearned premiums are deferred premiums based on coverage periods. If based on such a calculation, the premium is deemed to be inadequate, the unearned premium is also inadequate. Group companies carry out liability adequacy tests for unearned premiums at insurance class level. The calculation of the expected combined ratio in any class of insurance was based on premiums earned, claims incurred, commission expenses and other operating expenses. Where the expected combined ratio so calculated exceeds 100 %, thus revealing a deficiency in unearned premiums, a corresponding provision for unexpired risks within other technical provisions is set aside.

18.4.25. Technical provision for the benefit of life insurance policyholders who bear the investment risk

These are provisions for unit-linked life business. They comprise mathematical provisions, unearned premiums and provisions for outstanding claims. The bulk comprises mathematical provisions. Their value is the aggregate value of all units of funds under all policies, including all premiums not yet converted into units, plus the discretionary bonuses of guaranteed funds managed by us. The value of funds is based on market value as at the statement of financial position date.

18.4.26. Liability adequacy test (LAT)

The Group carries out adequacy testing of provisions set aside based on insurance contracts as at the financial statement date separately for non-life and life business. The liability adequacy test for non-life business is described in section 18.4.24 "Technical provisions".

Liability adequacy testing for life business
The liability adequacy test for life policies is carried out at a minimum at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses and expenses. For this purpose, the present value of future cash flows is used.
Discounting is based on the yield curve for euro area sovereign bonds at the statement of financial position date, but for EU Member States the risk-free yield curve of government bonds at the statement of financial position date, including a loading for the investment mix. Where reliable market data is available, assumptions (such as discount rate and investment return) are derived from observable market prices. Assumptions that cannot be reliably derived from market values are based on current estimates calculated by reference to the Group's own internal models (lapse rates, actual mortality) and publicly available resources (demographic information published by the local statistical bureau). For mortality, higher rates are anticipated than realised due to uncertainty.
Input assumptions are updated annually based on recent experience. Correlations between risk factors are not taken into account. The principal assumptions used are described below.
The liability adequacy test is performed on the policy or product level. If the test is performed on the policy level, the results are shown on the product-level, with products grouped by class of business. In addition, the segmentation in Croatia is done depending on the technical interest rate. Results of the test are then evaluated for each of the three groups separately. Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining any additional liabilities to be established. The net present value of future cash flows calculated using the assumptions described below is compared with the insurance liabilities, for each group separately. If this comparison shows that the carrying amount of the insurance liabilities is inadequate in the light of the estimated cash flows, the entire deficiency is recognised in profit or loss by establishing an additional provision.
Mortality and morbidity are usually based on data supplied by the local statistical bureau and amended by the Group based on a statistical investigation of its mortality experience. Assumptions for mortality and morbidity are adjusted by a margin for risk and uncertainty and are higher than actual.
Future contractual premiums are included and for most business also premium indexation is taken into consideration. Estimates for lapses and surrenders are made based on experience. Actual persistency rates by product type and duration are regularly investigated, and assumptions

amended accordingly. The actual persistency rates are adjusted by a margin for risk and uncertainty.
Estimates for future maintenance expenses included in the liability adequacy test are derived from current experience. For future periods, cash flows for expenses have been increased by a factor equal to the estimated annual inflation or have remained on the present level, taking into account the portfolio development.
Yield and the discount rate are based on the same yield curve; a loading for market development is added when discounting.

The liability adequacy test partly takes into account future discretionary bonuses due to the method of determining bonuses. The share of discretionary bonuses complies with internal rules and is treated as a discounted liability.
The Group estimated, for most of the life policies, the impact of changes in key variables that may have a material effect on the results of liability adequacy tests at the end of the year. Sensitivity analyses are prepared separately for traditional life business and investment-linked life business.

(€)	31/12/2016		31/12/2015	
	LAT test for traditional life policies	LAT test for unit-linked life policies	LAT test for traditional life policies	LAT test for unit-linked life policies
Base run	256,939,710	178,717,678	229,934,927	132,323,440
Investment return + 100 bp	245,369,854	175,187,656	227,492,710	227,793,500
Investment return – 100 bp	271,679,805	182,905,734	246,064,018	226,158,920
Mortality + 10 %	259,464,566	180,554,154	232,172,997	133,774,181
Policy maintenance expenses + 10 %	260,327,207	183,218,403	232,188,806	135,156,820

The base run is calculated using the same assumptions as for liability adequacy testing. Changes in variables represent reasonable possible changes which, had they occurred, would have led to significant changes in insurance liabilities at the statement of financial position date. The reasonable possible changes represent neither expected changes in variables nor worst case scenarios. A change in key variables would affect the corresponding component of the result in the same proportion.
The analysis has been prepared for a change in variable with all other assumptions remaining unchanged and ignores changes in values of the related assets. Sensitivity was calculated for an unfavourable direction of movement. The income statement and insurance liabilities (as show in the LAT test) are mostly impacted by changes in the investment return, while unit-linked business is also impacted by changes in operating expenses.

18.4.27. Other provisions

Employee benefits include severance pay upon retirement and jubilee benefits. Provisions for employee benefits are the net present value of the Group's future liabilities (calculated based on the above assumptions) proportionate to the years of service in the Group (the projected unit credit method). Pursuant to IAS 19 "Employee benefits", actuarial gains and losses arising on re-measurement of net liabilities were recognised in other comprehensive income.
These provisions are calculated based on personal data of employees: date of birth, date of commencement of employment in the Group, anticipated retirement, and salary. Each Group company calculates the amounts of severance pay upon retirement and jubilee benefits in accordance with local legislations, employment contracts and other applicable regulations. Expected pay-outs also include tax liabilities where payments exceed statutory non-taxable amounts.
The probability of an employee staying with the Group includes both the probability of death and the probability of employment relationship termination. Assumptions relating to future increases in salaries, severance pay upon retirement and jubilee benefits, as well as those relating to employee turnover depend on developments in individual markets and individual Group companies. The applied discount rate is based on the yield of long-term government bonds.

18.4.28. Other financial liabilities

Other financial liabilities include liabilities to banks regarding borrowings and are measured at amortised cost.

18.4.29. Liabilities from operating activities and other liabilities

Liabilities are initially recognised at amounts recorded in the relevant documents. Subsequently, they are increased or decreased in line with documents or decreased through payments. Other liabilities comprise: liabilities for claims and outwards retrocession premiums, liabilities for claims arising out of inwards reinsurance contracts, liabilities for retained deposits, current income tax liabilities, amounts due to employees, amounts due to clients and other short-term liabilities.

18.4.30. Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of cash inflows or increases in assets. The following are disclosed separately: gross (re)insurance premiums, co-insurance and retrocession premiums, and unearned premiums. These items are used to calculate net premiums written in the income statement. Income is recognised based on confirmed (re)insurance accounts or (re)insurance contracts.
Estimates are made on the basis of amounts in reinsurance contracts, which, according to due dates, have already accrued although the Group has yet to receive reinsurance accounts. Net premiums earned are calculated based on invoiced gross reinsurance premiums less invoiced premiums retroceded, both adjusted for the movement in gross unearned premiums and the change in reinsurers' share of unearned premiums. Premiums earned are estimated based on individual reinsurance contracts.

18.4.31. Net claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. Net claims incurred comprise gross claims paid net of recourse receivables and reinsurer's share of claims, i.e. amounts invoiced to retrocessionaires. The amount of gross claims paid includes the change in the claims provision, taking into account estimated claims and provisions for outstanding claims. Estimates are made on the basis of amounts in reinsurance contracts, which, according to due dates, have already accrued although the Group has yet to receive reinsurance accounts. Claims incurred are estimated based on estimated premiums and combined ratios for individual reinsurance contracts. These items are used to calculate net claims incurred in the income statement.

18.4.32. Investment income and expenses

The Group records investment income and expenses separately by source of funds, maintaining three separate registers: the non-life insurance investment register, the life insurance investment register and own funds investment register. Own fund investments support the Group's shareholders' funds; non-life insurance investments support technical provisions, and the life insurance investments support mathematical provisions.
Investment income includes:

- dividend income (income from shares);
- interest income;
- exchange gains;
- income from changes in fair value and gains on disposal of investments designated at fair value through profit or loss;
- gains on the disposal of investments of other investment categories and
- other income.

Investment expenses include:

- interest expense;
- exchange losses;
- expenses due to changes in fair value and losses on disposal of investments designated at fair value through profit or loss;
- losses on disposal of investments of other investment categories; and
- other expenses.

The mentioned income and expenses are disclosed depending on how the underlying investments are classified, i.e. investments held to maturity, at fair value through profit or loss, available for sale, loans and receivables, or deposits.
Interest income and expenses for investments classified as held to maturity or available for sale are recognised in the income statement using the effective interest rate method. Interest income and expenses for investments at fair value through profit or loss are recognised in the income statement using the coupon interest rate. Dividend income is recognised in the income statement when payout is authorised. Gains and losses on the disposal of investments represent the difference between the carrying amount of a financial asset and its sale price, or between its cost less

impairment, if any, and sale price in the case of investments available for sale.

18.4.33. Operating expenses

Operating expenses comprise:

- acquisition costs;
- change in deferred acquisition costs;
- other operating expenses classified by nature, as follows:
  a. depreciation/amortisation of operating assets,
  b. personnel costs including employee salaries, social and pension insurance costs and other personnel costs,
  c. remuneration of the supervisory board and audit committee; and payments under contracts for services,
  d. other operating expenses relating to services and materials.

18.4.34. Other technical income

Other technical income comprises income from reinsurance commission less the change in deferred acquisition costs relating to reinsurers, and is recognised based on confirmed reinsurance accounts and estimated commission income, taking into account straight-line amortisation.

18.4.35. Income tax expense

Income tax expense for the year comprises current and deferred tax. Current income tax is presented in the income statement, except for the portion relating to the items presented in equity. The same applies to deferred tax. Current tax is payable on the taxable profit for the year using the tax rates enacted by the date of the statement of financial position, as well as on any adjustments to tax liabilities of prior periods. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax amount is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the tax rates that have been enacted by the date of the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group income tax expense has been determined in accordance with the requirements of each member's local legislation. Statutory tax rates in various countries range from 9 to 20 %.

18.4.36. Segment reporting

Operating segments as disclosed and monitored were determined based on the different activities carried out in the Group. Segments have been formed based on similar services provided by companies (features of insurance products, market networks and the environment in which companies operate).

Subject to the nature, scope and organisation of work, CODM (Chief Operating Decision Maker) is a group composed of the management board members, the executive director of finance, the executive director of accounting, and the executive director of corporate finance and controlling. CODM can monitor quarterly the results of operations by segments. These results include technical results, net investment income and other aggregated performance indicators, as well as the levels of assets, equity and technical provisions. All figures reviewed by CODM are part of quarterly financial reports submitted to the management board.

Operating segments include reinsurance business, non-life insurance business, life insurance business, and the "other" segment. Performance of these segments is monitored based on different indicators, a common performance indicator for all segments being net profit calculated in accordance with IFRSs.

Asset items by operating segment as at 31 December 2016

31/12/2016 (€)	Reinsurance business	Non-life insurance business			Life insurance business			Other	Total
		Slovenia	International	Total	Slovenia	International	Total		
ASSETS	**267,386,560**	**558,344,159**	**108,616,807**	**666,960,966**	**708,777,140**	**22,980,335**	**731,757,476**	**5,084,177**	**1,671,189,179**
Intangible assets	**832,567**	**9,183,818**	**8,648,422**	**17,832,240**	**6,797,493**	**28,318**	**6,825,811**	**17,965**	**25,508,583**
Property and equipment	**7,753,202**	**26,624,935**	**10,572,398**	**37,197,333**	**2,253,664**	**2,501,372**	**4,755,036**	**2,181,556**	**51,887,127**
Deferred tax assets	**1,373,436**	**535,913**	**12,115**	**548,028**	**404,313**	**286**	**404,599**	**0**	**2,326,063**
Investment property	**3,122,076**	**262,150**	**4,507,268**	**4,769,418**	**42,292**	**0**	**42,292**	**0**	**7,933,786**
Financial investments	**163,850,914**	**445,217,876**	**66,510,447**	**511,728,322**	**335,671,470**	**18,958,899**	**354,630,369**	**25,634**	**1,030,235,239**
Funds for the benefit of policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**224,175,076**	**0**	**224,175,076**	**0**	**224,175,076**
Reinsurers' share of technical provisions	**10,295,442**	**13,017,657**	**4,916,098**	**17,933,756**	**212,623**	**2,808**	**215,431**	**0**	**28,444,628**
- from unearned premiums	1,366,908	4,761,288	1,046,476	5,807,764	27,343	1,561	28,904	0	7,203,576
- from provisions for claims outstanding	8,928,534	8,256,369	3,869,622	12,125,991	185,280	1,247	186,527	0	21,241,052
Investment contract assets	**0**	**0**	**0**	**0**	**121,366,122**	**0**	**121,366,122**	**0**	**121,366,122**
Receivables	**66,558,578**	**48,584,561**	**8,404,380**	**56,988,941**	**1,245,694**	**218,518**	**1,464,212**	**2,396,796**	**127,408,527**
Receivables arising out of primary insurance business	0	44,969,594	5,451,876	50,421,470	789,421	129,930	919,351	0	51,340,821
Receivables arising out of reinsurance and co-insurance business	66,410,191	753,335	840,606	1,593,941	7	1,443	1,450	0	68,005,582
Current tax assets	0	0	31,505	31,505	93,215	0	93,215	0	124,720
Other receivables	148,387	2,861,632	2,080,393	4,942,025	363,051	87,145	450,196	2,396,796	7,937,404
Deferred acquisition costs	**5,061,269**	**8,844,174**	**2,339,855**	**11,184,028**	**263,283**	**1,956**	**265,239**	**0**	**16,510,536**
Other assets	**549,258**	**446,398**	**253,288**	**699,686**	**27,238**	**57,475**	**84,713**	**33,187**	**1,366,844**
Cash and cash equivalents	**7,989,819**	**5,542,937**	**2,452,537**	**7,995,474**	**16,317,873**	**1,206,955**	**17,524,828**	**429,039**	**33,939,160**
Non-current assets held for sale	**0**	**83,740**	**0**	**83,740**	**0**	**3,748**	**3,748**	**0**	**87,488**

Equity and liabilities items by operating segment as at 31 December 2016

31/12/2016	Reinsurance business	Non-life insurance business			Life insurance business			Other	Total
		Slovenia	International	Total	Slovenia	International	Total		
EQUITY AND LIABILITIES	**337,751,922**	**507,092,478**	**113,868,354**	**620,960,833**	**683,829,982**	**23,878,746**	**707,708,728**	**4,767,694**	**1,671,189,179**
Equity	**124,184,574**	**72,461,354**	**38,107,048**	**110,568,403**	**46,629,669**	**11,101,256**	**57,730,925**	**4,554,423**	**297,038,327**
Equity attributable to owners of the controlling company	**124,184,574**	**72,176,574**	**37,821,766**	**109,998,341**	**46,442,467**	**11,101,256**	**57,543,723**	**4,550,679**	**296,277,319**
Non-controlling interest in equity	**0**	**284,780**	**285,282**	**570,062**	**187,202**	**0**	**187,202**	**3,744**	**761,008**
Subordinated liabilities	**23,570,771**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,570,771**
Technical provisions	**152,065,973**	**403,102,517**	**69,062,456**	**472,164,973**	**274,584,318**	**12,406,059**	**286,990,377**	**0**	**911,221,323**
Unearned premiums	25,841,746	105,946,948	24,860,726	130,807,674	885,914	143,162	1,029,076	0	157,678,496
Mathematical provisions	0	0	0	0	257,767,552	11,995,263	269,762,815	0	269,762,815
Provision for outstanding claims	126,013,482	289,221,942	43,724,075	332,946,017	15,930,852	267,634	16,198,486	0	475,157,985
Other technical provisions	210,745	7,933,627	477,655	8,411,282	0	0	0	0	8,622,027
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**226,952,211**	**41,989**	**226,994,200**	**0**	**226,994,200**
Other provisions	**331,802**	**5,666,532**	**708,474**	**6,375,006**	**1,358,699**	**14,829**	**1,373,528**	**541**	**8,080,877**
Deferred tax liabilities	**0**	**2,917,207**	**135,462**	**3,052,669**	**2,957,570**	**21,709**	**2,979,279**	**6,683**	**6,038,631**
Investment contract liabilities	**0**	**0**	**0**	**0**	**121,229,675**	**0**	**121,229,675**	**0**	**121,229,675**
Other financial liabilities	**104,279**	**0**	**289,356**	**289,356**	**0**	**170**	**170**	**191**	**393,996**
Liabilities from operating activities	**33,715,381**	**6,740,767**	**1,618,373**	**8,359,140**	**6,540,362**	**156,598**	**6,696,960**	**19,165**	**48,790,646**
Liabilities from primary insurance business	0	4,677,316	601,390	5,278,706	6,516,433	115,114	6,631,547	0	11,910,253
Liabilities from reinsurance and co-insurance business	33,641,254	1,838,071	784,281	2,622,352	23,929	5,163	29,092	0	36,292,698
Current income tax liabilities	74,127	225,380	232,702	458,082	0	36,321	36,321	19,165	587,695
Other liabilities	**3,779,142**	**16,204,101**	**3,947,185**	**20,151,286**	**3,577,478**	**136,136**	**3,713,614**	**186,691**	**27,830,733**

Asset items by operating segment as at 31 December 2015

31/12/2015 (€)	Reinsurance business	Non-life insurance business			Life insurance business			Other	Total
		Slovenia	International	Total	Slovenia	International	Total		
ASSETS	**254,300,035**	**549,029,484**	**106,821,645**	**655,851,129**	**670,204,392**	**21,709,410**	**691,913,802**	**5,216,094**	**1,607,281,060**
Intangible assets	**666,490**	**12,420,044**	**10,392,378**	**22,812,422**	**6,909,849**	**59,058**	**6,968,907**	**17,496**	**30,465,315**
Property and equipment	**2,455,343**	**27,257,037**	**10,555,501**	**37,812,538**	**2,284,427**	**2,482,888**	**4,767,315**	**2,182,115**	**47,217,311**
Deferred tax assets	**2,285,448**	**47,144**	**29,669**	**76,813**	**0**	**9,596**	**9,596**	**0**	**2,371,857**
Investment property	**2,999,742**	**292,527**	**4,455,919**	**4,748,446**	**43,633**	**248,423**	**292,056**	**0**	**8,040,244**
Financial investments*	**158,985,077**	**442,401,446**	**62,846,801**	**505,248,246**	**333,096,197**	**17,674,216**	**350,770,413**	**53,069**	**1,015,056,805**
Funds for the benefit of policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**214,153,769**	**35,348**	**214,189,117**	**0**	**214,189,117**
Reinsurers' share of technical provisions	**10,715,168**	**8,387,854**	**4,513,367**	**12,901,222**	**258,387**	**2,500**	**260,887**	**0**	**23,877,277**
- from unearned premiums	1,155,150	3,897,296	1,087,966	4,985,262	34,025	1,730	35,755	0	6,176,167
- from provisions for claims outstanding	9,560,019	5,164,348	3,425,401	8,589,750	224,362	770	225,132	0	18,374,900
- from other technical provisions	0	-673,790	0	-673,790	0	0	0	0	-673,790
Investment contract assets	**0**	**0**	**0**	**0**	**111,418,244**	**0**	**111,418,244**	**0**	**111,418,244**
Receivables	**69,471,292**	**48,160,043**	**8,884,189**	**57,044,232**	**1,447,432**	**205,633**	**1,653,065**	**2,495,340**	**130,663,929**
Receivables arising out of primary insurance business	0	44,597,018	6,000,526	50,597,544	804,966	108,257	913,223	0	51,510,767
Receivables arising out of reinsurance and co-insurance business	67,730,863	502,027	522,877	1,024,904	4	1,815	1,819	0	68,757,586
Current tax assets	1,633,620	0	100,378	100,378	0	0	0	296	1,734,294
Other receivables	106,809	3,060,998	2,260,408	5,321,406	642,462	95,561	738,023	2,495,044	8,661,282
Deferred acquisition costs	**6,054,860**	**9,278,328**	**2,285,249**	**11,563,578**	**372,199**	**1,848**	**374,047**	**0**	**17,992,485**
Other assets	**380,665**	**453,619**	**237,894**	**691,513**	**33,717**	**28,402**	**62,119**	**38,862**	**1,173,159**
Cash and cash equivalents	**285,950**	**227,028**	**2,620,678**	**2,847,706**	**186,538**	**961,498**	**1,148,036**	**429,212**	**4,710,904**
Non-current assets held for sale	**0**	**104,413**	**0**	**104,413**	**0**	**0**	**0**	**0**	**104,413**

* The financial investments item has changed in terms of operating segments as from the annual report 2015 where Sava Re assets supporting the Group's technical provisions were apportioned between the non-life and life operating segments based on the apportionment of net technical provisions for the rolling year (average of the past four quarters).

Equity and liabilities items by operating segment as at 31 December 2015

31/12/2015	Reinsurance business	Non-life insurance business			Life insurance business			Other	Total
		Slovenia	International	Total	Slovenia	International	Total		
EQUITY AND LIABILITIES	**319,248,239**	**509,097,555**	**107,846,455**	**616,944,010**	**653,172,141**	**17,783,022**	**670,955,163**	**133,649**	**1,607,281,060**
Equity	**106,779,925**	**84,194,774**	**35,984,127**	**120,178,901**	**52,401,346**	**7,123,007**	**59,524,353**	**-81,500**	**286,401,678**
Equity attributable to owners of the controlling company	**106,779,925**	**84,194,774**	**35,413,062**	**119,607,836**	**52,401,346**	**6,731,123**	**59,132,469**	**-82,366**	**285,437,863**
Non-controlling interest in equity	**0**	**0**	**571,065**	**571,065**	**0**	**391,884**	**391,884**	**866**	**963,815**
Subordinated liabilities	**23,534,136**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,534,136**
Technical provisions	**149,301,490**	**395,062,053**	**65,487,744**	**460,549,797**	**267,016,594**	**10,200,619**	**277,217,213**	**0**	**887,068,500**
Unearned premiums	29,416,771	102,286,783	23,467,843	125,754,626	750,713	117,570	868,283	0	156,039,680
Mathematical provisions	0	0	0	0	252,244,030	9,808,396	262,052,426	0	262,052,426
Provision for outstanding claims	119,762,737	283,785,036	41,168,951	324,953,987	14,021,851	274,080	14,295,931	0	459,012,655
Other technical provisions	121,982	8,990,234	850,950	9,841,184	0	573	573	0	9,963,739
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**207,554,738**	**35,348**	**207,590,086**	**0**	**207,590,086**
Other provisions	**347,277**	**5,233,222**	**565,043**	**5,798,265**	**1,232,293**	**10,704**	**1,242,997**	**1,156**	**7,389,695**
Deferred tax liabilities	**0**	**2,558,159**	**77,210**	**2,635,369**	**1,957,641**	**0**	**1,957,641**	**5,721**	**4,598,731**
Liabilities under investment contracts	**0**	**0**	**0**	**0**	**111,304,383**	**0**	**111,304,383**	**0**	**111,304,383**
Other financial liabilities	**91,896**	**3**	**114,148**	**114,151**	**0**	**0**	**0**	**0**	**206,047**
Liabilities from operating activities	**37,058,444**	**7,525,440**	**1,779,680**	**9,305,120**	**7,939,771**	**143,842**	**8,083,613**	**20,126**	**54,467,303**
Liabilities from primary insurance business	0	3,533,129	443,609	3,976,738	6,879,987	112,140	6,992,127	0	10,968,865
Liabilities from reinsurance and co-insurance business	37,058,444	1,651,833	1,000,059	2,651,892	25,610	3,466	29,076	0	39,739,412
Current income tax liabilities	0	2,340,478	336,012	2,676,490	1,034,174	28,236	1,062,410	20,126	3,759,026
Other liabilities	**2,135,071**	**14,523,904**	**3,838,503**	**18,362,407**	**3,765,375**	**269,502**	**4,034,877**	**188,146**	**24,720,501**

Income statement items by operating segment 2016

(€)	Reinsurance business
2016	**Total**
Net earned premiums	**92,407,367**
Gross premiums written	92,683,719
Written premiums ceded to reinsurers and co-insurers	-4,063,134
Change in gross unearned premiums	3,575,023
Change in unearned premiums, reinsurers' and co-insurers' shares	211,758
Income from investments in subsidiary and associate companies	**0**
Profit from investments in equity-accounted associate companies	0
Dividend income from associate companies	0
Other income	0
Investment income	**10,770,164**
Interest income	2,832,268
Other investment income	7,937,895
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	**0**
Other technical income	**5,876,767**
Commission income	350,140
Other technical income	5,526,627
Other income	**30,249**
Net claims incurred	**-60,612,921**
Gross claims payments less income from recourse receivables	-58,010,218
Reinsurers' and co-insurers' shares	4,279,527
Change in the gross claims provision	-6,250,745
Change in the provision for outstanding claims, reinsurers' and co-insurers' shares	-631,486
Change in other technical provisions	**-88,760**
Change in technical provisions for policyholders who bear the investment risk	**0**
Change in liabilities under financial contracts	**0**
Expenses for bonuses and rebates	**0**
Operating expenses	**-26,641,702**
Acquisition costs	-21,919,227
Change in deferred acquisition costs	-937,593
Other operating expenses	-3,784,882
Expenses for investments in subsidiary and associate companies	**0**
Impairment loss on goodwill	0
Loss arising out of investments in equity-accounted associate companies	0
Expenses for financial assets and liabilities	**-6,888,294**
Impairment losses on financial assets not at fair value through profit or loss	-219,300
Interest expense	-841,834
Other investment expenses	-5,827,161
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	**0**
Other technical expenses	**-6,132,612**
Other expenses	**-118,286**
Profit/loss before tax	**8,601,970**
Income tax expense	
Net profit/loss for the period	
Net profit/loss attributable to owners of the controlling company	
Net profit/loss attributable to non-controlling interest	

Non-life insurance business			Life insurance business			Other	
Slovenia	International	Total	Slovenia	International	Total	Total	Total
230,028,165	**49,514,238**	**279,542,403**	**79,688,726**	**6,463,030**	**86,151,756**	**0**	**458,101,526**
255,823,534	55,114,138	310,937,672	80,073,263	6,510,500	86,583,763	0	490,205,154
-22,802,334	-3,979,661	-26,781,995	-375,776	-21,609	-397,385	0	-31,242,514
-3,826,722	-1,551,542	-5,378,264	-572	-25,564	-26,136	0	-1,829,377
833,687	-68,697	764,990	-8,189	-297	-8,486	0	968,263
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
8,653,388	**2,544,594**	**11,197,982**	**10,340,841**	**827,256**	**11,168,096**	**0**	**33,136,242**
6,644,398	2,289,392	8,933,790	8,862,935	604,663	9,467,598	0	21,233,656
2,008,989	255,202	2,264,192	1,477,906	222,593	1,700,499	0	11,902,586
0	**0**	**0**	**17,958,458**	**220**	**17,958,678**	**0**	**17,958,678**
6,408,183	**3,334,000**	**9,742,184**	**2,363,657**	**63,588**	**2,427,245**	**191,213**	**18,237,409**
2,714,525	599,350	3,313,876	64,131	4,460	68,591	0	3,732,607
3,693,658	2,734,650	6,428,308	2,299,526	59,128	2,358,654	191,213	14,504,802
3,493,200	**1,565,425**	**5,058,625**	**998,517**	**28,851**	**1,027,368**	**373,391**	**6,489,633**
-138,468,083	**-21,750,251**	**-160,218,335**	**-45,803,940**	**-1,758,579**	**-47,562,520**	**0**	**-268,393,776**
-143,614,923	-22,536,325	-166,151,248	-43,515,230	-1,769,100	-45,284,330	0	-269,445,796
8,838,638	1,573,734	10,412,371	125,479	2,277	127,755	0	14,819,654
-6,642,428	-572,203	-7,214,631	-2,375,108	7,590	-2,367,518	0	-15,832,894
2,950,630	-215,456	2,735,173	-39,081	654	-38,427	0	2,065,260
2,444,546	**357,264**	**2,801,810**	**-5,821,095**	**-2,146,811**	**-7,967,906**	**0**	**-5,254,856**
0	**0**	**0**	**-17,435,867**	**-6,294**	**-17,442,161**	**0**	**-17,442,161**
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
-1,226,639	**-36,906**	**-1,263,545**	**0**	**0**	**0**	**0**	**-1,263,545**
-82,202,884	**-25,815,663**	**-108,018,548**	**-19,296,654**	**-3,263,771**	**-22,560,425**	**-2,342,811**	**-159,563,486**
-19,640,452	-4,450,848	-24,091,300	-4,918,605	-953,418	-5,872,023	0	-51,882,550
-460,361	117,050	-343,311	-193,658	108	-193,550	0	-1,474,454
-62,102,071	-21,481,865	-83,583,937	-14,184,391	-2,310,461	-16,494,852	-2,342,811	-106,206,482
0	**-1,693,699**	**-1,693,699**	**0**	**0**	**0**	**0**	**-1,693,699**
0	-1,693,699	-1,693,699	0	0	0	0	-1,693,699
0	0	0	0	0	0	0	0
-568,251	**-143,553**	**-711,804**	**-582,311**	**-374,006**	**-956,317**	**0**	**-8,556,415**
-168,831	-3,338	-172,169	-232	-202,324	-202,556	0	-594,025
0	-292	-292	0	0	0	0	-842,126
-399,420	-139,923	-539,343	-582,079	-171,682	-753,761	0	-7,120,264
0	**0**	**0**	**-11,255,208**	**-1,140**	**-11,256,348**	**0**	**-11,256,348**
-5,966,147	**-4,600,550**	**-10,566,697**	**-495,023**	**-116,508**	**-611,531**	**-97**	**-17,310,937**
-1,328,997	**-933,443**	**-2,262,440**	**-4,535**	**-42,652**	**-47,187**	**-90,365**	**-2,518,278**
21,266,481	**2,341,457**	**23,607,937**	**10,655,565**	**-326,816**	**10,328,748**	**-1,868,669**	**40,669,987**
							-7,751,774
							32,918,213
							32,824,911
							93,302

Income statement items by operating segment 2015

(€)	Reinsurance business
2015	Total
Net earned premiums	**85,901,717**
Gross premiums written	98,151,240
Written premiums ceded to reinsurers and co-insurers	-4,584,876
Change in gross unearned premiums	-7,795,885
Change in unearned premiums, reinsurers' and co-insurers' shares	131,238
Income from investments in subsidiary and associate companies*	**0**
Profit from investments in equity-accounted associate companies	0
Investment income*	**16,619,732**
Interest income	3,001,924
Other investment income	13,617,808
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	**0**
Other technical income	**7,779,194**
Commission income	600,935
Other technical income	7,178,259
Other income	**78,092**
Net claims incurred	**-65,429,062**
Gross claims payments, net of income from recourse receivables	-55,743,871
Reinsurers' and co-insurers' shares	1,742,263
Change in the gross claims provision	-11,605,397
Change in the provision for outstanding claims, reinsurers' and co-insurers' shares	177,944
Change in other technical provisions	**-121,984**
Change in technical provisions for policyholders who bear the investment risk	**0**
Expenses for bonuses and rebates	**353**
Operating expenses	**-22,788,128**
Acquisition costs	-21,132,677
Change in deferred acquisition costs	1,574,081
Other operating expenses	-3,229,532
Expenses relating to financial assets and liabilities	**-10,764,873**
Impairment losses on financial assets not at fair value through profit or loss	-472,904
Interest expense	-896,145
Other investment expenses	-9,395,824
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	**0**
Other technical expenses	**-7,179,853**
Other expenses	**-2**
Profit/loss before tax	**4,095,187**
Income tax expense	
Net profit/loss for the period	
Net profit/loss attributable to owners of the controlling company	
Net profit/loss attributable to non-controlling interest	

* The investment income and expenses items have changed in terms of operating segments as from the annual report 2015 where Sava Re investment income and expenses relating to the assets supporting the Group's technical provisions were apportioned between the non-life and life operating segments based on the apportionment of net technical provisions for the rolling year (average of the past four quarters).

Non-life insurance business			Life insurance business			Other	
Slovenia	International	Total	Slovenia	International	Total	Total	Total
228,659,991	47,359,234	276,019,225	79,780,905	5,857,758	85,638,663	0	447,559,605
249,987,788	52,041,312	302,029,100	80,211,496	5,872,721	86,084,217	0	486,264,557
-22,012,840	-3,275,193	-25,288,033	-432,128	-9,710	-441,838	0	-30,314,747
772,694	-952,989	-180,295	7,451	-4,089	3,362	0	-7,972,818
-87,651	-453,895	-541,547	-5,914	-1,164	-7,078	0	-417,387
0	0	0	942,560	0	942,560	0	942,560
0	0	0	165,067	0	165,067	0	165,067
9,633,056	2,541,442	12,174,498	10,096,554	687,071	10,783,625	0	39,577,855
7,719,750	2,374,243	10,093,993	9,001,163	540,093	9,541,255	0	22,637,172
1,913,306	167,199	2,080,505	1,095,391	146,978	1,242,369	0	16,940,683
0	0	0	26,631,437	351	26,631,788	0	26,631,788
7,502,721	2,591,968	10,094,689	1,126,786	155,658	1,282,444	162,274	19,318,601
2,376,486	638,696	3,015,182	39,235	1,552	40,787	0	3,656,904
5,126,235	1,953,272	7,079,507	1,087,551	154,106	1,241,657	162,274	15,661,697
2,063,800	1,152,361	3,216,161	975,205	42,857	1,018,062	335,662	4,647,977
-135,210,189	-19,074,134	-154,284,322	-51,627,348	-1,789,091	-53,416,439	0	-273,129,823
-143,752,543	-20,618,761	-164,371,304	-49,683,764	-1,704,195	-51,387,959	0	-271,503,134
14,714,811	1,127,840	15,842,651	132,331	956	133,287	0	17,718,201
7,686,753	657,836	8,344,589	-2,025,591	-86,621	-2,112,212	0	-5,373,020
-13,859,210	-241,049	-14,100,259	-50,324	769	-49,555	0	-13,971,870
1,228,463	-360,990	867,473	-34,238	-1,993,277	-2,027,515	0	-1,282,026
0	0	0	-11,020,253	-16,197	-11,036,450	0	-11,036,450
-522,609	-57,835	-580,444	0	0	0	0	-580,091
-79,277,652	-23,942,386	-103,220,038	-17,404,302	-3,146,570	-20,550,872	-2,359,335	-148,918,373
-19,498,258	-3,589,256	-23,087,514	-4,699,305	-934,187	-5,633,492	0	-49,853,683
-123,564	37,602	-85,962	-36,699	-29	-36,728	0	1,451,391
-59,655,830	-20,390,732	-80,046,562	-12,668,298	-2,212,354	-14,880,652	-2,359,335	-100,516,081
-1,239,166	-158,287	-1,397,454	-721,202	-122,374	-843,576	0	-13,005,902
-231,810	-8,246	-240,056	-470	-12,635	-13,106	0	-726,066
-256,755	-4,912	-261,667	0	-3,247	-3,247	0	-1,161,059
-750,601	-145,129	-895,730	-720,732	-106,491	-827,223	0	-11,118,777
0	0	0	-25,930,062	-724	-25,930,786	0	-25,930,786
-7,686,681	-4,901,632	-12,588,313	-142,553	-202,997	-345,550	-2	-20,113,718
-900,164	-655,804	-1,555,968	-595	-29,238	-29,833	-60,765	-1,646,568
24,251,570	1,557,259	25,808,829	12,672,894	-556,773	12,116,121	-1,922,167	40,097,971
							-6,732,520
							33,365,451
							33,377,857
							-12,406

Inter-segment business – inter-segment consolidation eliminations

	Reinsurance business		Non-life insurance business		Life insurance business		Other	
(€)	2016	2015	2016	2015	2016	2015	2016	2015
Net earned premiums	54,743,174	53,831,181	-429,653	326,417	0	0	0	0
Net claims incurred	-27,155,374	-33,945,666	327,231	-68,428	0	0	0	0
Operating expenses	-13,906,899	-11,490,606	-1,059,346	-1,144,537	-650,470	-1,144,487	-145,742	-121,342
Investment income	156,454	854,097	1,494	2,759	0	0	0	0
Other income	26,349	29,789	69,382	124,738	76	114	1,935,064	2,296,880

Cost of intangible and property and equipment assets by operating segment

	Reinsurance business		Non-life insurance business		Life insurance business		Other		Total	
(€)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Investments in intangible assets	287,714	287,039	1,006,107	892,544	32,941	267,323	1,916	6,191	1,328,678	1,453,097
Investments in property and equipment	5,656,548	223,830	4,368,242	6,604,888	651,604	38,567	63,841	177,411	10,740,234	7,044,696

Group insurance operations are focused on Slovenia and the Western Balkans (Serbia, Croatia, Montenegro, Macedonia and Kosovo), while its reinsurance operations are expanding to Asia, South America and Africa.

18.5. Changes in accounting policies and correction of errors

In 2015, the Group's cash and cash equivalents item in the statement of financial position and the cash flow statement comprised cash balances in bank accounts and overnight deposits. As of 1 January 2016, the Group changed the disclosure of cash assets to include cash equivalents. Cash equivalents were recognised as financial investments in the statement of financial position as at 31 December 2015. Thus, the cash and cash equivalents item in the statement of financial position and cash flow statement now comprises:

- cash, including cash in hand, cash in bank accounts of commercial banks or other financial institutions and overnight deposits, and
- cash equivalents, including demand deposits and deposits with an original maturity of up to three months.

Had this classification been used as at 31 December 2015, the level of cash and cash equivalents would have been higher by € 22 million and would have totalled € 26.7 million.

18.6. Standards and interpretations issued but not yet effective and new standards and interpretations

New and amended standards and interpretations

The accounting policies applied in the compilation of consolidated financial statements are the same as those used in the preparation of consolidated financial statements for the year ended 31 December 2015, except for adoption of new or amended standards that came into effect for annual periods beginning on or after 1 January 2016 and which are presented below.

Amendments to IFRS 11, Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively.

These amendments do not have any impact on the consolidated financial statements. In the reporting period, the Group completed a merger of four of its subsidiaries into one company but made no acquisitions of interests in joint operations.

Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the accounging policies in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively and do not have any impact on the Group's financial statements, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41, Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply.

The amendments are applied retrospectively and do not have any impact on the consolidated financial statements as the Group does not have any bearer plants.

Amendments to IAS 27, Equity Method in Separate Financial Statements

This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively.

These amendments will not have an impact on the Group's financial statements.

Amendments to IAS 1, Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments will not have an impact on the Group's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group's financial statements as the Group does not apply the consolidation exception.

Annual Improvements 2012–2014 Cycle

These improvements include:

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

Generally, the Company disposes assets (or disposal groups) either by sale or distribution between the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7, Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19, Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

New IFRS Standards and Interpretations adopted by the EU but not yet Effective

The standards and interpretations disclosed below have been issued and adopted by the EU; but are not yet effective up to the date of issuance of the consolidated financial statements. The Group intends to adopt these standards and interpretations, if applicable, in the preparation of its financial statements when they become effective. The Group did not early adopt any of the below standards.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which includes the requirements of all phases of the IFRS 9 improvement project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The revised standard introduces new requirements for the classification and measurement of financial assets and liabilities, the recognition of their impairment, and hedge accounting. The revised IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The adoption of the revised IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of its financial liabilities.

Regarding the implementation of IFRS 9, the Group will opt to apply the temporary exemption from this standard until the coming into force of IFRS 17 Insurance Contracts. The Group company carrying on pension insurance business will adopt the standard on 1 January 2018.

IFRS 15, Revenue from Contracts with Customers

The IASB issued IFRS 15 in May 2014. It establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early application is permitted.

The Group is currently assessing the impact of the new standard and plans to adopt it on the required effective date. As the Group's core business is insurance, we do not expect any significant impacts from this new standard.

New IFRS Standards and Interpretations not yet Adopted by the European Union

IFRS 16, Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, if the Group already reports in line with the requirements of IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 14, Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group estimates that the amendment will not have a significant impact on the consolidated financial statements.

IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Group estimates that the amendment will not have a significant impact on its consolidated financial statements.

IAS 7, Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1 January 2017. Early application is permitted. Application of amendments will result in additional disclosure provided by the Group.

Clarifications to IFRS 15, Revenue from Contracts with Customers

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition.

The amendments clarify:

- when a promised good or service is distinct within the context of the contract;
- how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators;
- when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time;
- the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract.
- Furthermore, they add two practical expedients to the transition requirements of IFRS 15 for:
  (a) completed contracts under the full retrospective transition approach; and
  (b) contract modifications at transition.

The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

The Group is required to apply these amendments retrospectively. Early application is permitted and must be disclosed.

The Group is currently assessing the impact of the clarification and plans to adopt it on the required effective date. As the Group's core business is insurance, we do not expect any significant impacts from these clarifications.

IFRS 2, Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 17, Applying IFRS 9 Financial Instruments with IFRS 17, Insurance Contracts – Amendments to IFRS 17

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The amendments are effective for periods beginning on or after 1 January 2018. The Group will opt to apply the temporary exemption from the application of IFRS 9 until the enforcement of IFRS 17.

Annual Improvements to IFRS Standards 2014–2016 Cycle

Include amendments to three Standards:

- IFRS 12 Disclosure of Interests in Other Entities: The standard is effective for annual periods beginning on or after 1 January 2018. The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- IFRS 1 First-time Adoption of International Financial Reporting Standards. The standard is effective for annual periods beginning on or after 1 January 2018. The amendments deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- IAS 28 Investments in Associates and Joint Ventures. The standard is effective for annual periods beginning on or after 1 January 2018. The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition,

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration

The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. IFRIC 22 is effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The interpretation can be applied either prospectively to all foreign

currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation in or the beginning of a prior reporting period presented as comparative information.
The Group is assessing the potential effect of the amendments on its consolidated financial statements.

Amendments to IAS 40, Transfers of Investment Property
The amendments clarify the requirements on transfers to, or from, investment property.
The amendments are effective for periods beginning on or after 1 January 2018. Early application is permitted.
Amendments are applied to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.
The Group is assessing the potential effect of the amendments on its consolidated financial statements.

18.7. Risk management

The most important risks that the Group members are exposed to are underwriting risks (underwriting process risk, pricing risk, claims risk, net retention risk, reserving risk and risks associated with the retrocession programme and life insurance business), market risks (interest rate risk, equity risk, currency risk, concentration risk and asset-liability mismatch risk), insolvency risk, credit risk and operational risk. To illustrate concentration risk for insurance contracts, a table showing a breakdown of insurance premiums by region is provided in section 18.4.36 "Information on operating segments".
The following table shows the changes in the Group's risk profile in 2016 compared to 2015.

Change in the Group's risk profile compared to the previous year

		Risk described in section
Operational risks	⬆	**18.7.5**
Strategic risks	⬆	**18.7.6**
Financial risks		**18.7.4**
Interest rate risk	⬆	18.7.4.1.1
Equity risk	➡	18.7.4.1.2
Currency risk	➡	18.7.4.1.4
Liquidity risk	➡	18.7.4.2
Credit risk	⬇	18.7.4.3
Life underwriting risks		**18.7.3.8**
Non-life underwriting risks		
Underwriting process risk	⬆	18.7.3.1
Pricing risk	➡	18.7.3.2
Claims risk	➡	18.7.3.3
Net retention risk	➡	18.7.3.4
Reserving risk	➡	18.7.3.5
Retrocession programme	➡	18.7.3.6
Estimated exposure to underwriting risks	➡	18.7.3.7

Key

⬆	The risk increased in 2016 compared to 2015.
➡	The risk remained broadly flat in 2016 compared to 2015.
⬇	The risk decreased in 2016 compared to 2015.

18.7.1. Capital adequacy and capital management of the Sava Re Group

On 1 January 2016[30], the Solvency II regime came into force. This new regime requires that a risk-based approach be used in the calculation of capital adequacy. For calculating its capital requirements under Solvency II, the Group uses the standard formula. The solvency capital requirement is calculated annually, while eligible own funds supporting solvency requirements are calculated on a quarterly basis.

Pursuant to regulations, the Group calculated its capital adequacy position as at 1 January 2016.

30 During the preparation of the audited annual report, the Sava Re Group is yet to obtain audited Solvency II data for 2016.

Capital adequacy of the Sava Re Group

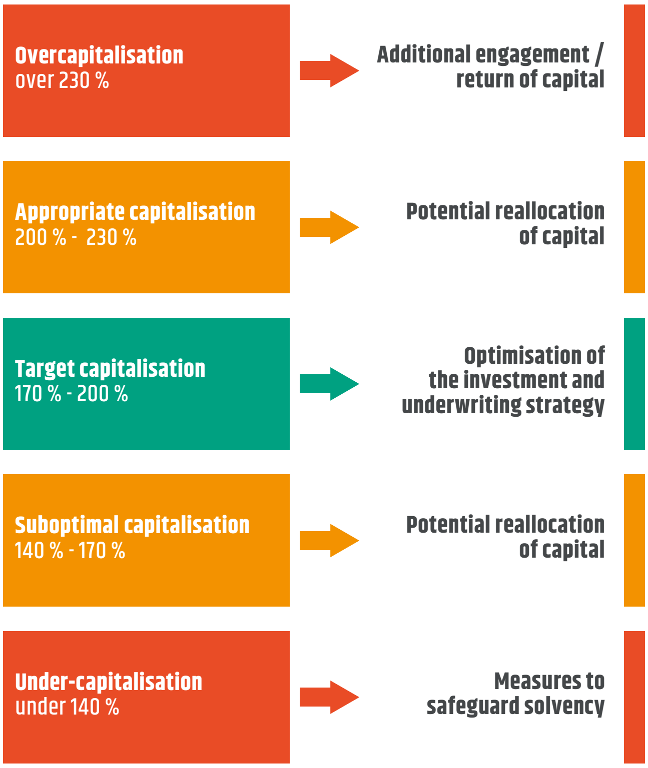
(€)	As at 1 January 2016 (unaudited)
Eligible own funds	402,631,227
Minimum capital requirement	108,404,852
Solvency capital requirement (SCR)	200,083,726
Solvency ratio	**201.2 %**

The Group's eligible own funds as at 30 September 2016 totalled € 415.6 million and were slightly higher than as at 1 January 2016. It needs to be noted that dividend payments for 2016 are not considered in quarterly calculated eligible own funds, while eligible own funds as at 31 December 2016 are net of the expected dividends. We assume that the level of eligible own funds at the end of the year is slightly above the level as at 1 January 2016.
We also expect that the solvency ratio as at 31 December 2016 is broadly on the same level as at 1 January 2016.
In addition to the regulatory solvency capital requirement, there are other criteria that impact the capital requirements of the Sava Re Group, of which the following are the most important:

- credit rating,
- properties of the standard formula (primarily structure and dependence on current market conditions) and
- resilience of capital adequacy to stress tests and scenarios.

With a view to establishing a framework for capital management, the Sava Re Group, as part of its risk strategy, set down criteria for the required level of the solvency ratio in accordance with the Solvency II regime. Thus, required solvency ratios are calculated in accordance with the standard formula for each Group company and the Group as a whole. The Group's capital management policy sets down its main capital management objectives and related key activities, the classification of eligible own funds, a description of the procedures to ensure an adequate capital structure and of the process of preparing a medium-term plan.
Here the Group's fundamental direction is optimal capital allocation and avoidance of over- and undercapitalisation of individual Group companies. We want to ensure that each Group company has a sufficient level of surplus over the solvency capital requirement to be able to absorb minor unexpected deviations and deviations related to the structure of the standard formula. We plan to regulate any major unexpected deviations using the surplus of eligible own funds of Sava Re.

The level of the solvency ratio required by the Sava Re Group as set down in the Group's risk strategy are the following:



We expect that, as at 31 December 2016, the Sava Re Group's solvency ratio was at the upper limit of the target capitalisation ratio range. And the Sava Re Group will be striving to maintain such a capital position in the future.

Detailed results of the Group's capital adequacy calculation as at 31 December 2016 will be presented in the Sava Re Group's Solvency and Financial Condition Report dated May 2017.

18.7.2. Risks arising from investment contracts

The Group's investment contracts include a group of life cycle funds called MOJI skladi življenjskega cikla (MY Lifecycle Funds), relating to supplementary pension business of Moja naložba during the accumulation phase. The company started managing the group of long-term business funds MOJI skladi življenjskega cikla on 1 January 2016. They comprise three funds: MOJ dinamični sklad (MY Dynamic Fund, MDF), and MOJ uravnoteženi sklad (MY Balanced Fund, MBF), and MOJ zajamčeni sklad (MY Guaranteed Fund, MGF). Investment contract liabilities are not included in the consolidated technical provisions item, and are, therefore, not included in the presentation of underwriting risk. Investment contract assets are not included in the consolidated financial investments item, and are, therefore, not included in the presentation of financial risks. In addition, there is a risk of failing to achieve the guaranteed return associated with investment contract assets and liabilities for the long-term business fund with a guaranteed return (MGF).

The members of the supplementary pension insurance scheme thus bear the entire investment risk arising out of the two funds MDF and MBF, while with the MGF, they bear the investment risk above the guaranteed return. The guaranteed return of the MGF is 60 % of the average annual interest rate on government securities with a maturity of over one year. Investment contract liabilities of MGF include liabilities for guaranteed funds (net contributions plus guaranteed return) and additional liabilities to cover any deficit resulting from the difference between the actual and the required rate of return (liability to exceed the return). For each member, the fund administrator keeps a personal account with accumulating net contributions and assets to exceed the guaranteed return (provisions); for MGF, additionally the guaranteed return is maintained. Liabilities to the members of the MDF and MBF move in line with the value of investments; members fully bear the investment risk. In years when the return in excess of the guaranteed return is realised, liabilities to the members of the MGF for assets in excess of the guaranteed levels of assets are increased; if, however, the realised return is below the guaranteed level, this part of liabilities decreases until the provision is fully exhausted. The described control of guaranteed return is carried out at the level of individual members' accounts. In the event that individual provisions of any account are not sufficient to cover the guaranteed assets, the company is required to make provisions for the difference, which may exceed 20 % of the capital. Any excess must be covered by the company's own funds (no such payments were required in 2016).

The risk of failing to realise guaranteed returns is managed primarily through the appropriate management of policyholder assets and liabilities, an appropriate investment strategy, an adequate level of the company's capital and through provisioning.

18.7.3. Underwriting risk

Underwriting risks are risks related to the main activity pursued by insurance companies, i.e. the assumption of risks from policyholders. Underwriting risks mainly comprise underwriting process risk (insurance and reinsurance), pricing risk, claims risk, retention risk and reserving risk. Some other underwriting risks, e.g. product design risk, economic environment risk and policyholder behaviour risk, may be relevant. However, these risks are not described in detail in this report as we believe that their effects are indirectly included in the main underwriting risks.

The basic purpose of both non-life and life insurance is the assumption of risk from policyholders. In addition to the risks assumed directly by the Group's primary insurance companies, the controlling company also indirectly assumes reinsurance risks from cedants outside the Group. The Group retains a portion of the assumed risks, retroceding any portions that exceeds its capacity. The Group classifies its insurance and reinsurance contracts as insurance and investment contracts within the meaning of IFRS 4. Below is a detailed outline of the risks arising out of insurance contracts, as required under IFRS 4.

Below, we first discuss the underwriting risks associated with non-life insurance and then the underwriting risks associated with life insurance.

18.7.3.1. Underwriting process risk – non-life business

The underwriting process risk is the risk of incurring financial losses caused by the Group's incorrect selection and approval of risks to be (re)insured. The Group mitigates this risk mainly by complying with established and prescribed underwriting procedures (especially with large risks); correctly determining the probable maximum loss (PML) for each risk; complying with internal underwriting guidelines and instructions; complying with the authorisation system; and having in place an appropriate pricing and reinsurance policy.

Most non-life insurance contracts are renewed annually. This allows insurers to amend the conditions and rates to take into account any deterioration in the underwriting results of entire classes of business, and for major policyholders in a timely manner.

Where significant risks are involved, underwriting experts of the controlling company collaborate with the underwriters of subsidiaries (and risks are mainly reinsured with the controlling company). Additionally, in respect of risks exceeding the limits set out in the reinsurance treaties, it is vital that adequate facultative reinsurance cover is obtained to upgrade the basic reinsurance programme.

Underwriting risks in excess of the Group's capacity are reduced through retrocession contracts.

We estimate that underwriting process risk relating to (re)insurance business is well managed, although it moderately increased in 2016 compared to 2015 due to an increase in premium volume. This is because net non-life premiums written by the Group grew by 2.8 % or € 10.0 million compared to 2015.

18.7.3.2. Pricing risk – non-life business

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re)insurance contracts. Principally, the Group monitors pricing risk by conducting actuarial analyses of loss ratios and identifying their trends and by making relevant corrections. When premium rates are determined for new products, the pricing risk can be monitored by prudently modelling loss experience, by comparing against market practice, and by comparing the actual loss experience against estimates.

In proportional reinsurance contracts, reinsurance premiums depend on insurance premiums, mostly set by ceding companies, while the risk premium also depends on the commission recognised by the reinsurer. Therefore, the Group manages this risk by having an appropriate underwriting process in place and by adjusting applicable commission rates. Likewise in respect of non-proportional reinsurance treaties, the pricing risk is managed by properly underwriting the risks to be reinsured and by determining adequate reinsurance premiums. Expected results of reinsurance contracts entered into on the basis of available information and set prices must be in line with target combined ratios; the adequacy of prices is verified based on the results by form and class of reinsurance.

Based on reasonable actuarial expectations of claims movements or loss ratios and expenses or expense ratios and assuming rational behaviour of all market participants, premium rates are adequate. However, subsidiaries are facing rising pricing risk mainly as a result of increasing discounts on motor policies. The Group considers the overall pricing risk to have been moderate in 2016 and similar to that in 2015.

18.7.3.3. Claims risk – non-life business

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. This risk may materialise due to incorrect assessments in the underwriting process, changes in court practice, new types of losses, increased claims awareness, changes in macroeconomic conditions and such like.

The claims risk is managed through designing appropriate policy conditions and tariffs, appropriate underwriting, monitoring risk concentration by site or geographical area and especially through adequate reinsurance and retrocession programmes.

Based on the realised loss events and their small impact on the Group's profit, we believe that the risk management measures set out are adequate and we estimate that the claims risk remained on a similar level as in the previous period.

18.7.3.4. Net retention risk – non-life business

Net retention risk is the risk that higher retention of insurance loss exposures will result in large aggregate losses due to catastrophic or concentrated claims experience. This risk may also materialise in the event of "shock losses", where a large number of insured properties are impacted. This may occur especially through losses caused by natural peril events, which are generally covered by a basic or an additional fire policy or by a policy attached to an underlying fire policy (e.g. business interruption policy or earthquake policy).

The Group manages this risk by way of adequate professional underwriting of the risks to be insured, partly by measuring the exposure to natural peril events by geographical area and designing appropriate reinsurance programmes. In managing these risks, due consideration is given to the fact that maximum net aggregate losses in any one year are affected both by the maximum net claim arising from a single catastrophic event as well as by the frequency of such events.

The Group considers the net retention risk to have remained essentially the same in both 2016 and 2015.

18.7.3.5. Reserve risk – non-life business

Reserve risk is the risk that technical provisions are not sufficient to cover the commitments of the (re)insurance business assumed.

When establishing technical provisions, the Group takes into account any underreserved technical provisions identified on the subsidiary company level, recognising any identified deficiencies at the Group level.

Unearned premiums are established by Group members on a pro rata basis at the insurance policy level. In addition to unearned premiums, the Group establishes provisions for unexpired risks for those classes of insurance where the combined ratio (loss ratio + expense ratio) is expected to exceed 100 %.

Due to the difference in reserving (set out later in the report) methodologies used in reinsurance and primary insur-

ance business, the run-off analysis was made separately for primary insurance and reinsurance business.
Subsidiaries analyse claims provision data by accident year, unlike reinsurers, who analyse data by underwriting year. The table below shows an adequacy test/analysis of gross claims provisions established by the Group for liabilities under non-life primary insurance contracts. Amounts were translated from local currencies into euros using the exchange rate prevailing at the end of the year (provisions) or in the middle of the year (claims paid).

Adequacy analysis of gross claims provisions for past years – non-life insurance business

(€ thousand)						**Year ended 31 December**
Estimate of gross liabilities	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
As originally estimated	263,714	290,548	292,573	311,615	302,652	312,718
Reestimated as of 1 year later	231,678	247,049	248,887	252,018	254,956	
Reestimated as of 2 years later	212,319	230,393	218,114	231,911		
Reestimated as of 3 years later	201,584	206,999	207,598			
Reestimated as of 4 years later	184,152	200,190				
Reestimated as of 5 years later	179,010					
Cumulative gross redundancy (latest estimate – original estimate)	**84,704**	**90,357**	**84,975**	**79,703**	**47,696**	
Cumulative gross redundancy as % of original estimate	32.1 %	31.1 %	29.0 %	25.6 %	15.8 %	

The cumulative gross redundancies for underwriting years from 2011 to 2014 increased compared to amounts at the end of the preceding year, which were 30.2 %, 28.8 %, 25.4 % and 19.1 % of original estimates.

Unlike for primary insurance business, the Group cannot use triangles based on accident year data for actuarial estimations of loss reserves in respect of reinsurance business. This is because ceding companies report claims under quota share contracts by underwriting years. As claims under one-year policies written during any one year may occur either in the year the policy is written or in the year after, aggregated data for proportional reinsurance contracts are not broken down by accident year. Furthermore, some markets renew treaty business during the year, resulting in additional discrepancies between the underwriting year and the accident year. Due to these specifics, the Group provides data on reinsurance claims paid by underwriting year. The estimated liabilities relate to claims that have already been incurred (reported and not reported) the settlement of which is provided for within the claims provision, and claims that have not yet been incurred the settlement of which is covered by unearned premiums, net of deferred commission.
The table below therefore shows originally estimated gross or net liabilities with claims provisions included at any year-end plus unearned premiums less deferred commission, which is compared to subsequent estimates of these liabilities.

Adequacy analysis of gross technical provisions for past years – reinsurance business

(€ thousand)						**Year ended 31 December**
Estimate of gross liabilities	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
As originally estimated	173,525	206,099	199,339	207,416	209,963	218,615
Reestimated as of 1 year later	169,377	179,499	170,890	183,590	191,260	
Reestimated as of 2 years later	155,552	169,304	160,099	174,579		
Reestimated as of 3 years later	155,334	158,181	156,865			
Reestimated as of 4 years later	145,246	155,634				
Reestimated as of 5 years later	143,162					
Cumulative gross redundancy (latest estimate – original estimate)	**30,363**	**50,464**	**42,473**	**32,838**	**18,703**	
Cumulative gross redundancy as % of original estimate	17.5 %	24.5 %	21.3 %	15.8 %	8.9 %	

The cumulative gross redundancies for underwriting years from 2011 to 2014 increased compared to amounts at the end of the preceding year, which were 16.3 %, 23.2 %, 19.7 % and 11.5 % of original estimates.
Due to the high cumulative redundancies of both the gross claims provision for non-life business and the gross technical provision for reinsurance business, we estimate that reserving risk at the end of 2015 is relatively small and similar to that at year-end 2015.

18.7.3.6. Retrocession programme – non-life business

To reduce the underwriting risks to which it is exposed, the Group must have in place an appropriate reinsurance programme (in particular a retrocession programme). These are designed so as to reduce exposure to possible single large losses or the effect of a large number of single losses arising from the same loss event. The Group considers its reinsurance programme (including proportional and non-proportional reinsurance) to be appropriate in view of the risks it is exposed to. Net retention limits as determined by the Group are only rarely used. The Group also concludes co-insurance and reciprocal contracts with other reinsurers to further disperse risks. The Group's net retained portfolio, relating to both domestic and foreign cedants, is further covered for potentially large losses through prudently selected non-proportional reinsurance programmes.
We believe that the reinsurance programme (and in particular the retrocession programme) is appropriate and similar in 2016 and 2015.

18.7.3.7. Estimated exposure to underwriting risks – non-life business

An increase in realised underwriting risk would essentially result in an increase in net claims. As the Group has in place an adequate retrocession programme, it is not exposed to the risk of a sharp increase in net claims, not even in case of catastrophic losses. A more likely scenario to which the Group is exposed to is the deterioration of the net combined ratio as a result of an increase in claims or expenses along with a decrease in premiums. If the Group's net combined ratio increased/decreased by 1 percentage point, its net profit before taxes would decrease/increase by € 3.7 million (2015: € 3.6 million).
The net retention limit per risk is set at € 4 million for the majority of non-life classes of insurance and a combined limit of € 4 million is used for the classes fire and natural forces, other damage to property and miscellaneous financial loss; a net retention limit of € 2 million is set for motor liability and for marine; for life policies, net retention limits are uniformly set at € 300,000. In principle, this caps any net claim arising out of any single loss event at a maximum of € 4 million. In case of any catastrophic event, e.g. flood, hail, storm or even earthquake, the maximum net claim payable is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is € 5 million for Group business as well as non-Group business. These amounts represent the maximum net claim on the Group level for a single catastrophic event based on reasonable actuarial expectations. In case of multiple catastrophic events in any single year, the non-proportional treaties include reinstatement provisions. Hence, the probability that a large number of catastrophic events would compromise the solvency position of the Group is negligible. As the number of catastrophic events randomly fluctuates, an increase in net claims must always be expected. This may negatively impact business results, but will not force the Group into insolvency. The risk that the underwriting risk may seriously compromise the Group's financial stability is deemed, according to our assessment, low and there are no significant differences between 2016 and 2015.

18.7.3.8. Underwriting risks in life insurance

Significant components of underwriting risk in life insurance are pricing risk and reserving risk. Pricing risk is the risk that expenses and incurred claims are higher than anticipated. Reserving risk represents the risk that the absolute level of technical provisions has been underestimated. Underwriting risk components of the life business include biometric risk (comprising mortality, longevity, morbidity and disability) and lapse risk. Lapse risk relates to unexpectedly higher or lower rate of policy lapses, terminations, changes to paid-up status (cessation of premium payment) and surrenders. The Group manages concentrated underwriting risks arising out of life policies through diversification, reinsurance and through underwriting and risk assessment procedures.
In order to manage underwriting risk, the Group regularly monitors mortality and morbidity rates, termination of life policies, looking for specific trends. In addition, it regularly conducts adequacy testing of provisions. The Group manages underwriting risk by employing underwriting procedures. Underwriting guidelines specify criteria and terms of risk acceptance. At given premium rates, risk assumption depends on the age at entry and the requested sum insured. The Group accepts risks if the insured's health, as a measure of risk quality, is in line with table data listing criteria for medical examinations. An additional factor in the assump-

tion of risks is lifestyle, including leisure activities and occupation. The Group has in place an appropriate reinsurance programme in order to limit the impact of underwriting risk; covers are generally on a proportional basis. The retention of insurers generally does not exceed € 50,000. Critical illness is reinsured with a foreign partner (Partner Re).
We estimate that the exposure to underwriting risk relating to life insurance business remained at the same level as in 2015.

18.7.4. Financial risks

In the course of their financial operations, individual Group companies are exposed to financial risks, such as market, liquidity and credit risk.

Insurers are not exposed to the investment risk relating to the life insurance business fund for which policyholders define the investment policy and also fully assume any financial risks. The exception is the ZS Varnost fund, for which Zavarovalnica Sava provides the guarantee for assets. For this reason, these assets are excluded from the below discussion of financial risks.
The investment contract assets and liabilities are linked with liability fund assets relating to SVPI managed by the Company for the benefit of policyholders. Risks arising out of investment contracts are described in section 18.7.2 "Risks relating to investment contracts".

18.7.4.1. Market risks

Financial investments exposed to market risks

(€) Type of investment	31/12/2016	In % at 31/12/2016	31/12/2015*	In % at 31/12/2015	Absolute difference 31/12/2016 / 31/12/2015	Change in structure 31/12/2016 / 31/12/2015
Deposits	24,737,308	2.3 %	53,052,297	5.2 %	-28,314,989	-2.8 %
Government bonds	595,132,601	56.2 %	502,263,965	48.9 %	92,868,636	7.3 %
Corporate bonds*	368,357,333	34.8 %	421,301,237	41.0 %	-52,943,904	-6.2 %
Shares	16,980,847	1.6 %	18,906,610	1.8 %	-1,925,763	-0.2 %
Mutual funds	16,531,807	1.6 %	12,758,487	1.2 %	3,773,320	0.3 %
bond and money market	9,565,440	0.9 %	341,158	0.0 %	9,224,282	0.9 %
mixed funds	1,703,918	0.2 %	1,730,327	0.2 %	-26,409	0.0 %
equity funds	5,262,449	0.5 %	10,020,709	1.0 %	-4,758,260	-0.5 %
other		0.0 %	666,292	0.1 %	-666,292	-0.1 %
Loans granted and other investments	659,484	0.1 %	1,075,435	0.1 %	-415,951	0.0 %
Deposits with cedants	7,835,859	0.7 %	5,698,774	0.6 %	2,137,085	0.2 %
Financial investments	**1,030,235,239**	**97.2 %**	**1,015,056,805**	**98.8 %**	**15,178,434**	**-1.5 %**
Investment property	7,933,786	0.7 %	8,040,244	0.8 %	-106,458	0.0 %
Cash and cash equivalents**	21,481,381	2.0 %	4,598,802	0.4 %	16,882,579	1.6 %
Investment portfolio	**1,059,650,406**	**100.0 %**	**1,027,695,851**	**100.0 %**	**31,954,555**	

* In 2015 corporate bonds did not include government guaranteed corporate bonds (€ 51.9 million); these were classified as government bonds.
** Fixed-income investments do not include cash and cash equivalents of policyholders who bear the investment risk (2016: € 12.5 million; 2015: € 0.1 million).

18.7.4.1.1. Interest rate risk

Interest rate risk is the risk of exposure to losses resulting from fluctuations in interest rates. These can cause a decrease in investments or an increase in liabilities.

Interest rate risk on the liabilities side only affects life business (mathematical provisions). Based on the prescribed methodology for the calculation of technical provisions for the purposes of preparing financial statements, on the nonlife business side only temporary and life annuities arising out of liability policies are interest-rate sensitive; however, any change in liabilities due to changes in the capitalised value of annuities as a result of a decline in interest rates is negligible and has therefore not been considered in those calculations.

Interest rate risk is measured through a sensitivity analysis[31], by observing the change in the value of investments in bonds or the value of mathematical provisions in case of a change in interest rates by one percentage point. The analysed investments do not include held-to-maturity bonds as they are measured at amortised cost and thus are not sensitive to changes in market interest rates.

The total value of investments included in the calculation as at 31 December 2016 was € 841.7 million (31/12/2015: € 760.2 million[32]). Of this, € 582.7 million (31/12/2015: € 524.3 million) relates to assets of non-life insurers (including Sava Re) and € 259.0 million (31/12/2014: € 235.9 million) to assets of life insurers.

The sensitivity analysis on the non-life segment at 31 December 2016 showed that in the event of an interest rate increase by one percentage point, the value of the interest rate sensitive investments would drop by € 22.0 million (31/12/2015: € 15.1 million) or 3.8 % (31/12/2015: 2.8 %). The table below shows in greater detail how the value of investments changes in response to a change in interest rates and the impact on the financial statements, where the impact on equity is a result of available-for-sale investments and the impact on profit or loss a result of investments classified as at fair value through profit or loss.

Results of the sensitivity analysis on interest-rate sensitive non-life investments

						31/12/2016
(€)			+100 bp			-100 bp
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	318,233,611	305,537,548	-12,696,063	318,233,611	332,153,233	13,919,622
Corporate bonds	257,788,563	248,745,357	-9,043,206	257,788,563	267,563,232	9,774,669
Bond mutual funds	6,641,937	6,391,268	-250,669	6,641,937	6,915,149	273,212
Total	**582,664,111**	**560,674,173**	**-21,989,938**	**582,664,111**	**606,631,614**	**23,967,503**
Effect on equity			-21,988,831			23,966,383
Effect on the income statement			-1,107			1,120

						31/12/2015
(€)			+100 bp			-100 bp
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	270,591,097	262,661,412	-7,929,685	270,591,097	278,981,430	8,390,334
Corporate bonds	253,729,871	246,542,793	-7,187,078	253,729,871	261,336,722	7,606,851
Bond mutual funds	0	0	0	0	0	0
Total	**524,320,968**	**509,204,205**	**-15,116,762**	**524,320,968**	**540,318,152**	**15,997,185**
Effect on equity			-15,062,203			15,936,565
Effect on the income statement			-54,559			60,620

The sensitivity analysis on interest-rate sensitive life insurance investments showed that in case of an increase in interest rates of one percentage point, the value would decrease by € 11.8 million or 4.6 % (31/12/2015: € 9.2 million;

31 In 2016 we changed the methodology of calculating the sensitivity analysis (change in interest rate by 100 bp, change by 200 bp in 2015), which is why the results of the sensitivity analysis for 2015 differ from those published in the annual report 2015.

32 The sensitivity analysis also covers assets included in the other investments item of the statement of financial position totalling € 0.3 million.

5.0 %). The table below shows in greater detail how the value of investments changes in response to a change in interest rates and the impact on the financial statements, where the impact on equity is a result of available-for-sale investments and the impact on profit or loss a result of investments classified as at fair value through profit or loss.

Results of the sensitivity analysis on interest-rate sensitive life investments

(€)						31/12/2016
			+100 bp			-100 bp
Type of security	**Value**	**Post-stress value**	**Change in value**	**Value**	**Post-stress value**	**Change in value**
Government bonds	144,665,631	137,373,425	-7,292,206	144,665,631	152,771,794	8,106,163
Corporate bonds	111,894,083	107,514,441	-4,379,642	111,894,083	116,583,394	4,689,311
Bond mutual funds	2,449,680	2,338,235	-111,445	2,449,680	2,571,854	122,174
Total	**259,009,394**	**247,226,101**	**-11,783,293**	**259,009,394**	**271,927,041**	**12,917,647**
Effect on equity			-11,643,534			12,763,133
Effect on the income statement			-139,759			154,514

(€)						31/12/2015
			+100 bp			-100 bp
Type of security	**Value**	**Post-stress value**	**Change in value**	**Value**	**Post-stress value**	**Change in value**
Government bonds	102,984,704	98,561,324	-4,423,380	102,984,704	107,748,180	4,763,477
Corporate bonds	132,874,383	128,140,060	-4,734,322	132,874,383	137,970,229	5,095,846
Bond mutual funds	0	0	0	0	0	0
Total	**235,859,087**	**226,701,384**	**-9,157,703**	**235,859,087**	**245,718,409**	**9,859,323**
Effect on equity			-8,880,436			9,609,241
Effect on the income statement			-277,267			250,082

The value of the mathematical provision included in the sensitivity analysis on the liabilities side amounted to € 262.7 million as at 31 December 2016 (31/12/2015: € 252.7 million) and did not include the part of mathematical provisions that is not interest-sensitive (31/12/2016: € 7.0 million, 31/12/2015: € 9.3 million). A sensitivity analysis for liabilities (mathematical provisions) showed that if the present value of mathematical provisions is calculated using an interest rate that is one percentage point higher, the mathematical provisions would decrease by € 17.3 million, or 6.6 % (31/12/2015: € 25.2 million; 10.0 %). By contrast, if the provision is calculated using a 1 percentage point lower interest rate, mathematical provisions would increase by € 9.0 million or 3.4 % (31/12/2015: € 6.7 million; 2.6 %).

Results of the sensitivity analysis on life insurance liabilities

					31/12/2016
		+100 bp			-100 bp
Value of mathematical provisions	**Post-stress value**	**Change in value**	**Value of mathematical provision**	**Post-stress value**	**Change in value**
262,716,953	245,369,854	-17,347,099	262,716,953	271,679,805	8,962,853

					31/12/2015
		+100 bp			-100 bp
Value of mathematical provision	Post-stress value	Change in value	Value of mathematical provision	Post-stress value	Change in value
252,714,686	227,492,710	-25,221,976	252,714,686	246,064,018	-6,650,668

The results of the sensitivity analysis on the assets and liabilities side show that assets are moderately more sensitive to changes in interest rates compared to 2015, while mathematical provisions are marginally less sensitive. In 2016, the Company continued matching the maturity of assets and liabilities to minimise the net impact of changes in interest rates on the Group's financial statements. The difference between the average maturity of assets and liabilities separately for life and non-life business is presented below.

The average maturity of bonds and deposits of non-life business was 3.74 years at year-end 2016 (31/12/2015: 3.23 years), while the expected maturity of non-life liabilities was 3.27 years (31/12/2014: 3.16 years).

The average maturity of bonds and deposits of life business was 4.03 years at year-end 2016 (31/12/2015: 3.85 years), while the expected maturity of life liabilities was 6.45 years (31/12/2014: 7.0 years).

Based on the above, we estimate that the interest rate risk at the Group and individual company level is well managed.

Compared to 2015, interest rate risk increased due to the increase in bond investments, which are sensitive to change in interest rates. It is important to note that due to the low-interest.rate environment, the companies are primarily exposed to reinvestment risk, and this is particularly important for the life insurance segment, which must meet its commitments regarding guaranteed returns.

18.7.4.1.2. Equity risk

Equity risk is the risk that the value of investments will decrease due to fluctuations in equity markets.

Equity risk affects shares, equity mutual funds and mixed mutual funds (in stress tests, we include half of the amount).

To assess the Group's sensitivity of investments to equity risk, we can assume a 10 % drop in the value of all equity securities, which would result in a decrease in the value of investments by € 2.3 million (31/12/2015: € 3.0 million).

Sensitivity assessment of investments to equity risk

(€)			31/12/2016			31/12/2015
Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
by -10 %	23,095,255	20,785,730	-2,309,526	29,792,483	26,813,234	-2,979,248

Unlike the bond portfolio, which moves inversely to interest rates, the value of equities and mutual funds changes linearly with stock prices. Thus, a 20 % fall in equity prices would reduce the value of investments by € 4.6 million (31/12/2015: € 6.0 million).

The Sava Re Group's exposure to equity risk slightly declined in 2016 compared to 2015.

18.7.4.1.3. Property risk

Exposure to property risk is monitored through a stress test assuming a 25 % drop in prices. The basis for the calculation is the balance of investment property.

Sensitivity assessment of investments to changes in real estate prices

(€)	31/12/2016			31/12/2015		
Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
by −25 %	7,933,786	5,950,340	-1,983,447	8,040,244	6,030,183	-2,010,061

Property risk did not change significantly from year-end 2015.

18.7.4.1.4. Currency risk

Currency risk is the risk that changes in exchange rates will decrease foreign investments or increase liabilities denominated in foreign currencies.

The Sava Re Group manages currency risk through the efforts of each Group member to optimise asset-liability currency matching.

Sava Re is the Sava Re Group member with the largest exposure to currency risk. Currency risk levels for Sava Re are explained in more detail in the notes to the financial statements of Sava Re in section 24.5.3.1.4 “Currency risk”.

Group companies whose local currency is the euro (companies based in Slovenia, Montenegro and Kosovo) have all liabilities and investments denominated in euro, meaning that these companies are not affected by currency risk. Other Group companies whose local currency is not the euro, transact most business in their respective local currencies, while due to Group relations, they are to a minor extent subject to euro-related currency risk.

We estimate that currency risk at the Group level remained the same in 2016 compared to 2015 since Sava Re is taking measures to reduce exposure to currency risk.

18.7.4.2. Liquidity risk

Liquidity risk is the risk that because of unexpected or unexpectedly high obligations, the Company will suffer a loss when ensuring liquid assets.

Individual Group members manage liquidity risk in line with the guidelines laid down in the Sava Re Group liquidity risk management policy. Each Group member carefully plans and monitors the realisation of cash flows (cash inflows and outflows), and in the case of liquidity problems, informs the parent company, which assesses the situation and provides the necessary funds to ensure liquidity.

Liquidity risk assumed by individual Group members is also reduced by regular measurement and monitoring based on selected indicators. An indicator of liquidity risk is the level of maturity matching of financial assets and liabilities.

The table below shows the value of financial investments and technical provisions covering life policies by year based on undiscounted cash flows, while the value of technical provisions covering non-life business is shown by year and expected maturity based on triangular development.

Maturity profile of financial assets and liabilities

(€)	Carrying amount as at 31/12/2016	Callable	Up to 1 year	1–5 years	Over 5 years	No maturity	Total 31/12/2016
Financial investments	**1,030,235,239**	**0**	**177,341,485**	**577,592,915**	**287,214,735**	**35,801,964**	**1,077,951,099**
- at fair value through profit or loss	9,176,694	0	3,330,220	2,794,152	1,607,755	1,737,641	9,469,768
- held to maturity	130,812,195	0	29,964,659	102,833,329	11,917,206	0	144,715,195
- loans and deposits	31,605,347	0	24,027,212	7,968,379	979,770	0	32,975,361
- available-for-sale	858,641,003	0	120,019,394	463,997,055	272,710,003	34,064,323	890,790,775
Reinsurers' share of technical provisions	**28,444,628**	**0**	**10,377,430**	**9,752,870**	**8,314,328**		**28,444,628**
Cash and cash equivalents	**21,481,381**	**15,765,619**	**5,715,762**				**21,481,381**
TOTAL ASSETS	**1,080,161,248**	**15,765,619**	**193,434,677**	**587,345,785**	**295,529,063**	**35,801,964**	**1,127,877,108**
Subordinated liabilities	23,570,771	0	23,570,771	0	0	0	23,570,771
Technical provisions	911,221,323	0	343,478,085	358,860,297	208,882,941	0	911,221,323
TOTAL LIABILITIES	**934,792,094**	**0**	**367,048,856**	**358,860,297**	**208,882,941**	**0**	**934,792,094**
Difference assets – liabilities	**145,369,154**	**15,765,619**	**-173,614,179**	**228,485,488**	**86,646,122**	**35,801,964**	**193,085,014**

(€)	Carrying amount as at 31/12/2015	Callable	Up to 1 year	1–5 years	Over 5 years	No maturity	Total 31/12/2015
Financial investments	**1,015,056,805**	**14,845,838**	**237,052,266**	**576,856,069**	**210,858,083**	**31,711,574**	**1,071,323,830**
- at fair value through profit or loss	18,403,777	0	4,334,194	10,713,772	1,014,006	1,728,772	17,790,744
- held to maturity	165,444,270	0	43,813,618	128,708,662	12,199,667	0	184,721,947
- loans and deposits	57,721,961	14,845,838	37,381,911	7,442,889	944,000	0	60,614,638
- available-for-sale	773,486,797	0	151,522,543	429,990,746	196,700,410	29,982,802	808,196,501
Reinsurers' share of technical provisions	**23,877,277**	**0**	**8,711,127**	**8,186,851**	**6,979,298**	**0**	**23,877,276**
Cash and cash equivalents	**4,598,802**	**0**	**4,598,802**	**0**	**0**	**0**	**4,710,904**
TOTAL ASSETS	**1,043,644,986**	**14,845,838**	**250,474,297**	**585,042,920**	**217,837,381**	**31,711,574**	**1,099,912,010**
Subordinated liabilities	23,534,136	0	11,767,068	11,767,068	0	0	23,534,136
Technical provisions	887,068,500	0	323,806,107	345,890,474	217,371,918	0	887,068,499
TOTAL LIABILITIES	**910,602,636**	**0**	**335,573,175**	**357,657,542**	**217,371,918**	**0**	**910,602,635**
Difference assets – liabilities	**133,042,350**	**14,845,838**	**-85,098,878**	**227,385,378**	**465,463**	**31,711,574**	**189,309,375**

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. In this regard, each EU-based Group company maintains a liquidity buffer of highly liquid assets accounting for at least 15 % of its investment portfolio. Highly liquid assets are intended to provide liquidity to meet any extraordinary liquidity requirements and are available on an ongoing basis. The other Group members manage their short-term liquidity requirements through cash in bank accounts and short-term deposits.

An additional liquidity cushion is provided by a credit line of € 10 million arranged by Sava Re with two commercial banks for the purpose of covering the liquidity needs of its Group members.

Based on the above, we estimate that liquidity risk is well managed both at the Group and individual company level and did not change significantly compared to year-end 2015.

18.7.4.3. Credit risk

Credit risk is the risk that issuers or other counterparties will fail to meet their obligations to the Company.

Assets exposed to credit risk include fixed-income investments (deposit investments, bonds, deposits with cedants, and cash and cash equivalents), receivables due from reinsurers and other receivables.

Exposure to credit risk

(€)	31/12/2016	31/12/2015
Type of asset	**Amount**	**Amount**
Fixed-income investments*	**1,017,544,482**	**987,228,800**
Debt instruments	988,227,242	976,931,224
Deposits with cedants	7,835,859	5,698,774
Cash and cash equivalents*	21,481,381	4,598,802
Receivables due from reinsurers	**32,775,804**	**28,509,096**
Reinsurers' share of technical provisions	28,444,628	23,877,277
Receivables for shares in claims payments	4,331,176	4,631,819
Other receivables	**123,077,351**	**126,032,110**
Receivables arising out of primary insurance business	51,340,821	51,510,767
Receivables arising out of co-insurance and reinsurance business (excluding receivables for shares in claims)	63,674,406	64,125,767
Current tax assets	124,720	1,734,294
Other receivables	7,937,404	8,661,282
Total exposure	**1,173,397,637**	**1,141,770,006**

* Fixed-income investments do not include cash and cash equivalents of policyholders who bear the investment risk (2016: € 12.5 million; 2015: € 0.1 million) and loans granted.

** The total exposure as at 31 December 2015 differs from the one disclosed in the 2015 annual report due to the inclusion of cash and cash equivalents in fixed-income investments. Fixed-income investments also include assets included in the other investments item of the statement of financial position, totalling € 0.3 million.

Credit risk due to issuer default

Credit risk for investments is estimated based on two factors:

- credit ratings used in determining credit risk for fixed-income investments[33] and cash assets[34];
- performance indicators for other investments.

Below we set out an assessment of credit risk for fixed-income investments (including debt securities, bank deposits, deposits with cedants, and cash and cash equivalents).

Fixed-income investments by issuer credit rating

(€)	31/12/2016		31/12/2015*		Change
Rated by S&P/Moody's	**Amount**	**As % of total**	**Amount**	**As % of total**	**As % of total**
AAA/Aaa	236,493,008	23.2 %	205,415,055	20.8 %	2.4 p.p.
AA/Aa	119,352,552	11.7 %	108,688,082	11.0 %	0.7 p.p.
A/A	393,031,864	38.6 %	153,827,334	15.6 %	23.0 p.p.
BBB/Baa	110,749,691	10.9 %	347,917,158	35.2 %	-24.4 p.p.
Less than BBB/Baa	91,343,721	9.0 %	99,527,769	10.1 %	-1.1 p.p.
Not rated	66,573,646	6.5 %	71,853,402	7.3 %	-0.7 p.p.
Total	**1,017,544,482**	**100.0 %**	**987,228,800**	**100.0 %**	

* Fixed-income investments as at 31 December 2015 also include cash and cash equivalents, which is why the value of fixed-income investments differs from the one published in the 2015 annual report.

33 It includes bonds, corporate bonds, deposits and deposits with cedants.
34 It includes cash and demand deposits.

As at 31 December 2016, fixed-income investments rated "A" or better accounted for 73.5 % of the total fixed-income portfolio (31/12/2015: 47.4 %). The share of the best rated investments improved in 2016 compared with the previous year. This is mostly due to the upgrading of the sovereign rating on the Republic of Slovenia from BBB/Baa to grade A/A and aligns with the investment policy, which requires that best-rated investments account to at least 45 % of the portfolio.

Credit risk due to issuer default includes concentration risk representing the risk of excessive concentration in a geographic area, economic sector or issuer.

The investment portfolio of the Sava Re Group is reasonably diversified in accordance with local law and Group internal rules in order to avoid large concentration in a certain type of investment, large concentration with any counterparty or economic sector or other potential forms of concentration.

Diversification of financial investments by industry

(€)	31/12/2016		31/12/2015		Change
Industry	Amount	As % of total	Amount	As % of total	As % of total
Banking	210,315,960	19.8 %	250,557,708	24.4 %	-4.5 p.p.
Government	595,184,920	56.2 %	505,721,930	49.2 %	7.0 p.p.
Finance & insurance	65,503,264	6.2 %	60,209,098	5.9 %	0.3 p.p.
Industry	62,439,993	5.9 %	81,306,392	7.9 %	-2.0 p.p.
Consumables	48,636,399	4.6 %	43,416,055	4.2 %	0.4 p.p.
Utilities	77,569,871	7.3 %	86,484,668	8.4 %	-1.1 p.p.
Total	**1,059,650,406**	**100.0 %**	**1,027,695,851**	**100.0 %**	

* Data as at 31 December 2015 also include cash and cash equivalents, and investment property, which is why figures differ from those published in the 2015 annual report.

The Sava Re Group's largest exposure by industry was to the government (31/12/2016: 56.2 %; 31/12/2015: 49.2 %). Exposure to the banking sector decreased by 4.5 percentage points year on year. Despite the decline in deposit investments, the Company invested them in covered bonds, thus increasing the weighting in this asset class.

Diversification of financial investments by region

(€)	31/12/2016		31/12/2015		Change
Region	Amount	As % of total	Amount	As % of total	As % of total
Slovenia	329,122,108	31.1 %	354,285,779	34.5 %	-3.4 p.p.
EU members	548,247,185	51.7 %	490,117,513	47.7 %	4.0 p.p.
Non-EU members	94,328,566	8.9 %	101,318,439	9.9 %	-1.0 p.p.
Russia and Asia	18,915,979	1.8 %	17,822,752	1.7 %	0.1 p.p.
Africa and the Middle East	2,619,478	0.2 %	1,813,076	0.2 %	0.1 p.p.
America and Australia	66,417,090	6.3 %	62,338,279	6.1 %	0.2 p.p.
Total	**1,059,650,406**	**100.0 %**	**1,027,695,851**	**100.0 %**	

* Data as at 31 December 2015 also include cash and cash equivalents, and investment property, which is why figures differ from those published in the 2015 annual report.

In terms of geography, the Sava Re Group is mostly exposed to EU Member States. Compared to the previous year, this proportion increased marginally as a result of the investment policy of reducing exposure to Slovenia. Exposure to Slovenia decreased by 3.4 percentage points and is in line with the strategy of reducing exposure to Slovenia-based issuers (a detailed overview is presented in the table below). Exposure to other regions remained broadly unchanged year on year.

Exposure to Slovenia

(€)	31/12/2016		31/12/2015		Change
Type of investment	Amount	As % of total	Amount	As % of total	As % of total
Deposits	3,102,766	0.3 %	14,748,737	1.4 %	-1.1 p.p.
Government bonds	256,793,600	24.2 %	253,521,143	24.7 %	-0.4 p.p.
Corporate bonds	34,225,105	3.2 %	57,192,680	5.6 %	-2.3 p.p.
Shares	16,269,334	1.5 %	18,213,225	1.8 %	-0.2 p.p.
Mutual funds	3,483,276	0.3 %	3,737,791	0.4 %	0.0 p.p.
Cash and cash equivalents	11,378,637	1.1 %	3,045,135	0.3 %	0.8 p.p.
Other	3,869,391	0.4 %	3,827,068	0.4 %	0.0 p.p.
Sum total	**329,122,108**	**31.1 %**	**354,285,779**	**34.5 %**	**-3.4 p.p.**

* Data as at 31 December 2015 also include cash and cash equivalents, and investment property, which is why figures differ from those published in the 2015 annual report.

As at 31 December 2016, exposure to the ten largest issuers was € 416.8 million, representing 39.3 % of financial investments (31/12/2015: € 370.1 million; 37.4 %). The largest single issuer of securities that the Group is exposed to is the Republic of Slovenia. As at 31 December 2016, the exposure to the ten largest issuers totalled € 235.2 million, representing 22.2 % of financial investments (31/12/2015: € 232.5 million; 22.9 %). No other corporate issuer exceeded the 1.3 % of financial assets threshold.

Based on the above, we estimate that, particularly through reducing their exposure to Slovenia and additional diversification by issuer, region and industry, the Sava Re Group companies managed their exposure to credit risk well in 2016, reducing it compared to 2015.

Counterparty default risk

The Group is also exposed to credit risk in relation to its retrocession programme. As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company, except for subsidiaries' reinsurance contracts with providers of assistance services and reinsurance with local reinsurers where required by local regulations. In such cases, local reinsurers transfer the risks to Sava Re, thus reducing the effective credit risk exposure relating to reinsurers below the one correctly shown according to accounting rules.

As at 31 December 2016 the total exposure of the Group to credit risk relating to reinsurers was € 32.8 million (31/12/2015: € 28.5 million), of which € 28.4 million (31/12/2015: € 23.9 million) relate to reinsurers' share of technical provisions and € 4.3 million (31/12/2015: € 4.6 million) to receivables for reinsurers' and co-insurers' shares in claims. As at 31 December 2016, the Group's total credit risk exposure relating to retrocessionaires represented 2.0 % of total assets (31/12/2015: 1.8 %).

Retrocession programmes are mostly placed with first-class reinsurers which have an appropriate rating (at least A- according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). Thus, at the end of 2016 and 2015, reinsurers rated A- or better accounted for over 60 % of the credit risk exposure relating to reinsurers. When classifying reinsurers by credit rating group, we considered the credit rating of each individual reinsurer, also where the reinsurer is part of a group. Often such reinsurers are unrated subsidiaries, while the parent company has a credit rating. We consider such a treatment conservative, as ordinarily a controlling company takes action if a subsidiary gets into trouble.

The tables below show the receivables ageing analysis, including the above-mentioned receivables for reinsurers' shares in claims.

Receivables ageing analysis

(€) 31/12/2016	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	36,688,644	9,345,376	3,085,627	49,119,647
Receivables due from insurance intermediaries	1,146,175	939,073	37,458	2,122,706
Other receivables arising out of primary insurance business	86,029	6,013	6,426	98,468
Receivables for premiums arising out of assumed reinsurance and co-insurance	51,162,568	9,624,769	2,450,504	63,237,841
Receivables for reinsurers' shares in claims	3,158,284	606,406	566,486	4,331,176
Other receivables from co-insurance and reinsurance	429,134	7,431	0	436,565
Other short-term receivables arising out of insurance business	1,810,502	823,955	16,449	2,650,906
Short-term receivables arising out of financing	777,099	68,724	71,995	917,818
Current tax assets	124,720	0	0	124,720
Other short-term receivables	3,830,310	439,853	98,517	4,368,680
Total	**99,213,465**	**21,861,600**	**6,333,462**	**127,408,527**

(€) 31/12/2015	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	37,098,068	9,065,428	3,781,876	49,945,372
Receivables due from insurance intermediaries	769,415	611,082	23,787	1,404,284
Other receivables arising out of primary insurance business	114,592	9,498	37,021	161,111
Receivables for premiums arising out of assumed reinsurance and co-insurance	51,218,164	9,610,038	2,535,256	63,363,458
Receivables for reinsurers' shares in claims	3,633,779	363,779	634,261	4,631,819
Other receivables from co-insurance and reinsurance	644,654	104,306	13,349	762,309
Other short-term receivables arising out of insurance business	2,149,062	1,088,551	82,487	3,320,100
Short-term receivables arising out of financing	689,965	70,247	53,103	813,315
Current tax assets	1,734,294	0	0	1,734,294
Other short-term receivables	3,711,991	266,571	549,305	4,527,867
Total	**101,763,984**	**21,189,500**	**7,710,445**	**130,663,929**

Receivables are discussed in greater detail in note 9.

18.7.5. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

For effective management of operational risk, Sava Re Group companies have established processes for identifying, measuring, monitoring, managing and reporting of such risks. Operational risk management processes have been set up also at the group level and are defined in the operational risk management policy.

Identification of operational risks is carried out regularly and in all organisational units of individual Group companies, especially in the introduction of new products, new regulatory requirements, changes in operations and the transformation of other internal and external factors that could affect the amount of operational risk. Each risk is assigned a risk owner, who is responsible for regular monitoring and reporting. The risk management department (if set up in the Group company) regularly informs the risk management committee and the management board of any new risks. The risk management department and risk management committee may propose measures for managing individual risks.

The Group measures (assesses) operational risks primarily in terms of qualitative assessment of the probability of loss and financial impact of risks listed in the risk register, while the EU-based companies additionally use scenario analysis (also as part of the ORSA). Risks of the risk register are individually assessed in terms of frequency and financial impact. Through regular risk assessments, the Group companies obtain insight into the level of their exposure to such risks.

Risk registers are maintained both at the company and Group level, where risks are assessed that either occur only at the Group level or are compounded at the level of the Group. Risk assessment is conducted in the same manner as at the individual company level.

Capital requirements for operational risk under the Solvency II standard formula are calculated by Group companies and the Group at least annually. This calculation of operational risk, however, has only limited practical value as the formula is not based on the actual exposure of the Group to operational risk, but on an approximation calculated mainly based on consolidated premiums, provisions and expenses.

Group companies regularly report on operational risks to the risk management committee, each company's management board and the Group's risk management service. Significant changes in the operational risk profile must be reported immediately.

To manage operational risk, the Group companies have in place an effective internal control system and a business process management system.

Operational risk generally arises together with other risks (e.g. underwriting risk, market risk), having a tendency to compound them. Inconsistencies in the underwriting process, for example, may significantly increase underwriting risks.

The main measures of operational risk management on the individual company and the Group level include:

- maintaining an effective business processes management system and system of internal controls;
- awareness-raising and training of all staff on their role in the implementation of the internal control system and management of operational risks;
- implementing security policies regarding information security;
- having in place a business continuity plan for all critical processes in order to minimise the risk of unpreparedness for incidents and external events and any resulting business interruption;
- having in place IT-supported processes and controls in the key areas of business of every Group company;
- internal audit reviews.

Operational risk categories are not among the most important risk types that the Group is exposed to. Nevertheless, some of them are quite important, such as:

- risk associated with supervision and reporting,
- risk of internal and external fraud,
- risk of loss of key, professional and high-potential staff,
- risk of physical loss of assets due to natural disaster or fire,
- risk of loss relating to information technology.

We estimate that in 2016, the Group's exposure to operational risk slightly increased compared to 2015 mainly because of its complex project of merging four of its EU-based insurers and the setting up of business processes at Zavarovalnica Sava.

18.7.6. Strategic risk

Strategic risk is the risk of an unexpected decrease in a Group's value due to the adverse effects of management decisions, changes in business and legal environment and market developments. Such adverse events could impact the Group's income and capital adequacy.

The Sava Re Group is exposed to a variety of internal and external strategic risks. The main strategic risks include as below:

- risks associated with the merger of the Group's insurers in 2016,
- strategic investment risk,
- political risk,
- risk of strategic direction regarding the Company's business,
- reputation risk,
- regulatory risk.

Such risks are identified by individual organisational units of Group companies, management boards, risk management committees and risk management functions. Strategic risks are additionally identified by the Group's risk management committee.

Strategic risks are by their nature very diverse, they are difficult to quantify and are heavily dependent on diverse (external) factors.

Strategic risks are not included in the calculation of the solvency capital requirement in accordance with the Solvency II standard formula. The Group's strategic risks are assessed qualitatively in the risk register by assessing the frequency and potential financial impact of each event. In addition, key strategic risks are evaluated using qualitative

scenario analysis (also as part of the own risk and solvency assessment). Based on the combination of both analyses, the Group obtains an overview of the extent and change in the exposure to this type of risk.
The management of strategic risks is mainly through prevention. Individual strategic risks are mitigated through preventive activities. Strategic risks are also managed through on-going monitoring of the realisation of short- and long-term goals, by monitoring regulatory changes and market development.

18.7.6.1. Reputation risk

The Group is aware of the importance of its reputation for the realising of its business goals and achieving strategic plans in the long term. Therefore, the risk strategy identifies reputation risk as one of the Group's key risks. Group companies must constantly seek to minimise the possibility of actions that could have a major impact on the reputation of an individual company or the Group.
In addition, Group companies introduce activities that mitigate reputation risk, such as: setting up fit & proper procedures for staff in key positions, a systematic functioning of the compliance function, business continuity plans, stress tests and scenarios, and planning appropriate activities and responses to events.
Reputation risk is also managed through seeking to improve services, timely and accurate reporting to supervisory bodies and well-planned publicity. A crucial factor in ensuring good reputation and successful performance is the quality of services; therefore, each and every employee is responsible for improving the quality of services and customer satisfaction.

18.7.6.2. Regulatory risk

The Group mitigates and manages regulatory risk through ongoing monitoring of legal changes and assessing such potential effects on operations in the short and longer term. All Group companies have established compliance functions to monitor and assesses the adequacy and effectiveness of regular procedures and measures taken to remedy any deficiencies in the Group's compliance with the law and regarding other commitments.
We estimate that in 2016 the Group was particularly exposed to the risks associated with the merger of its EU-based insurers, which could have a long-term impact on the Group and its individual members. The merger of insurers was conducted as a project with defined risks related to the process. Project risks were regularly monitored by the Group's risk management function and risk management committee in order to ensure timely identification and resolving of difficulties that arose during the project.
Strategic risk increased compared to 2015 because of certain major projects that were running in the Group, especially the project of combining four EU-based insurers.

18.8. Notes to the consolidated financial statements – statement of financial position

1) Intangible assets

Movement in cost and accumulated amortisation/impairment losses of intangible assets

(€)	Software	Goodwill	Property rights	Deferred acquisition costs	Other intangible assets	Total
Cost						
01/01/2016	9,774,061	16,242,284	1,523,339	3,509,404	15,128,179	46,177,266
Additions	1,100,681	0	0	0	227,997	1,328,678
Disposals	-374,356	0	-1,523,339	-84,741	0	-1,982,436
Impairments	0	-1,693,699	0	0	-15,232	-1,708,931
Exchange differences	-18,356	0	0	0	-236	-18,592
31/12/2016	10,482,029	14,548,585	0	3,424,663	15,340,708	43,795,985
Accumulated amortisation and impairment losses						
01/01/2016	6,727,975	0	983,975	0	8,000,000	15,711,950
Additions	940,998	0	0	0	3,000,000	3,940,998
Disposals	-365,582	0	-983,975	0	0	-1,349,557
Exchange differences	-15,990	0	0	0	0	-15,990
31/12/2016	7,287,402	0	0	0	11,000,000	18,287,402
Carrying amount as at 01/01/2016	**3,046,084**	**16,242,284**	**539,364**	**3,509,404**	**7,128,179**	**30,465,315**
Carrying amount as at 31/12/2016	**3,194,627**	**14,548,585**	**0**	**3,424,663**	**4,340,708**	**25,508,583**

(€)	Software	Goodwill	Property rights	Deferred acquisition costs	Other intangible assets	Total
Cost						
01/01/2015	8,607,859	17,654,308	1,523,339	3,662,804	15,134,933	46,583,242
Additions – acquisition of subsidiary	95,818	1,529,820	0	0	0	1,625,638
Additions	1,128,839	0	0	271,276	52,982	1,453,097
Disposals	-61,438	0	0	-424,676	-59,647	-545,761
Impairments	0	-2,936,678	0	0	0	-2,936,678
Exchange differences	2,983	-5,166	0	0	-89	-2,272
31/12/2015	9,774,061	16,242,284	1,523,339	3,509,404	15,128,179	46,177,266
Accumulated amortisation and impairment losses						
01/01/2015	5,822,257	0	820,024	0	5,000,000	11,642,282
Additions – acquisition of subsidiary	57,390	0	0	0	0	57,390
Additions	952,557	0	163,951	0	3,000,000	4,116,508
Disposals	-107,060	0	0	0	0	-107,060
Exchange differences	2,831	0	0	0	0	2,831
31/12/2015	6,727,975	0	983,975	0	8,000,000	15,711,950
Carrying amount as at 01/01/2015	**2,785,602**	**17,654,308**	**703,315**	**3,662,804**	**10,134,933**	**34,940,960**
Carrying amount as at 31/12/2015	**3,046,086**	**16,242,284**	**539,364**	**3,509,404**	**7,128,179**	**30,465,315**

The 2016 impairment loss on goodwill relates to Illyria (in 2015 to Illyria and Sava životno osiguranje (SRB)), which is also evident from the note on the movement in goodwill.

Movement in goodwill

Goodwill relates to the acquisition of the following companies: Sava neživotno osiguranje (SRB), Illyria, Sava osiguruvanje (MKD), Sava osiguranje (MNE), Zavarovalnica Maribor, Sava Agent, and Moja naložba. As at year-end 2016, goodwill totalled € 14.5 million (31/12/2015: € 16.2 million). Each of the listed companies is treated as a cash-generating unit. The table below shows the value of goodwill for each cash-generating unit.

Movement in goodwill in 2016

(€)	
Total amount carried over at 31/12/2015	**16,242,284**
Disposals in current year	**-1,693,699**
Illyria	-1,693,699
Balance at 31/12/2016	**14,548,585**
Sava neživotno osiguranje (SRB)	4,510,873
Sava osiguruvanje (MKD)	94,907
Sava osiguranje (MNE)	3,648,534
Zavarovalnica Sava	4,761,733
Sava Agent	2,718
Moja naložba	1,529,820

Movement in goodwill in 2015

(€)	
Total amount carried over at 31/12/2014	**17,654,308**
Additions in current year	**1,529,820**
Moja naložba	1,529,820
Disposals in current year	**-2,941,844**
Sava neživotno osiguranje (SRB)	-237,681
Illyria	-2,698,997
Exchange differences	-5,166
Balance at 31/12/2015	**16,242,284**
Sava neživotno osiguranje (SRB)	4,510,873
Illyria	1,693,699
Sava osiguruvanje (MKD)	94,907
Sava osiguranje (MNE)	3,648,534
Zavarovalnica Maribor	4,761,733
Sava Agent	2,718
Moja naložba	1,529,820

Compared to year-end 2015, goodwill decreased by € 1.7 million due to impairment losses on goodwill belonging to Illyria.

Method of calculating value in use

Value in use for each cash-generating unit is calculated using the discounted cash flow method (DCF method). The budget projections of the CGUs and their estimate of the long-term results achievable are used as a starting point. Value in use is determined by reference to free cash flows discounted at an appropriate rate.

The discount rate is determined as cost of equity, using the capital asset pricing model. It is based on the interest rate applying for risk-free securities and equity premium as well as insurance business prospects. Added is a country risk premium and, for some companies, a smallness factor.

The discount rate is made up of the following:

- the risk-free rate of return (based on the ten-year average interest rate on German ten-year government bonds adjusted for the long-term inflation rate in individual countries);
- tax rates included in the discount rate are the applicable tax rates in individual countries where companies operate; the beta factor for industry according to Damodaran;
- national risk premium according to Damodaran.

Discount rates used in goodwill testing:

	Discount factor	Discount factor perpetuity
Serbia	15.0 %	14.0 %
Montenegro	14.0 %	13.0 %
Macedonia	14.0 %	13.0 %
Kosovo	15.0 %	14.0 %

The discount rates used in 2016 are lower than those of 2015 primarily due to a lower risk-free rate of return.

The bases for the testing of value in use are prepared in several phases. In phase one, the Company obtains five-year projections of results for each company within the regular planning process unified Group-wide. These strategic plans are approved by the controlling company and relevant management body. In phase two, projections are extended to five years in order to avoid giving too much weight and influence to the perpetuity and to projections that, towards the end of the projected period, show normalised operations of the companies subject to goodwill testing.

In all their markets, insurance penetration is relatively low. However, insurance penetration is expected to increase significantly due to the expected convergence of their countries' macroeconomic indicators towards EU levels. Western Balkan markets, which have a relatively low penetration level, are expected to see a faster growth of gross premiums compared to the expected growth in GDP.

In the impairment testing of goodwill arising out of the acquired companies listed at the beginning of this section, the recoverable amount of each cash-generating unit exceeded its carrying amount including goodwill belonging to the unit. Impairment testing indicated that impairment losses needed to be recognised in Illyria. Impairment losses on goodwill relate to the non-life operating segment.

Goodwill impairment testing

2) Property and equipment

Movement in cost and accumulated depreciation/impairment losses of property and equipment assets

(€)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
01/01/2016	8,019,657	48,886,307	23,962,466	462,257	81,330,687
Additions	10,817	6,450,192	4,279,225	0	10,740,234
Disposals	0	-635,118	-3,941,727	-239,705	-4,816,550
Exchange differences	0	-76,311	-27,836	-4,548	-108,695
31/12/2016	8,030,475	54,625,070	24,272,128	218,004	87,145,677
Accumulated depreciation and impairment losses					
01/01/2016	0	16,060,017	17,799,123	254,237	34,113,377
Additions	0	1,243,869	3,873,342	8,074	5,125,285
Disposals	0	-175,993	-3,580,289	-181,393	-3,937,675
Exchange differences	0	-20,551	-19,550	-2,335	-42,436
31/12/2016	0	17,107,342	18,072,626	78,583	35,258,551
Carrying amount as at 01/01/2016	**8,019,657**	**32,826,290**	**6,163,343**	**208,020**	**47,217,311**
Carrying amount as at 31/12/2016	**8,030,475**	**37,517,728**	**6,199,502**	**139,421**	**51,887,127**

(€)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
01/01/2015	7,135,178	45,765,537	22,938,110	421,329	76,260,154
Additions – acquisition of subsidiary	0	0	267,953	0	267,953
Additions	884,573	3,668,575	2,446,916	44,632	7,044,696
Disposals	-2,293	-501,509	-1,675,548	0	-2,179,350
Impairment losses	0	-41,278	-12,214	-2,094	-55,586
Exchange differences	2,199	-5,018	-2,751	-1,610	-7,180
31/12/2015	8,019,657	48,886,307	23,962,466	462,257	81,330,687
Accumulated depreciation and impairment losses					
01/01/2015	0	14,795,679	16,765,604	225,234	31,786,517
Additions – acquisition of subsidiary	0	0	209,481	0	209,481
Additions	0	1,199,065	2,275,076	31,850	3,505,991
Disposals	0	-98,305	-1,437,332	0	-1,535,637
Impairment losses	0	167,460	-11,865	-1,964	153,631
Exchange differences	0	-3,882	-1,841	-883	-6,606
31/12/2015	0	16,060,017	17,799,123	254,237	34,113,377
Carrying amount as at 01/01/2015	**7,135,178**	**30,969,858**	**6,172,506**	**196,095**	**44,473,638**
Carrying amount as at 31/12/2015	**8,019,657**	**32,826,290**	**6,163,343**	**208,020**	**47,217,311**

The Group owns property for own use in acquisition, which as at 31 December 2016 was burdened with a mortgage. For this reason, the purchase price has not been fully paid yet. In addition, at the end of the year one property for own use had a mortgage recorded in the amount of € 0.4 million, which is in the process of being cancelled. Property and equipment assets have not been acquired under financial lease arrangements.

The fair values of land and buildings are disclosed in note 27 “Fair values of assets and liabilities”.

3) Deferred tax assets and liabilities

(€)	31/12/2016	31/12/2015
Deferred tax assets	2,326,063	2,371,857
Deferred tax liabilities	-6,038,631	-4,598,731
Total net deferred tax assets/liabilities	**-3,712,568**	**-2,226,874**

Movement in deferred tax assets

(€)	01/01/2016	Recognised in the IS	Recognised in the SCI	31/12/2016
Long-term financial investments	2,127,811	-560,603	-180,728	1,386,480
Short-term operating receivables	204,044	35,254	0	239,298
Provisions for jubilee benefits and severance pay (retirement)	40,002	664,077	-3,794	700,285
Total	**2,371,857**	**138,728**	**-184,522**	**2,326,063**

The restatement effect of deferred tax assets/liabilities to the new tax rate in 2016 was € 149,035.

(€)	01/01/2015	Recognised in the IS	Recognised in the SCI	31/12/2015
Long-term financial investments	947,568	298,772	881,471	2,127,811
Short-term operating receivables	218,289	-14,245	0	204,044
Provisions for jubilee benefits and severance pay (retirement)	36,524	43,809	-40,331	40,002
Total	**1,202,381**	**328,336**	**841,140**	**2,371,857**

Movement in deferred tax liabilities

(€)	01/01/2016	Recognised in the IS	Recognised in the SCI	31/12/2016
Long-term financial investments	-4,597,921	-141,495	-1,299,215	-6,038,631
Provisions for jubilee benefits and severance pay (retirement)	-810	0	810	0
Total	**-4,598,731**	**-141,495**	**-1,298,405**	**-6,038,631**

(€)	01/01/2015	Recognised in the IS	Recognised in the SCI	31/12/2015
Long-term financial investments	-5,749,180	818,212	333,047	-4,597,921
Provisions for jubilee benefits and severance pay (retirement)			-810	-810
Total	**-5,749,180**	**818,212**	**332,237**	**-4,598,731**

4) Investment property

Movement in cost and accumulated depreciation of investment property

(€)	Land	Buildings	Total
Cost			
01/01/2016	702,158	8,019,892	8,722,050
Additions	282,258	156,952	439,210
Disposals	-208,324	-262,498	-470,822
Exchange differences	-113	-65,349	-65,462
31/12/2016	775,979	7,848,997	8,624,976
Accumulated depreciation and impairment losses			
01/01/2016	28,631	653,175	681,806
Additions	0	120,928	120,928
Disposals	0	-108,023	-108,023
Exchange differences	-114	-3,407	-3,521
31/12/2016	28,517	662,673	691,190
Carrying amount as at 01/01/2016	**673,527**	**7,366,717**	**8,040,244**
Carrying amount as at 31/12/2016	**747,462**	**7,186,325**	**7,933,786**

(€)	Land	Buildings	Total
Cost			
01/01/2015	764,588	5,454,079	6,218,667
Additions	0	3,657,275	3,657,275
Disposals	-25,482	-834,595	-860,077
Impairment	-38,809	-241,210	-280,019
Exchange differences	1,861	-15,657	-13,796
31/12/2015	702,158	8,019,892	8,722,050
Accumulated depreciation and impairment losses			
01/01/2015	28,566	1,086,775	1,115,341
Additions	0	81,910	81,910
Disposals	0	-514,834	-514,834
Exchange differences	65	-677	-612
31/12/2015	28,631	653,175	681,805
Carrying amount as at 01/01/2015	**736,022**	**4,367,304**	**5,103,325**
Carrying amount as at 31/12/2015	**673,527**	**7,366,717**	**8,040,244**

In 2016 the Group generated income of € 315,320 by leasing out its investment property (2015: € 191,766). Maintenance costs associated with investment property are either included in the rent or charged to the lessee, in 2016 a total of € 145,877 (2015: € 60,880).

The Group's investment properties are unencumbered by any third-party rights.

The fair values of investment property are disclosed in note 27 "Fair values of assets and liabilities".

5) Financial investments

(€)		At fair value through P/L			
		Non-derivative			
31/12/2016	Held-to-maturity	Designated to this category	Available-for-sale	Loans and receivables	Total
Debt instruments	**130,812,195**	**7,439,052**	**826,819,512**	**23,769,488**	**988,840,247**
Deposits and CDs	1,580,825	0	0	23,156,483	24,737,308
Government bonds	129,016,305	1,644,648	417,668,768	0	548,329,721
Corporate bonds	215,065	5,794,404	409,150,744	0	415,160,213
Loans granted	0	0	0	613,005	613,005
Equity instruments	**0**	**1,737,642**	**31,775,012**	**0**	**33,512,654**
Shares	0	524,744	16,456,103	0	16,980,847
Mutual funds	0	1,212,898	15,318,909	0	16,531,807
Other investments	**0**	**0**	**46,479**	**0**	**46,479**
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**0**	**0**	**0**	**7,835,859**	**7,835,859**
Total	**130,812,195**	**9,176,694**	**858,641,003**	**31,605,347**	**1,030,235,239**

(€)	At fair value through P/L				
		Non-derivative			
31/12/2015	**Held-to-maturity**	**Designated to this category**	**Available -for-sale**	**Loans and receivables**	**Total**
Debt instruments	**165,444,270**	**16,488,823**	**743,376,443**	**52,023,187**	**977,332,723**
Deposits and CDs	1,744,334	0	0	51,307,963	53,052,297
Government bonds	163,402,183	3,481,001	335,380,781	0	502,263,965
Corporate bonds	297,753	13,007,822	407,995,662	0	421,301,237
Loans granted	0		0	715,224	715,224
Equity instruments	**0**	**1,728,773**	**29,936,324**	**0**	**31,665,097**
Shares	0	595,678	18,310,932	0	18,906,610
Mutual funds	0	1,133,095	11,625,392	0	12,758,487
Other investments	0	186,181	174,030	0	360,211
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**0**	**0**	**0**	**5,698,774**	**5,698,774**
Total	**165,444,270**	**18,403,777**	**773,486,797**	**57,721,961**	**1,015,056,805**

The Sava Re Group held 0.3 % of subordinated debt (31/12/2015: 0.2 %).

No securities have been pledged as security by the Group.

Fair values of financial investments are shown in note 27.

6) Funds for the benefit of policyholders who bear the investment risk

(€)	At fair value through P/L				
		Non-derivative			
31/12/2016	**Held-to-maturity**	**Designated to this category**	**Available -for-sale**	**Loans and receivables**	**Total**
Investments for the benefit of life-insurance policyholders who bear the investment risk	9,935,635	136,616,498	53,580,945	24,041,998	224,175,076

(€)	At fair value through P/L				
		Non-derivative			
31/12/2015	**Held-to-maturity**	**Designated to this category**	**Available -for-sale**	**Loans and receivables**	**Total**
Investments for the benefit of life-insurance policyholders who bear the investment risk	9,985,587	182,609,105	15,963,694	5,630,731	214,189,117

Investments for the benefit of life-insurance policyholders who bear the investment risk are investments placed by the Group insurer in line with requests of life insurance policyholders.

7) Reinsurers' share of technical provisions

(€)	31/12/2016	31/12/2015
From unearned premiums	7,203,576	6,176,167
From provisions for claims outstanding	21,241,052	18,374,900
From other technical provisions	0	-673,790
Total	**28,444,628**	**23,877,277**

The reinsurers' and coinsurers' share of technical provisions increased by 19.1 % or € 4.6 million, with the largest absolute increase in the claims provision.

The reinsures' share of unearned premiums mostly moved in line with retroceded premiums. An increase of 16.6 % in 2016 is primarily a result of the growth in facultative business and assistance business with a higher reinsured share. The reinsurers' share of claims provisions moves in line with the movement of large incurred claims and the schedule of their related claim payments. The increase in 2016 was mainly due to reinsurance claims provisions set aside for losses caused by a hail event in Slovenia and for a large fire loss. The reinsurers' share of other technical provisions comprises provisions for unexpired risks, which pursuant to IFRS must be established separately for the gross and the reinsurance portfolio, where expected net results are poorer than gross results, this provision for the reinsurance portfolio may be negative, while in 2016 the reserved amount was released.

8) Investment contract assets and liabilities

At the end of 2015, the controlling company acquired the Moja naložba pension company, previously accounted for as an associate. The Group had € 121.4 million (2015: € 111.4 million) of investment contract assets and € 121.2 million (2015: € 111.3 million) of investment contract liabilities. The Group's investment contracts include a group of life cycle funds called MOJI skladi življenjskega cikla (MY lifecycle funds), relating to supplementary pension business of Moja naložba during the accumulation phase. Moja naložba started managing the group of long-term business funds MOJI skladi življenjskega cikla on 1 January 2016. They comprise three funds: MOJ dinamični sklad (MY Dynamic Fund), and MOJ uravnoteženi sklad (MY Balanced Fund), and MOJ zajamčeni sklad (MY Guaranteed Fund). Further details on the risks associated with investment contracts are provided in section 18.7.2.

Investment contract assets

(€)	31/12/2016	31/12/2015
Financial investments	115,156,806	108,316,390
Investment property	490,000	0
Receivables	8,041	10,142
Cash and cash equivalents	5,711,275	3,091,712
TOTAL	**121,366,122**	**111,418,244**

(€) 31/12/2016	Held to maturity	At fair value through P/L Non-derivative Designated to this category	Available-for-sale	Loans and receivables	Investment property	Total
Debt instruments	**50,513,403**	**49,544,769**	**0**	**6,638,298**	**0**	**106,696,470**
Deposits and CDs	0	0	0	6,638,298	0	6,638,298
Bonds	50,513,403	49,544,769	0	0	0	100,058,172
Equity instruments	**0**	**8,460,336**	**0**	**0**	**0**	**8,460,336**
Total financial investments	**50,513,403**	**58,005,105**	**0**	**6,638,298**	**0**	**115,156,806**
Cash and receivables	**0**	**0**	**0**	**5,719,316**	**0**	**5,719,316**
Investment property	**0**	**0**	**0**	**0**	**490,000**	**490,000**
Total investment contract assets	**50,513,403**	**58,005,105**	**0**	**12,357,614**	**490,000**	**121,366,122**

(€) 31/12/2015		At fair value through P/L			
		Non-derivative			
	Held to maturity	Designated to this category	Available-for--sale	Loans and receivables	Total
Debt instruments	**54,977,861**	**40,802,879**	**0**	**6,637,397**	**102,418,137**
Deposits and CDs	0	0	0	6,637,397	6,637,397
Bonds	54,977,861	40,802,879	0	0	95,780,740
Equity instruments	**0**	**5,898,253**	**0**	**0**	**5,898,253**
Total financial investments	**54,977,861**	**46,701,132**	**0**	**6,637,397**	**108,316,390**
Cash and receivables	**0**	**0**	**0**	**3,101,854**	**3,101,854**
Total investment contract assets	**54,977,861**	**46,701,132**	**0**	**9,739,251**	**111,418,244**

Investment contract assets by level of the fair value hierarchy

(€) 31/12/2016	Carrying amount (CA)	Fair value				Difference between FV and CA
		Level 1	Level 2	Level 3	Total fair value	
Investment contract assets measured at fair value	**58,005,105**	**47,817,121**	**8,756,352**	**1,431,632**	**58,005,105**	**0**
At fair value through P/L	**58,005,105**	**47,817,121**	**8,756,352**	**1,431,632**	**58,005,105**	**0**
Designated to this category	58,005,105	47,817,121	8,756,352	1,431,632	58,005,105	0
Debt instruments	49,544,769	39,545,699	8,567,438	1,431,632	49,544,769	0
Equity instruments	8,460,336	8,271,422	188,914		8,460,336	0
Investment contract assets not measured at fair value	**62,871,017**	**44,474,180**	**27,096,556**	**0**	**71,570,735**	**8,699,718**
Held-to-maturity assets	**55,776,719**	**44,474,180**	**20,002,258**	**0**	**64,476,437**	**8,699,718**
Debt instruments	55,776,719	44,474,180	20,002,258	0	64,476,437	8,699,718
Loans and receivables	**1,374,982**	**0**	**1,374,982**	**0**	**1,374,982**	**0**
Deposits	1,374,982	0	1,374,982	0	1,374,982	0
Cash and receivables	**5,719,316**	**5,719,316**	**0**	**0**	**5,719,316**	**0**
Investment property	**490,000**	**0**	**0**	**490,000**	**490,000**	**0**
Total investment contract assets	**121,366,122**	**98,010,617**	**30,133,591**	**1,921,632**	**130,065,840**	**8,699,718**

(€) 31/12/2015	Carrying amount (CA)	Fair value				Difference between FV and CA
		Level 1	Level 2	Level 3	Total fair value	
Investment contract assets measured at fair value	**46,701,132**	**38,523,522**	**0**	**8,177,610**	**46,701,132**	**0**
At fair value through P/L	**46,701,132**	**38,523,522**	**0**	**8,177,610**	**46,701,132**	**0**
Designated to this category	46,701,132	38,523,522	0	8,177,610	46,701,132	0
Debt instruments	40,802,879	32,647,328	0	8,155,551	40,802,879	0
Equity instruments	5,898,253	5,876,194	0	22,059	5,898,253	0
Investment contract assets not measured at fair value	**64,717,112**	**65,622,808**	**6,647,539**	**0**	**72,270,347**	**7,553,235**
Held-to-maturity assets	**54,977,861**	**62,531,096**	**0**	**0**	**62,531,096**	**7,553,235**

Debt instruments	54,977,861	62,531,096	0	0	62,531,096	7,553,235
Loans and receivables	**6,637,397**	**0**	**6,637,397**	**0**	**6,637,397**	**0**
Deposits	6,637,397	0	6,637,397	0	6,637,397	0
Cash and receivables	**3,101,854**	**3,091,712**	**10,142**	**0**	**3,101,854**	**0**
Total investment contract assets	**111,418,244**	**104,146,330**	**6,647,539**	**8,177,610**	**118,971,479**	**7,553,235**

Investment contract liabilities

(€)	31/12/2016	31/12/2015
Net liabilities to pension policyholders	119,926,669	110,711,674
Other liabilities	1,439,561	712,449
TOTAL IN LIABILITY FUND OF VSPI BALANCE SHEET	**121,366,230**	**111,424,123**
Internal relations between the company and life ins. liability fund	-136,556	-119,740
TOTAL IN BALANCE SHEET	**121,229,675**	**111,304,383**

Movement in investments, and income and expenses relating to investment contract assets measured at fair value – Level 3

	Debt instruments	
(€)	31/12/2016	31/12/2015
Opening balance	**8,155,551**	**0**
Additions	1,431,632	0
Disposal	-229,723	0
Maturity	-1,993,919	0
Reclassification into other levels	-5,931,910	0
Additions – acquisition of subsidiary	0	8,155,551
Closing balance	**1,431,632**	**8,155,551**
Income	390,761	0
Expenses	-109,439	0

Reclassification between levels – investments measured at fair value

(€)	Level 1	Level 2	Level 3
At fair value through P/L	**0**	**5,931,910**	**-5,931,910**
Designated to this category	0	5,931,910	-5,931,910
Debt instruments	0	5,931,910	-5,931,910

The pension company eliminates internal relations of the joint balance sheet, thus liabilities to pension policyholders exceed liabilities from investment contracts. Internal transaction between the VSPI liability fund and the pension company were eliminated in the balance sheet. These include entry charges and management fees for the current month, which may be recognised upon conversion or when credited to personal accounts. The difference between liabilities to pension policyholders and liabilities from investment contracts in 2015 constituted liabilities to the pension company from entry charges of € 23,937, exit charges of € 2,976 and management fees of € 92,827, in total € 119,740. In 2016, the liabilities to the pension company relating to entry charges were € 29,347, exit charges € 1,757, management fees € 99,612, and liabilities for settled obligation on behalf of the company subsequently charged to funds were€ 5,840, in total € 136,556.

Liabilities in the balance sheet of the long-term liability fund of the voluntary supplementary pension insurance are mostly long-term. These are liabilities relating to the voluntary supplementary pension life liability fund for premiums paid, guaranteed return and the return in excess of guaranteed return (provisions).

9) Receivables

Receivables arising out of primary insurance business slightly decreased year on year. Collection statistics and the composition of receivables have been improving over the years, particularly in terms of the ageing profile.

The amount of premium receivables arising out of reinsurance assumed also declined year on year. This is mainly due to the decline in assumed reinsurance premiums partly as result of the soft market prevailing in international reinsurance markets and the resulting more selective underwriting.

Receivables of the controlling company arising out of re-insurance contracts are not specially secured. Receivables have been tested for impairment.

Receivables by type

(€)	31/12/2016			31/12/2015		
	Gross amount	Allowance	Receivables	Gross amount	Allowance	Receivables
Receivables due from policyholders	77,414,889	-28,295,242	49,119,647	78,920,875	-28,975,503	49,945,372
Receivables due from insurance intermediaries	2,759,399	-636,693	2,122,706	1,871,270	-466,986	1,404,284
Other receivables arising out of primary insurance business	232,891	-134,423	98,468	301,787	-140,676	161,111
Receivables arising out of primary insurance business	**80,407,179**	**-29,066,358**	**51,340,821**	**81,093,932**	**-29,583,165**	**51,510,767**
Receivables for premiums arising out of reinsurance and co-insurance	63,665,635	-427,794	63,237,841	63,733,597	-370,139	63,363,458
Receivables for shares in claims payments	4,408,072	-76,896	4,331,176	4,706,823	-75,004	4,631,819
Other receivables from co-insurance and reinsurance	436,565	0	436,565	762,309	0	762,309
Receivables arising out of reinsurance and co-insurance business	**68,510,272**	**-504,690**	**68,005,582**	**69,202,729**	**-445,143**	**68,757,586**
Current tax assets	**124,720**	**0**	**124,720**	**1,734,294**	**0**	**1,734,294**
Other short-term receivables arising out of insurance business	24,635,936	-21,985,030	2,650,906	26,727,874	-23,407,774	3,320,100
Receivables arising out of investments	2,054,426	-1,136,608	917,818	2,016,806	-1,203,491	813,315
Other receivables	5,618,546	-1,249,866	4,368,680	6,015,464	-1,487,597	4,527,867
Other receivables	**32,308,908**	**-24,371,504**	**7,937,404**	**34,760,144**	**-26,098,862**	**8,661,282**
Total	**181,351,079**	**-53,942,552**	**127,408,527**	**186,791,099**	**-56,127,170**	**130,663,929**

Net receivables ageing analysis

(€) 31/12/2016	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	36,688,644	9,345,376	3,085,627	49,119,647
Receivables due from insurance intermediaries	1,146,175	939,073	37,458	2,122,706
Other receivables arising out of primary insurance business	86,029	6,013	6,426	98,468
Receivables arising out of primary insurance business	**37,920,848**	**10,290,462**	**3,129,511**	**51,340,821**
Receivables for premiums arising out of assumed reinsurance and co-insurance	51,162,568	9,624,769	2,450,504	63,237,841
Receivables for reinsurers' shares in claims	3,158,284	606,406	566,486	4,331,176
Other receivables from co-insurance and reinsurance	429,134	7,431	0	436,565
Receivables arising out of reinsurance and co-insurance business	**54,749,986**	**10,238,606**	**3,016,990**	**68,005,582**
Current tax assets	**124,720**	**0**	**0**	**124,720**
Other short-term receivables arising out of insurance business	1,810,502	823,955	16,449	2,650,906
Short-term receivables arising out of financing	777,099	68,724	71,995	917,818
Other short-term receivables	3,830,310	439,853	98,517	4,368,680
Other receivables	**6,417,911**	**1,332,532**	**186,961**	**7,937,404**
Total	**99,213,465**	**21,861,600**	**6,333,462**	**127,408,527**

(€) 31/12/2015	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	37,098,068	9,065,428	3,781,876	49,945,372
Receivables due from insurance intermediaries	769,415	611,082	23,787	1,404,284
Other receivables arising out of primary insurance business	114,592	9,498	37,021	161,111
Receivables arising out of primary insurance business	**37,982,075**	**9,686,008**	**3,842,684**	**51,510,767**
Receivables for premiums arising out of assumed reinsurance and co-insurance	51,218,164	9,610,038	2,535,256	63,363,458
Receivables for reinsurers' shares in claims	3,633,779	363,779	634,261	4,631,819
Other receivables from co-insurance and reinsurance	644,654	104,306	13,349	762,309
Receivables arising out of reinsurance and co-insurance business	**55,496,597**	**10,078,123**	**3,182,866**	**68,757,586**
Current tax assets	**1,734,294**	**0**	**0**	**1,734,294**
Other short-term receivables arising out of insurance business	2,149,062	1,088,551	82,487	3,320,100
Short-term receivables arising out of financing	689,965	70,247	53,103	813,315
Other short-term receivables	3,711,991	266,571	549,305	4,527,867
Other receivables	**6,551,018**	**1,425,369**	**684,895**	**8,661,282**
Total	**101,763,984**	**21,189,500**	**7,710,445**	**130,663,929**

All receivables are current. For all receivables that have already fallen due, allowances have been recognised relating to individual classes of similar risks into which receivables are classified. Major items of receivables have been tested individually and since only minor indications of impairment have been found, these are included in collective impairment.

Movement in allowance for receivables

(€) 31/12/2016	01/01/2016	Additions	Reversals	Write-offs	Exchange differences	31/12/2016
Receivables due from policyholders	-28,975,503	-1,480,382	235,150	1,885,662	39,831	-28,295,242
Receivables due from insurance intermediaries	-466,986	-188,539	15,212	70	3,550	-636,693
Other receivables arising out of primary insurance business	-140,676	-5,817	11,531	0	539	-134,423
Receivables arising out of primary insurance business	**-29,583,165**	**-1,674,738**	**261,893**	**1,885,732**	**43,920**	**-29,066,358**
Receivables for premiums arising out of reinsurance and co-insurance	-370,139	-155,959	100,720	0	-2,416	-427,794
Receivables for shares in claims payments	-75,004	-1,905	0	0	13	-76,896
Other receivables from co-insurance and reinsurance	0	0	0	0	0	0
Receivables arising out of reinsurance and co-insurance business	**-445,143**	**-157,864**	**100,720**	**0**	**-2,403**	**-504,690**
Current tax assets	**0**	**0**	**0**	**0**		**0**
Other short-term receivables arising out of insurance business	-23,407,774	-685,658	827,388	1,258,776	22,238	-21,985,030
Receivables arising out of investments	-1,203,491	-5,567	54,150	0	18,300	-1,136,608
Other short-term receivables	-1,487,597	-40,293	271,322	910	5,792	-1,249,866
Other receivables	**-26,098,862**	**-731,518**	**1,152,860**	**1,259,686**	**46,330**	**-24,371,504**
Total	**-56,127,170**	**-2,564,120**	**1,515,473**	**3,145,418**	**87,847**	**-53,942,552**

(€) 31/12/2015	01/01/2015	Additions	Reversals	Write-offs	Exchange differences	31/12/2015
Receivables due from policyholders	-31,697,371	-1,015,028	1,742,671	1,998,133	-3,908	-28,975,503
Receivables due from insurance intermediaries	-518,685	-21,410	72,681	0	428	-466,986
Other receivables arising out of primary insurance business	-127,527	-12,844	0	0	-305	-140,676
Receivables arising out of primary insurance business	**-32,343,583**	**-1,049,282**	**1,815,352**	**1,998,133**	**-3,785**	**-29,583,165**
Receivables for premiums arising out of reinsurance and co-insurance	-537,862	-127,133	198,198	100,323	-3,665	-370,139
Receivables for shares in claims payments	-85,282	0	0	10,278	0	-75,004
Receivables arising out of reinsurance and co-insurance business	**-623,144**	**-127,133**	**198,198**	**110,601**	**-3,665**	**-445,143**
Other short-term receivables arising out of insurance business	-24,873,317	-1,254,121	769,115	1,952,646	-2,097	-23,407,774
Receivables arising out of investments	-1,213,352	-3,614	9,073	0	4,402	-1,203,491
Other short-term receivables	-1,478,629	-272,463	190,287	72,004	1,204	-1,487,597
Other receivables	**-27,565,298**	**-1,530,198**	**968,475**	**2,024,650**	**3,509**	**-26,098,862**
Total	**-60,532,025**	**-2,706,613**	**2,982,025**	**4,133,384**	**-3,941**	**-56,127,170**

10) Deferred acquisition costs

Deferred acquisition costs

(€)	31/12/2016	31/12/2015
Short-term deferred acquisition costs	11,118,421	11,662,776
Short-term deferred reinsurance acquisition costs	5,392,115	6,329,709
Total	**16,510,536**	**17,992,485**

Deferred acquisition costs comprise short-term deferred policy acquisition costs that are gradually taken to acquisition costs in 2017.

11) Other assets

Other assets

(€)	31/12/2016	31/12/2015
Inventories	48,886	53,314
Accrued interest and rent	41,555	40,750
Other short-term accrued income and deferred expenses	1,276,403	1,079,095
Total	**1,366,844**	**1,173,159**

The other short-term accrued income and deferred expenses item mainly includes prepaid costs of insurance licences, and other costs paid in advance.

12) Cash and cash equivalents

(€)	31/12/2016	31/12/2015
Cash in hand	55,067	46,946
Cash in bank accounts	6,967,730	4,587,530
Cash equivalents	26,916,363	76,428
Total	**33,939,160**	**4,710,904**

Cash equivalents comprises demand deposits and, as of 1 January 2016, deposits placed with an original maturity of up to three months. Had the reclassification of deposits with an original maturity of up to three months been completed at 31 December 2015, the balance of cash and cash equivalents at 31 December 2015 would have been higher by € 22 million and would have totalled € 26.7 million. With regard to the above, this item as at 31 December 2016 increased by € 7.2 million compared to the adjusted balance as at 31 December 2015.

13) Non-current assets held for sale

The amount of non-current assets held for sale has not changed substantially compared to the prior year. Land and buildings held for sale are being actively offered for sale and are available for immediate sale in their present condition.

14) Share capital

At 31 December 2016, the controlling company's share capital was divided into 17,219,662 shares (the same as at 31/12/2015). All shares are ordinary registered shares of the same class. Their holders are entitled to participate in the Company's control and profits (dividends). Each share carries one vote in general meeting and entitles the bearer to a proportionate share of the dividend payout.

Shares are recorded in the Central Securities Clearing Corporation (KDD) under the POSR ticker symbol.

As at year-end 2016, the Company's shareholders' register listed 4,308 shareholders (31/12/2015: 4,857 shareholders). The Company's shares are listed in the prime market of the Ljubljana Stock Exchange.

15) Capital reserves

A contra account of capital reserves includes the difference between market and book value of acquired non-controlling interests. As shown in the table below, in 2016 the Group acquired non-controlling interests mainly in its Croatian subsidiaries (prior to the merger with Zavarovalnica Sava). Additionally, capital reserves increased as a result of the effect of the exchange ratio in the merger of its four insurers into Zavarovalnica Sava.

Movement in capital reserves

(€)	31/12/2016	31/12/2015
As at 1.1.	**43,388,724**	**44,638,799**
Acquisition of non-controlling interests by the Company	-6,080	-1,250,075
Velebit osiguranje	-2,500	-480,746
Velebit životno osiguranje	-3,580	-769,305
Sava neživotno osiguranje	0	-18
Sava životno osiguranje	0	-6
Merger of insurance companies (effect of exchange ratio)	298,797	0
Balance as at 31/12	**43,681,441**	**43,388,724**

16) Profit reserves

(€)	31/12/2016	31/12/2015	Distributable/ non-distributable
Legal reserves and reserves provided for by the articles of association	11,411,550	11,242,766	non-distributable
Reserve for treasury shares	24,938,709	10,319,347	non-distributable
Credit risk equalisation reserve	0	976,191	non-distributable
Catastrophe equalisation reserve	11,225,068	11,225,068	non-distributable
Other profit reserves	98,318,285	89,191,057	distributable
Total	**145,893,612**	**122,954,429**	

Under the law of certain markets where the Group is present, equalisation provisions and catastrophe equalisation provisions are treated as technical provisions. As this is not IFRS-compliant, the Group carries these provisions within profit reserves, which is in line with IFRSs. Additions are made to these provisions by establishing other reserves from net profit for the year (subject to resolution of the management and the supervisory boards), while a dismantling or release of the provision is taken to retained earnings. The credit risk equalisation reserve (part of equalisation provisions) was dismantled as of 1 January 2016 due to a change in the Slovenian Insurance Act, resulting in increased retained earnings in 2016.

In line with regulations, the management board or the supervisory board may, when adopting the annual report, allocate a part of net profit to other profit reserves, but not more than half of the net profit for the period. In 2016 other profit reserves increased on this basis. Other reserves are distributable. The management board has the power to propose the appropriation of reserves as part of appropriation of distributable profit, which is subject to approval of the general meeting.

17) Treasury shares

At 31 December 2016, the Group held a total of 1,721,966 own shares (2015: 741,521) with ticker POSR (accounting for 10 % less one share of the issued shares) for a value of € 24,938,709 (2015: € 10,319,347).

On 23 April 2014, the 28th general meeting of shareholders was held, in which the controlling company was authorised to buy back its own shares of up to 10 % of the share capital. The authorisation for acquiring up to a total of 1,721,966 shares was valid for three years. Based on this authorisation, the controlling company bought back 980,445 shares by year-end 2016.

Treasury shares are a contra account of equity.

18) Fair value reserve

The fair value reserve comprises the change in fair value of available-for-sale financial assets.

(€)	2016	2015
As at 1 January	**12,721,705**	**18,448,741**
Change in fair value	5,245,968	-9,405,691
Transfer of the negative fair value reserve to the IS due to impairment	-594,025	-726,066
Transfer from fair value reserve to the IS due to disposal	1,564,433	3,124,009
Net gains/losses attributable to the Group recognised in the fair value reserve and retained profit/loss relating to investments in equity-accounted associate companies	0	-33,187
Other net profits/losses	0	143,267
Deferred tax	-1,479,133	1,170,632
Total fair value reserve	**17,458,948**	**12,721,705**

* The figure for 2015 differs from the one published in the 2015 annual report because the reserve due to fair value revaluation of € -37,472 was excluded from the fair value reserve.

As of 1 January 2017, actuarial gains or losses arising out of changes in the present value of the provision for severance pay upon retirement as a result of changes in actuarial assumptions (other net gains/losses) are no longer disclosed in the fair value reserve but in a separate statement of financial position item "Reserve due to fair value revaluation". The table shows the net change in the fair value reserve, which is an equity component.

19) Net profit/loss and retained earnings

The net profit for 2016 attributable to owners of the controlling company totalled € 32.8 million (2015: € 33.4 million). The management and supervisory boards already allocated part of the net profit of € 9.1 million to other profit reserves, while, additionally, reserves for own shares were established in the amount of € 14.6 million. The remaining amount of € 9.1 million is recognised as net profit for the financial year in the statement of financial position.

Net earnings/loss per share

(€)	31/12/2016	31/12/2015
Net profit/loss for the period	32,918,213	33,365,451
Net profit/loss attributable to owners of the controlling company	32,824,911	33,377,857
Weighted average number of shares outstanding	15,791,457	16,483,852
Net earnings/loss per share	**2.08**	**2.02**

Comprehensive income per share

(€)	31/12/2016	31/12/2015
Comprehensive income for the period	37,660,245	27,618,054
Comprehensive income for the owners of the controlling company	37,564,254	27,635,627
Weighted average number of shares outstanding	15,791,457	16,483,852
Comprehensive income per share	**2.38**	**1.68**

The weighted number of shares takes into account the annual average calculated on the basis of monthly averages of ordinary shares less the number of treasury shares. The weighted average number of shares outstanding in the financial period was 15,791,457. Compared to 2015, the weighted average number of shares outstanding decreased because of own-share repurchases carried out in 2016. The controlling company does not have potentially dilutive capital instruments, which is why basic earnings per share equal diluted earnings per share.

Retained earnings as at 31 December 2016 increased by € 13.3 million from 31 December 2015.

Retained earnings increased as a result of the transfer of the net profit for the previous year of € 24.8 million and the dismantling of the credit risk equalisation reserve of € 1 million but decreased by € 12.4 million due to dividend payouts.

20) Non-controlling interest in equity

Non-controlling interest in equity

(€)	31/12/2016	31/12/2015
Sava osiguruvanje (MKD)	285,282	256,281
Velebit osiguranje	0	314,784
Velebit životno osiguranje	0	391,884
Sava Station	3,768	866
Zavarovalnica Sava	471,982	0
ZS Vivus	358	0
ZM Svetovanje	-445	0
Ornatus KC	63	0
Total	**761,008**	**963,815**

21) Subordinated liabilities

The controlling company raised a subordinated loan in the amount of € 32 million based on two contracts: one for a drawdown in 2006 and one in 2007, in total 97 % of the principal amount. The maturity of the loan is 20 years, with a prepayment option after 10 years. The principal is due at maturity. The applicable interest rate is a 3-month Euribor + 3.35 %, with interest payable on a quarterly basis. The loan is carried at amortised cost. The amortised cost of the subordinated debt totals € 23.6 million.

Subordinated liabilities

Outstanding debt at effective interest rate as at 31/12/2016	**23,570,771**
Debt currency	€
Maturity date	27/12/2026
Conversion into shareholders' equity option	not applicable
Conversion into other liabilities option	not applicable

Outstanding debt at effective interest rate as at 31/12/2015	**23,534,136**
Debt currency	€
Maturity date	27/12/2026
Conversion into shareholders' equity option	not applicable
Conversion into other liabilities option	not applicable

In 2016, the controlling company paid € 0.8 million in interest on subordinated debt (2015: € 0.85 million) and € 40,160 in withholding tax on interest paid (2015: € 43,085).

22) Technical provisions and the technical provision for the benefit of life insurance policyholders who bear the investment risk

Movement in gross technical provisions and the technical provision for the benefit of life insurance policyholders who bear the investment risk

(€)	01/01/2016	Additions	Uses and releases	Additions, acquisition	Exchange differences	31/12/2016
Gross unearned premiums	156,039,680	127,232,565	-125,696,415	0	102,666	157,678,496
Technical provisions for life insurance business	262,052,426	32,458,752	-24,710,899	0	-37,464	269,762,815
Gross provision for outstanding claims	459,012,655	195,762,019	-180,753,729	0	1,137,040	475,157,985
Gross provision for bonuses, rebates and cancellations	1,132,456	1,787,642	-1,088,372	0	-304	1,831,422
Other gross technical provisions	8,831,283	6,515,647	-8,547,501	0	-8,824	6,790,605
Total	**887,068,500**	**363,756,625**	**-340,796,916**	**0**	**1,193,114**	**911,221,323**
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	207,590,086	41,259,406	-21,855,292	0	0	226,994,200

(€)	01/01/2015	Additions	Uses and releases	Additions, acquisition	Exchange differences	31/12/2015
Gross unearned premiums	148,169,690	131,109,459	-123,076,458	0	-163,011	156,039,680
Mathematical provisions	256,292,141	30,366,501	-28,356,927	3,745,778	4,933	262,052,426
Gross provision for outstanding claims	454,759,004	127,640,245	-127,475,979	0	4,089,385	459,012,655
Gross provision for bonuses, rebates and cancellations	854,819	888,063	-610,505	0	79	1,132,456
Other gross technical provisions	9,906,979	2,117,791	-3,192,082	0	-1,405	8,831,283
Total	**869,982,633**	**292,122,059**	**-282,711,951**	**3,745,778**	**3,929,981**	**887,068,500**
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	195,684,631	33,798,922	-21,893,548	0	81	207,590,086

Movement in technical provisions

Consolidated gross technical provisions increased by 2.7 % in 2016, with the largest nominal increase in claims provisions.

- Unearned premiums increased by only 1.1 %, while growth in direct insurance business offset the drop in extra-group inwards reinsurance business, both as a result of movements in gross premiums written.
- Mathematical provisions increased by 2.9 %, in line with the movement of the traditional life insurance portfolio: Zavarovalnica Sava, the subsidiary with the bulk of the Group's mathematical provisions, has a mature portfolio. Provisions are made based on the expired policy terms and the payment dynamics relating to maturities and surrenders. In 2016, the volume of maturities and surrenders declined compared to the previous year, while inflows from savings premiums and the maturity of the portfolio are the reasons for the increase in the mathematical provision. The consolidated mathematical provision also increased as a result of the growth and inflows from savings premiums in other Group companies, including Moja naložba (for pension annuities).
- The provision for outstanding claims grew by 3.5 %. Subsidiaries' claims provisions increased as a result of reserving after a major hail event in 2016 and some other individual large claims. The controlling company's claims provision for extra-group business increased because of significant growth in 2015, reflected in the claims provision with a lag, as well as due to adverse movements in exchange rates managed through currency matching of the liability fund.
- The provision for bonuses, rebates and cancellations is a small part of technical provisions; the provision increased in Zavarovalnica Sava.
- The provision for unexpired risks (shown under the other gross technical provisions item) decreased by 23.1 % due to better results expected from non-life insurance business in Slovenia.
- The provision for the benefit of life insurance policyholders who bear the investment risk increased by 9.3 % as a result of inflows from savings premiums and appreciation of investment funds.

Calculation of the gross provision for unexpired risks by class of insurance

(€)	Primary insurance	Reinsurance business	
31/12/2016	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	434,716	91.7 %	0
Health	483,497	134.0 %	6,454
Land vehicles casco	1,784,779	94.3 %	0
Railway rolling stock	0	20.9 %	0
Aircraft hull	0	89.2 %	0
Ships hull	58,470	121.1 %	187,688
Goods in transit	28,574	79.6 %	0
Fire and natural forces	2,395,612	92.8 %	0
Other damage to property	427,054	67.9 %	0
Motor liability	372,169	93.4 %	0
Aircraft liability	0	77.0 %	0
Liability for ships	2,336	67.3 %	0
General liability	213,069	61.4 %	0
Credit	0	5.8 %	0
Suretyship	106,543	126.1 %	16,602
Miscellaneous financial loss	138,922	68.9 %	0
Legal expenses	0	62.3 %	0
Assistance	134,119	62.7 %	0
Life insurance	0	66.4 %	0
Unit-linked life	0	61.7 %	0
Total	**6,579,861**	**87.0 %**	**210,745**

(€)	Primary insurance	Reinsurance business	
31/12/2015	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	959,441	89.80 %	0
Health	677,306	143.30 %	121,984
Land vehicles casco	251,271	88.50 %	0
Railway rolling stock	0	15.90 %	0
Aircraft hull	287936	80.40 %	0
Ships hull	204,372	99.10 %	0
Goods in transit	33,289	86.50 %	0
Fire and natural forces	2,825,302	87.30 %	0
Other damage to property	1,084,804	78.20 %	0
Motor liability	207,667	90.20 %	0
Aircraft liability	29004	77.00 %	0
Liability for ships	218,344	9.80 %	0
General liability	1,510,369	57.40 %	0
Credit	102835	59.30 %	0
Suretyship	171,220	96.70 %	0
Miscellaneous financial loss	70,607	64.00 %	0
Legal expenses	0	42.80 %	0
Assistance	75,533	79.90 %	0
Life insurance	0	66.70 %	0
Unit-linked life	0	92.80 %	0
Total	**8,709,300**	**85.60 %**	**121,984**

Combined ratios for primary insurance are not given as amounts relate to several Group members.

23) Other provisions

Other provisions mainly comprise provisions for long-term employee benefits, as set out in section 18.4.27 "Other provisions". The provisions increased mainly because of additions for current service costs in line with the method prescribed by IAS 19. Following is a separate presentation of changes in the provisions for severance pay upon retirement arising from changes in actuarial assumptions, constituting are a contra equity item? that are recognised in equity.

Movement in the provision for severance pay upon retirement and jubilee benefits

(€)	Provision for severance pay upon retirement	Provision for jubilee benefits	Total
Balance as at 01/01/2016	**4,184,108**	**2,323,358**	**6,507,466**
Interest expense (IS)	-15,846	-11,138	-26,984
Current service cost (IS)	358,023	304,515	662,538
Past service cost (IS)	254,479	277,408	531,887
Payout of benefits (-)	-58,439	-156,424	-214,863
Actuarial gains/losses (IS)	0	251,591	251,591
Actuarial gains/losses (SFP)	-389,548	0	-389,548
Exchange differences	-947	-327	-1,274
Balance as at 31/12/2016	**4,331,830**	**2,988,983**	**7,320,813**

(€)	Provision for severance pay upon retirement	Provision for jubilee benefits	Total
Balance as at 01/01/2015	**4,140,347**	**1,875,438**	**6,015,785**
Interest expense (IS)	13,669	5,737	19,406
Current service cost (IS)	343,296	189,731	533,027
Past service cost (IS)	-106,226	36,823	-69,403
Payout of benefits (-)	-74,318	-177,275	-251,593
Actuarial gains/losses (IS)	0	392,904	392,904
Actuarial gains/losses (SFP)	-132,659	0	-132,659
Balance as at 31/12/2015	**4,184,108**	**2,323,358**	**6,507,466**

In accordance with the standard, we present a sensitivity analysis for severance pay upon retirement.

Impact on the amount of provision for severance pay upon retirement (€)	31/12/2016	31/12/2015
Decrease in discount rate of 1 %	647,528	592,373
Increase in discount rate of 1 %	-533,981	-495,699
Decrease in real income growth of 0.5 %	-286,399	-269,461
Increase in real income growth of 0.5 %	311,428	289,699
Decrease in staff turnover of 10 %	144,432	100,209
Increase in staff turnover of 10 %	-137,242	-100,625
Decrease in mortality rate of 10 %	31,362	25,068
Increase in mortality rate of 10 %	-31,053	-29,724

In addition to provisions for employees, other provisions include remaining provisions of € 0.8 million (2015; € 0.9 million) relating to provisions for litigation and the amounts recognised in accordance with the Vocational Rehabilitation and Employment of Persons with Disabilities Act from bonuses for exceeding the quota and amounts exempt from pension and disability insurance contributions. These may be used exclusively for disabled employees of the insurance company for the purpose set down by law.

(€)	01/01/2016	Additions	Uses and releases	Exchange differences	31/12/2016
Other provisions	882,229	375,103	-497,133	-135	760,064

(€)	01/01/2015	Additions	Uses and releases	Exchange differences	31/12/2015
Other provisions	925,114	295,534	-338,327	-92	882,229

24) Other financial liabilities

Other financial liabilities comprise a minor amount of interest liabilities and liabilities for unpaid dividends of the controlling company for the years 2013, 2014 and 2015.

25) Liabilities from operating activities

Liabilities from operating activities

(€)	Maturity		
2016	1–5 years	Up to 1 year	Total
Liabilities to policyholders	0	2,198,192	2,198,192
Liabilities to insurance intermediaries	6,127	2,678,322	2,684,449
Other liabilities from primary insurance business	0	7,027,612	7,027,612
Liabilities from primary insurance business	**6,127**	**11,904,126**	**11,910,253**
Liabilities for reinsurance and co-insurance premiums	19,681	5,935,857	5,955,538
Liabilities for shares in reinsurance claims	0	14,629,538	14,629,538
Other liabilities from co-insurance and reinsurance business	105,320	15,602,302	15,707,622
Liabilities from reinsurance and co-insurance business	**125,001**	**36,167,697**	**36,292,698**
Current tax liabilities	**0**	**587,695**	**587,695**
Total	**131,128**	**48,659,518**	**48,790,646**

(€)			Maturity
2015	1–5 years	Up to 1 year	Total
Liabilities to policyholders	0	1,299,114	1,299,114
Liabilities to insurance intermediaries	6,151	2,010,073	2,016,224
Other liabilities from primary insurance business	1,323	7,652,204	7,653,527
Liabilities from primary insurance business	**7,474**	**10,961,391**	**10,968,865**
Liabilities for reinsurance and co-insurance premiums	17,423	7,185,115	7,202,538
Liabilities for shares in reinsurance claims	0	19,523,660	19,523,660
Other liabilities from co-insurance and reinsurance business	95,821	12,917,393	13,013,214
Liabilities from reinsurance and co-insurance business	**113,244**	**39,626,168**	**39,739,412**
Current tax liabilities	**0**	**3,759,026**	**3,759,026**
Total	**120,718**	**54,346,585**	**54,467,303**

There has been an decrease in liabilities from reinsurance and co-insurance business. Current tax liabilities are lower because during 2016, Group companies made advance payments of tax of almost the amount actually assessed for the year 2016.
In 2016, most liabilities were current.

26) Other liabilities

Other liabilities by maturity

(€)			Maturity
2016	Over 1 year	Up to 1 year	Total
Other liabilities	0	15,883,399	15,883,399
Deferred income and accrued expenses	0	11,947,334	11,947,334
Total	**0**	**27,830,733**	**27,830,733**

(€)			Maturity
2015	Over 1 year	Up to 1 year	Total
Other liabilities	282	13,266,446	13,266,728
Deferred income and accrued expenses	0	11,453,773	11,453,773
Total	**282**	**24,720,219**	**24,720,501**

Other liabilities and deferred income and accrued expenses are unsecured.

Other liabilities

(€)	31/12/2016	31/12/2015
Short-term liabilities due to employees	2,828,676	3,077,519
Diverse other short-term liabilities for insurance business	3,925,059	3,663,440
Short-term trade liabilities	5,654,075	3,279,775
Diverse other short-term liabilities	3,411,659	3,130,919
Other long-term liabilities	63,930	115,075
Total	**15,883,399**	**13,266,728**

Change in short-term provisions

(€)	01/01/2016	Additions	Uses	Releases	Additions – acquisition of non-control-ling interest	Exchange differences	31/12/2016
Short-term accrued expenses	3,570,704	3,304,624	-3,699,710	-16,756	0	4,995	3,163,857
Other accrued expenses and deferred income	7,883,069	31,364,962	-30,387,941	-59,815		-16,798	8,783,477
Total	**11,453,773**	**34,669,586**	**-34,087,651**	**-76,571**	**0**	**-11,803**	**11,947,334**

(€)	01/01/2015	Additions	Uses	Releases	Additions – acquisition of non-control-ling interest	Exchange differences	31/12/2015
Short-term accrued expenses	3,523,549	1,859,451	-1,793,973	-36,318	16,756	1,239	3,570,704
Other accrued expenses and deferred income	10,129,112	45,837,669	-48,079,856	0	0	-3,856	7,883,069
Total	**13,652,661**	**47,697,120**	**-49,873,829**	**-36,318**	**16,756**	**-2,617**	**11,453,773**

27) Fair values of assets and liabilities

Determination of fair values

Asset class / principal market	Level 1	Level 2	Level 3
Debt securities			
OTC market	Debt securities measured based on CBBT prices in an active market.	Debt securities measured based on CBBT prices in an inactive market.	Debt securities measured using an internal model that does not consider level 2 inputs.
		Debt securities measured at the BVAL price if the CBBT price is unavailable.	
		Debt securities measured using an internal model based on level 2 inputs.	
Stock Exchange	Debt securities measured based on stock exchange prices in an active market.	Debt securities measured based on stock exchange prices in an inactive market.	Debt securities measured using an internal model that does not consider level 2 inputs.
		Debt securities measured at the BVAL price when the stock exchange price is unavailable.	
		Debt securities measured using an internal model based on level 2 inputs.	
Shares			
Stock Exchange	Shares measured based on stock exchange prices in an active market.	Shares measured based on stock exchange prices in an inactive market.	Shares measured using an internal model that does not consider level 2 inputs.
		Shares without available stock exchange prices measured using an internal model based on level 2 inputs.	
Unquoted shares and participating interests			
			Unquoted shares measured at cost. Fair value for the purposes of disclosures calculated based on an internal model used for impairment testing mainly using unobserved inputs.
Mutual funds			
	Mutual funds measured at the quoted unit value on the measurement date.		
Deposits and loans			
- with maturity		Measured at amortised cost; for the purposes of disclosure fair value calculated using an internal model using level 2 inputs.	Measured at amortised cost; for the purposes of disclosure fair value calculated using an internal model not using level 2 inputs.

The Group measures the fair value of each financial instrument based on the methods shown above in line with its accounting policies.

Financial assets by level of the fair value hierarchy

(€) 31/12/2016	Carrying amount (CA)	Level 1	Level 2	Level 3	Fair value Total fair value	Difference between FV and CA
Investments measured at fair value	**867,817,697**	**679,892,840**	**176,194,863**	**11,750,388**	**867,838,091**	**20,394**
At fair value through P/L	**9,176,694**	**2,841,687**	**6,133,045**	**207,834**	**9,182,566**	**5,872**
Designated to this category	9,176,694	2,841,687	6,133,045	207,834	9,182,566	5,872
Debt instruments	7,439,052	1,590,145	5,646,945	207,834	7,444,924	5,872
Equity instruments	1,737,642	1,251,542	486,100	0	1,737,642	0
Other investments	0	0	0	0	0	0
Available-for-sale	**858,641,003**	**677,051,153**	**170,061,818**	**11,542,554**	**858,655,525**	**14,522**
Debt instruments	826,819,512	661,731,495	158,157,047	6,930,970	826,819,512	0
Equity instruments	31,775,012	15,319,658	11,904,771	4,565,105	31,789,534	14,522
Other investments	46,479	0	0	46,479	46,479	0
Investments for the benefit of policyholders who bear the investment risk	**190,197,443**	**172,358,357**	**17,839,086**	**0**	**190,197,443**	**0**
Investments not measured at fair value	**162,417,542**	**135,383,592**	**32,156,239**	**8,539,017**	**176,078,848**	**13,661,306**
Held-to-maturity assets	**130,812,195**	**135,383,592**	**8,004,082**	**0**	**143,387,674**	**12,575,479**
Debt instruments	130,812,195	135,383,592	8,004,082	0	143,387,674	12,575,479
Loans and receivables	**31,605,347**	**0**	**24,152,157**	**8,539,017**	**32,691,174**	**1,085,827**
Deposits	23,156,483	0	24,152,157		24,152,157	995,674
Loans granted	613,005	0	0	703,158	703,158	90,153
Deposits with cedants	7,835,859	0	0	7,835,859	7,835,859	0
Investments for the benefit of policyholders who bear the investment risk not measured at fair value	**33,977,633**	**11,208,926**	**24,058,706**		**35,267,632**	**1,289,999**

(€) 31/12/2015	Carrying amount (CA)	Level 1	Level 2	Level 3	Fair value Total fair value	Difference between FV and CA
Investments measured at fair value	**791,890,574**	**609,121,776**	**170,264,955**	**12,503,843**	**791,890,574**	**0**
At fair value through P/L	**18,403,775**	**4,659,094**	**13,744,681**	**0**	**18,403,775**	**0**
Designated to this category	18,403,775	4,659,094	13,744,681	0	18,403,775	0
Debt instruments	16,488,821	3,394,741	13,094,080	0	16,488,821	0
Equity instruments	1,728,773	1,264,353	464,420	0	1,728,773	0
Other investments	186,181	0	186,181	0	186,181	0
Available-for-sale	**773,486,798**	**604,462,682**	**156,520,273**	**12,503,843**	**773,486,798**	**0**
Debt instruments	743,376,444	592,835,458	142,648,726	7,892,260	743,376,444	0
Equity instruments	29,936,324	11,627,224	13,743,996	4,565,104	29,936,324	0
Other investments	174,030	0	127,551	46,479	174,030	0
Investments for the benefit of policyholders who bear the investment risk	**198,572,799**	**189,496,895**	**9,075,904**	**0**	**198,572,799**	**0**
Investments not measured at fair value	**223,166,231**	**160,868,665**	**71,779,708**	**6,794,999**	**239,443,372**	**16,277,141**
Held-to-maturity assets	**165,444,270**	**123,671,948**	**56,613,888**	**600,301**	**180,886,137**	**15,441,867**
Debt instruments	165,444,270	123,671,948	56,613,888	600,301	180,886,137	15,441,867
Loans and receivables	**57,721,961**	**37,196,717**	**15,165,820**	**6,194,698**	**58,557,235**	**835,274**
Deposits	52,023,187	37,196,717	15,165,820	495,924	52,858,461	835,274
Loans granted	0	0	0	0	0	0
Deposits with cedants	5,698,774	0	0	5,698,774	5,698,774	0
Investments for the benefit of policyholders who bear the investment risk not measured at fair value	**15,616,318**	**16,642,392**	**217,136**	**0**	**16,859,528**	**1,243,210**

Movements in investments, income and expenses measured at fair value – Level 3

	Debt instruments		Equity instruments		Other investments	
(€)	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Opening balance	**7,892,260**	**7,892,260**	**4,565,104**	**4,638,249**	**46,479**	**0**
Exchange differences	0	0	1	0	0	0
Impairment losses	0	0	0	-686,472	0	0
Maturity	-753,456	0	0	0	0	0
Reclassification into other levels	0	0	0	-2,770	0	0
Reclassification into level	0	0	0	616,097	0	46,479
Closing balance	**7,138,804**	**7,892,260**	**4,565,105**	**4,565,104**	**46,479**	**46,479**
Income	95,535	124,567	276,106	174,877	0	0
Expenses	0	774	0	686,472	0	0

Reclassification of assets and financial liabilities between levels

(€)			
31/12/2016	Level 1	Level 2	Level 3
At fair value through P/L	**-490,713**	**490,713**	**0**
Designated to this category	-490,713	490,713	0
Debt instruments	-490,713	490,713	0
Available-for-sale	**-22,905,624**	**20,034,205**	**2,871,419**
Debt instruments	-22,662,867	19,791,448	2,871,419
Equity instruments	-242,757	242,757	
Total financial investments	**-23,396,337**	**20,524,918**	**2,871,419**

The reclassification of € 2.9 million of investments from level 2 to level 3 relates to the reclassification of Kosovan government bonds, for which level 2 inputs cannot be considered.

(€)			
31/12/2015	Level 1	Level 2	Level 3
Available-for-sale	**129,248,003**	**-129,245,233**	**-2,770**
Debt instruments	143,105,919	-143,105,919	0
Equity instruments	-13,857,916	13,860,686	-2,770
Total financial investments	**129,248,003**	**-129,245,233**	**-2,770**

As the effect on the 2015 financial statements is non-material, the Group presents no additional disclosures relating to the reclassification of the investment of € 2,770 out of level 3.

In 2015 and 2016, the Group primarily measured its OTC assets based on BID CBBT prices representing unadjusted quoted prices, thus meeting the criteria for classification into level 1.

As at 31 December 2016, level 1 investments represented 78.3 % (31/12/2015: 76.9 %) of financial investments measured at fair value.

The valuation model applied used directly and indirectly observable market inputs, such as the risk free interest rate curve, yield of similar financial instruments, and credit and liquidity risk premiums. Since inputs used by the model meet level 2 criteria, investments valued using the internal model were classified into level 2.

Disclosure of the fair value of non-financial assets measured in the statement of financial position at amortised cost or at cost

2016	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Property				
Owner-occupied property	31/12/2016	45,548,204	43,047,424	market approach and the income approach (weighted 50 : 50), new purchases by sales price
Investment property	31/12/2016	7,933,786	8,100,146	
Total		**53,481,990**	**51,147,570**	

2015	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Property				
Owner-occupied property	31/12/2015	40,845,948	37,048,744	market approach and the income approach (weighted 50 : 50), new purchases by sales price
Investment property	31/12/2015	8,040,244	8,443,933	
Total		**48,886,192**	**45,492,677**	

Movements in fair values of owner-occupied and investment property

2016 (€)	Opening balance	Acquisitions	Disposals	Change in fair value	Exchange differences	Closing balance
Owner-occupied property	37,048,744	8,406,073	195,942	-2,597,972	-5,363	43,047,424
Investment property	8,443,933	505,209	77,035	-873,306	-52,725	8,100,146
Total	**45,492,677**	**8,911,282**	**272,977**	**-3,471,278**	**-58,088**	**51,147,570**

2015 (€)	Opening balance	Acquisitions	Disposals	Change in fair value	Exchange differences	Closing balance
Owner-occupied property	32,548,415	4,568,437	-503,802	451,619	-15,925	37,048,744
Investment property	6,420,680	3,289,801	-739,793	-409,401	-117,354	8,443,933
Total	**38,969,095**	**7,858,238**	**-1,243,595**	**42,218**	**-133,279**	**45,492,677**

Valuation techniques for all items described above are defined in accounting policies. For investment property, the method is described in section 18.4.13 “Investment property” and for financial investments in section 18.4.14 “Financial investments and funds for the benefit of policyholders who bear the investment risk”.

18.9. Notes to the consolidated financial statements – income statement

28) Net earned premiums

Net earned premiums

(€) 2016	Gross premiums written	Premiums written for assumed co-insurance	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)	Net premiums earned
Personal accident	29,046,669	37,875	-103,545	1,458,544	-6,963	30,432,580
Health	3,127,778	0	-661,878	217,927	244,377	2,928,204
Land vehicles casco	85,355,420	64,623	-1,601,849	-1,839,199	1,733	81,980,728
Railway rolling stock	112,622	0	0	-21,246	0	91,376
Aircraft hull	908,061	0	-7,676	-24,447	516	876,454
Ships hull	3,596,779	0	-160,245	211,827	42,130	3,690,491
Goods in transit	6,202,420	659,647	-276,336	-52,958	47,543	6,580,316
Fire and natural forces	90,883,620	964,879	-12,450,624	-473,076	239,493	79,164,292
Other damage to property	38,557,359	653,151	-4,319,756	990,703	137,588	36,019,045
Motor liability	101,405,826	26,188	-1,935,982	-598,121	-156,900	98,741,011
Aircraft liability	150,429	0	-135,798	151,286	1,632	167,549
Liability for ships	739,328	0	-6,183	23,475	74	756,694
General liability	18,423,116	384,692	-1,407,828	-178,540	-76,894	17,144,546
Credit	6,410,497	0	-53,320	-2,887,159	-14,028	3,455,990
Suretyship	317,394	0	-9,755	-3,241	-9,584	294,814
Miscellaneous financial loss	3,319,316	34,274	-535,850	1,467,560	28,472	4,313,772
Legal expenses	755,735	9,013	-527,175	-1,945	215,735	451,363
Assistance	11,654,186	0	-6,156,383	-599,945	286,437	5,184,295
Life insurance	38,799,112	0	-640,273	311,445	-13,049	38,457,235
Unit-linked life	47,605,072	73	-252,058	17,733	-49	47,370,771
Total non-life	**400,966,555**	**2,834,342**	**-30,350,183**	**-2,158,555**	**981,361**	**372,273,520**
Total life	**86,404,184**	**73**	**-892,331**	**329,178**	**-13,098**	**85,828,006**
Total	**487,370,739**	**2,834,415**	**-31,242,514**	**-1,829,377**	**968,263**	**458,101,526**

(€) 2015	Gross premiums written	Premiums written for assumed co-insurance	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)	Net premiums earned
Personal accident	34,317,218	102,780	-131,803	-51,215	13,909	34,250,889
Health	4,610,624	0	-446,091	-610,048	81,535	3,636,020
Land vehicles casco	81,389,983	3,386	-1,052,049	1,580,395	-27,638	81,894,077
Railway rolling stock	103,257	0	0	-14,278	0	88,979
Aircraft hull	684,227	35,375	-44,506	-34,007	-20,851	620,238
Ships hull	3,999,951	3,214	-73,074	-231,411	-1,034	3,697,646
Goods in transit	5,806,272	306,373	-236,026	-213,653	-712	5,662,254
Fire and natural forces	86,068,192	911,116	-12,533,886	-4,407,989	-569,008	69,468,425
Other damage to property	38,855,654	437,290	-3,907,393	-581,175	-65,264	34,739,112
Motor liability	102,022,421	18,623	-1,598,941	291,331	56,773	100,790,207
Aircraft liability	349,963	7,985	-218,489	-150,536	-705	-11,782
Liability for ships	569,872	0	-5,466	-89,203	-1,783	473,420
General liability	16,265,059	198,990	-1,497,622	202,968	9,652	15,179,047
Credit	4,225,549	0	-8,803	-1,628,264	0	2,588,482
Suretyship	320,958	711	-2,178	27,519	158	347,168
Miscellaneous financial loss	6,082,476	38,928	-468,933	-2,095,848	7,272	3,563,895
Legal expenses	740,544	11,785	-497,229	-5,017	-1,564	248,519
Assistance	10,248,794	0	-5,371,448	-230,879	103,965	4,750,432
Life insurance	38,113,167	0	-1,945,306	244,982	-2,074	36,410,769
Unit-linked life	49,413,805	15	-275,504	23,510	-18	49,161,808
Capital redemption						0
Total non-life	**396,661,014**	**2,076,556**	**-28,093,937**	**-8,241,310**	**-415,295**	**361,987,028**
Total life	**87,526,972**	**15**	**-2,220,810**	**268,492**	**-2,092**	**85,572,577**
Total	**484,187,986**	**2,076,571**	**-30,314,747**	**-7,972,818**	**-417,387**	**447,559,605**

29) Income and expenses relating to investments in associates and impairment losses on goodwill

The Group became the sole owner of the pension company Moja naložba at the end of 2015. Previously, Moja naložba was an associate, therefore, this item includes both equity-accounted profit as well as gains from revaluation of the pre-acquisition share of Moja naložba to market value.

(€)	2016	2015
Profit from investments in equity-accounted associate companies	0	165,067
Gain from revaluation of the pre-acquisition share of Moja naložba to market value	0	777,493
Total	**0**	**942,560**

At the end of 2016, the value of goodwill decreased by € 1.7 million (2015: € 2.9 million) as a result of impairment losses on goodwill belonging to Illyria.

30) Investment income and expenses

Investment income by IFRS categories

2016 (€)	Interest income	Change in fair value and gains on disposal of FVPL assets	Gains on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Exchange gains	Other income	Total	Net unrealised gains on life policies where policyholders bear the investment risk
Held to maturity	**6,029,247**	**0**	**0**	**0**	**38,524**	**0**	**6,067,771**	**350,743**
Debt instruments	6,029,247	0	0	0	38,524	0	6,067,771	350,743
At fair value through P/L	**140,964**	**737,997**	**0**	**26,174**	**51,692**	**77,305**	**1,034,132**	**17,360,541**
Designated to this category	140,964	737,997	0	26,174	51,692	77,305	1,034,132	17,360,541
Debt instruments	140,964	639,692	0	0	48,161	48,507	877,324	762,925
Equity instruments	0	98,305	0	26,174	3,531	28,798	156,808	16,597,616
Available-for-sale	**14,208,416**	**0**	**2,314,629**	**1,258,226**	**6,671,747**	**81,031**	**24,534,049**	**241,284**
Debt instruments	14,208,416	0	1,851,981	0	6,671,747	3,631	22,735,775	241,284
Equity instruments	0	0	462,648	1,258,226	0	3,589	1,724,463	0
Other investments	0	0	0	0	0	73,811	73,811	0
Loans and receivables	**820,212**	**0**	**205**	**0**	**563,160**	**81,896**	**1,465,473**	**6,110**
Debt instruments	807,669	0	205	0	563,160	81,896	1,452,930	6,110
Other investments	12,543	0	0	0	0	0	12,543	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**34,817**	**0**	**0**	**0**	**0**	**0**	**34,817**	**0**
Total	**21,233,656**	**737,997**	**2,314,834**	**1,284,400**	**7,325,123**	**240,232**	**33,136,242**	**17,958,678**

Investment expenses by IFRS categories

2016 (€)	Interest expenses	Change in fair value and losses on disposal of FVPL assets	Losses on disposal of other IFRS asset categories	Permanent mpairment losses on investments	Exchange losses	Other	Total	Net unrealised losses on life policies where policyholders bear the investment risk
Held to maturity	**0**	**0**	**0**	**0**	**37,784**	**3,331**	**41,115**	**0**
Debt instruments	0	0	0	0	37,784	3,331	41,115	0
At fair value through P/L	**0**	**653,939**	**0**	**0**	**5,417**	**111,716**	**771,072**	**11,256,348**
Designated to this category	0	653,939	0	0	5,417	111,716	771,072	11,256,348
Debt instruments	0	450,150	0	0	5,417	102	455,669	334,253
Equity instruments	0	203,789	0	0	0	508	204,297	10,922,095
Other investments	0	0	0	0	0	111,106	111,106	0
Available-for-sale	**0**	**0**	**498,683**	**398,186**	**5,448,690**	**6,246**	**6,351,805**	**0**
Debt instruments	0	0	147,661	330,740	5,448,690	2,217	5,929,308	0
Equity instruments	0	0	351,022	67,446	0	4,029	422,497	0
Loans and receivables	**2,292**	**0**	**0**	**195,839**	**342,682**	**11,776**	**552,589**	**0**
Debt instruments	0	0	0	195,839	342,682	11,776	550,297	0
Other investments	2,292	0	0	0	0	0	2,292	0
Subordinated liabilities	**839,834**	**0**	**0**	**0**	**0**	**0**	**839,834**	**0**
Total	**842,126**	**653,939**	**498,683**	**594,025**	**5,834,573**	**133,069**	**8,556,415**	**11,256,348**

Net investment income

2016 (€)	Interest income/ expense	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Exchange gains/ losses	Other income/ expenses	Total	Net unrealised gains/losses on life policies where policyholders bear the investment risk
Held to maturity	**6,029,247**	**0**	**0**	**0**	**0**	**740**	**-3,331**	**6,026,656**	**350,743**
Debt instruments	6,029,247	0	0	0	0	740	-3,331	6,026,656	350,743
Other investments	0	0	0	0	0	0	0	0	0
At fair value through P/L	**140,964**	**84,058**	**0**	**26,174**	**0**	**46,275**	**-34,411**	**263,060**	**6,104,193**
Designated to this category	140,964	84,058	0	26,174	0	46,275	-34,411	263,060	6,104,193
Debt instruments	140,964	189,542	0	0	0	42,744	48,405	421,655	428,672
Equity instruments	0	-105,484	0	26,174	0	3,531	28,290	-47,489	5,675,521
Other investments	0	0	0	0	0	0	-111,106	-111,106	0
Derivatives	0	0	0	0	0	0	0	0	0
Available-for-sale	**14,208,416**	**0**	**1,815,946**	**1,258,226**	**-398,186**	**1,223,057**	**74,785**	**18,182,244**	**241,284**
Debt instruments	14,208,416	0	1,704,320	0	-330,740	1,223,057	1,414	16,806,467	241,284
Equity instruments	0	0	111,626	1,258,226	-67,446	0	-440	1,301,966	0
Other investments	0	0	0	0	0	0	73,811	73,811	0
Loans and receivables	**817,920**	**0**	**205**	**0**	**-195,839**	**220,478**	**70,120**	**912,884**	**6,110**
Debt instruments	807,669	0	205	0	-195,839	220,478	70,120	902,633	6,110
Other investments	10,251	0	0	0	0	0	0	10,251	0
Deposits with cedants	**34,817**	**0**	**0**	**0**	**0**	**0**	**0**	**34,817**	**0**
Subordinated liabilities	**-839,834**	**0**	**0**	**0**	**0**	**0**	**0**	**-839,834**	**0**
Total	**20,391,530**	**84,058**	**1,816,151**	**1,284,400**	**-594,025**	**1,490,550**	**107,163**	**24,579,827**	**6,702,330**

Investment income by IFRS categories

2015 (€)	Interest income	Change in fair value and gains on disposal of FVPL assets	Gains on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Exchange gains	Other income	Total	Net unrealised gains on life policies where policyholders bear the investment risk
Held to maturity	**7,047,108**	**0**	**0**	**0**	**23,200**	**5,242**	**7,075,550**	**351,248**
Debt instruments	7,047,108	0	0	0	23,200	5,242	7,075,550	351,248
Other investments	0	0	0	0	0	0	0	0
At fair value through P/L	**81,063**	**1,359,372**	**0**	**22,281**	**8,210**	**2,357**	**1,473,283**	**26,145,350**
Designated to this category	81,063	1,359,372	0	22,281	8,210	2,357	1,473,283	26,145,350
Debt instruments	81,063	1,024,860	0	0	1,746	2,357	1,110,026	2,196,334
Equity instruments	0	334,512	0	22,281	6,464	0	363,257	23,949,016
Other investments	0	0	0	0	0	0	0	0
Derivatives	0	0	0	0	0	0	0	
Available-for-sale	**13,494,973**	**0**	**1,663,428**	**1,205,993**	**11,975,452**	**115,474**	**28,455,320**	**113,783**
Debt instruments	13,494,973	0	1,310,542	0	11,967,042	2,475	26,775,032	113,783
Equity instruments	0	0	352,886	1,205,993	8,410	4,510	1,571,799	0
Other investments	0	0	0	0	0	108,489	108,489	0
Loans and receivables	**1,941,154**	**0**	**102**	**0**	**506,499**	**53,073**	**2,500,828**	**21,407**
Debt instruments	1,926,801	0	102	0	506,499	53,073	2,486,475	21,407
Other investments	14,353	0	0	0	0	0	14,353	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**72,874**	**0**	**0**	**0**	**0**	**0**	**72,874**	**0**
Subordinated liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
Total	**22,637,172**	**1,359,372**	**1,663,530**	**1,228,274**	**12,513,361**	**176,146**	**39,577,855**	**26,631,788**

Investment expenses by IFRS categories

2015 (€)	Interest expenses	Change in fair value and losses on disposal of FVPL assets	Losses on disposal of other IFRS asset categories	Impairment losses on investments	Exchange losses	Other	Total	Net unrealised losses on life policies where policyholders bear the investment risk
Held to maturity	**0**	**0**	**0**	**0**	**15,835**	**5,023**	**20,858**	**0**
Debt instruments	0	0	0	0	15,835	5,023	20,858	0
Other investments	0	0	0	0	0	0	0	
At fair value through P/L	**0**	**1,504,286**	**0**	**0**	**36,262**	**659**	**1,541,207**	**25,930,786**
Designated to this category	0	1,504,286	0	0	36,262	659	1,541,207	25,930,786
Debt instruments	0	1,283,045	0	0	36,262	0	1,319,307	2,271,770
Equity instruments	0	221,241	0	0	0	659	221,900	23,659,016
Other investments	0	0	0	0	0	0	0	0
Derivatives	0	0	0	0	0	0	0	0
Available-for-sale	**0**	**0**	**350,151**	**726,066**	**8,860,814**	**9,380**	**9,946,411**	**0**
Debt instruments	0	0	299,320	0	8,860,452	2,987	9,162,759	0
Equity instruments	0	0	50,831	726,066	362	5,939	783,198	0
Other investments	0	0	0	0	0	454	454	0
Loans and receivables	**8,159**	**0**	**0**	**0**	**321,385**	**14,982**	**344,526**	**0**
Debt instruments	0	0	0	0	321,385	14,982	336,367	0
Other investments	8,159	0	0	0	0	0	8,159	0
Subordinated liabilities	**1,152,900**	**0**	**0**	**0**	**0**	**0**	**1,152,900**	**0**
Total	**1,161,059**	**1,504,286**	**350,151**	**726,066**	**9,234,296**	**30,044**	**13,005,902**	**25,930,786**

Net investment income

2015 (€)	Interest income/ expense	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Exchange gains/ exchange losses	Other income/ expenses	Total	Net unrealised gains/ losses on life policies where policyholders bear the investment risk
Held to maturity	**7,047,108**	**0**	**0**	**0**	**0**	**7,365**	**219**	**7,054,692**	**351,248**
Debt instruments	7,047,108	0	0	0	0	7,365	219	7,054,692	351,248
Other investments	0	0	0	0	0	0	0	0	0
At fair value through P/L	**81,063**	**-144,914**	**0**	**22,281**	**0**	**-28,052**	**1,698**	**-67,924**	**214,564**
Designated to this category	81,063	-144,914	0	22,281	0	-28,052	1,698	-67,924	214,564
Debt instruments	81,063	-258,185	0	0	0	-34,516	2,357	-209,281	-75,436
Equity instruments	0	113,271	0	22,281	0	6,464	-659	141,357	290,000
Other investments	0	0	0	0	0	0	0	0	0
Derivatives	0	0	0	0	0	0	0	0	0
Available-for-sale	**13,494,973**	**0**	**1,313,277**	**1,205,993**	**-726,066**	**3,114,638**	**106,094**	**18,508,909**	**113,783**
Debt instruments	13,494,973	0	1,011,222	0	0	3,106,590	-512	17,612,273	113,783
Equity instruments	0	0	302,055	1,205,993	-726,066	8,048	-1,429	788,601	0
Other investments	0	0	0	0	0	0	108,035	108,035	0
Loans and receivables	**1,932,995**	**0**	**102**	**0**	**0**	**185,114**	**38,091**	**2,156,302**	**21,407**
Debt instruments	1,926,801	0	102	0	0	185,114	38,091	2,150,108	21,407
Other investments	6,194	0	0	0	0	0	0	6,194	0
Deposits with cedants	**72,874**	**0**	**0**	**0**	**0**	**0**	**0**	**72,874**	**0**
Subordinated liabilities	**-1,152,900**	**0**	**0**	**0**	**0**	**0**	**0**	**-1,152,900**	**0**
Total	**21,476,113**	**-144,914**	**1,313,379**	**1,228,274**	**-726,066**	**3,279,065**	**146,102**	**26,571,953**	**701,002**

Financial assets and liabilities are tested for impairment on an individual basis.

In 2016, interest income on impaired investments totalled € 1,429; no such income was generated in 2015.

Investment income and expenses by source of funds

The Group records investment income and expenses separately by source of funds, that is separately for the capital fund, the liability fund and the life insurance liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions; and the life insurance liability fund, which is part of the liability fund, comprises assets supporting mathematical provisions.

Investment income – non-life business

(€)	Liability fund 2016	Liability fund 2015
Interest income	11,120,399	12,449,305
Change in fair value and gains on disposal of FVPL assets	113,132	383,530
Gains on disposal of other IFRS asset categories	1,626,842	1,488,358
Income from dividends and shares – other investments	691,688	548,730
Exchange gains	7,059,425	12,418,572
Other income	11,254	21,463
Total investment income – liability fund	**20,622,740**	**27,309,958**
	Capital fund 2016	**Capital fund 2015**
Interest income	648,900	649,828
Change in fair value and gains on disposal of FVPL assets	51,326	505,671
Gains on disposal of other IFRS asset categories	279,431	80,563
Income from dividends and shares – other investments	311,347	372,214
Exchange gains	914	0
Other income	57,886	0
Total investment income – capital fund	**1,349,804**	**1,608,276**
Total investment income – non-life business	**21,972,544**	**28,918,234**

Investment income – life business

(€)	Liability fund – life 2016	Liability fund – life 2015
Interest income	8,305,150	8,941,777
Change in fair value and gains on disposal of FVPL assets	46,976	52,543
Gains on disposal of other IFRS asset categories	191,551	57,073
Income from dividends and shares – other investments	277,855	307,330
Exchange gains	139,764	76,734
Other income	38,599	41,120
Total investment income – liability fund	**8,999,895**	**9,476,577**
	Capital fund 2016	**Capital fund 2015**
Interest income	1,159,207	596,262
Change in fair value and gains on disposal of FVPL assets	526,563	417,628
Gains on disposal of other IFRS asset categories	217,010	37,536
Income from dividends and shares – other investments	3,510	0
Exchange gains	125,020	18,055
Other income	132,492	113,563
Total investment income - capital fund	**2,163,802**	**1,183,044**
Total investment income – life business	**11,163,697**	**10,659,621**
Total investment income	**33,136,241**	**39,577,855**

Expenses for financial assets and liabilities – non-life business

(€)	Liability fund 2016	Liability fund 2015
Interest expenses	47	4,912
Change in fair value and losses on disposal of FVPL assets	222,740	238,268
Losses on disposal of other IFRS asset categories	367,698	349,153
Impairment losses on investments	381,041	495,757
Exchange losses	5,668,406	9,152,858
Other	8,162	7,878
Total investment expenses – liability fund	**6,648,094**	**10,248,826**
	Capital fund 2016	**Capital fund 2015**
Interest expenses	842,079	1,152,900
Change in fair value and losses on disposal of FVPL assets	87,525	534,885
Losses on disposal of other IFRS asset categories	0	998
Impairment losses on investments	10,679	217,710
Exchange losses	7,972	0
Other	4,300	7,898
Total investment expenses – capital fund	**952,555**	**1,914,391**
Total investment expenses – non-life business	**7,600,649**	**12,163,217**

Expenses for financial assets and liabilities – life business

(€)	Liability fund – life 2016	Liability fund – life 2015
Interest expenses	0	3,247
Change in fair value and losses on disposal of FVPL assets	20,671	60,658
Losses on disposal of other IFRS asset categories	108,851	0
Impairment losses on investments	202,305	12,599
Exchange losses	157,507	77,550
Other	8,713	3,875
Total investment expenses – liability fund	**498,047**	**157,929**
	Capital fund 2016	**Capital fund 2015**
Change in fair value and losses on disposal of FVPL assets	323,003	670,475
Losses on disposal of other IFRS asset categories	22,134	0
Exchange losses	688	3,888
Other	111,894	10,393
Total investment expenses – capital fund	**457,719**	**684,756**
Total investment expenses – life business	**955,766**	**842,685**
Total investment expenses	**8,556,415**	**13,005,902**
Net investment income	**24,579,827**	**26,571,953**

(€)	Liability fund – life 2016	Liability fund – life 2015
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	17,958,678	26,631,788
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	11,256,348	25,930,786
Net investment income	**6,702,330**	**701,002**

Impairment losses on investments

(€)	2016	2015
Bonds and loans	533,045	12,782
Shares	60,980	713,284
Total	**594,025**	**726,066**

Net investment income from non-life and life business

(€)	2016	2015
Non-life insurance business	14,371,895	16,755,017
Life insurance business	10,207,932	9,816,936
Total	**24,579,827**	**26,571,953**

The 2016 net investment income totalled € 24.6 million, a drop from the 2015 figure of € 26.6 million.

31) Other technical income

(€)	2016	2015
Income from reinsurance commission	3,732,607	3,656,904
Income on the realisation impaired receivables	2,375,769	4,459,099
Income from other insurance business	2,233,027	1,650,548
Exchange gains	5,483,403	7,197,384
Income from exit charges and management fees	2,249,629	990,874
Income from other services	1,872,734	1,172,026
Income from investment property	290,240	191,766
Total	**18,237,409**	**19,318,601**

In 2016 the Group continued to experience strong increases in both exchange gains and losses, primarily arising from reinsurance business.

Reinsurance commission income is a major part of other technical income. The following tables show reinsurance commission income by class of business.

Reinsurance commission income

(€)	2016	2015
Personal accident	26,951	20,598
Land vehicles casco	26,999	165,637
Aircraft hull	163	3,921
Ships hull	1,128	1,308
Goods in transit	31,219	31,219
Fire and natural forces	2,113,786	1,778,517
Other damage to property	757,723	664,735
Motor liability	245,462	6,593
Aircraft liability	13,289	16,223
Liability for ships	7	600
General liability	145,337	174,810
Credit	0	4
Suretyship	546	3
Miscellaneous financial loss	108,087	69,223
Legal expenses	16,300	23,009
Assistance	24,234	199,612
Life insurance	166,421	473,969
Unit-linked life	21,836	26,923
Total non-life	**3,544,350**	**3,156,012**
Total life	**188,257**	**500,892**
Total	**3,732,607**	**3,656,904**

32) Net claims incurred

Net claims incurre d

(€) 2016	Gross amounts: Claims	Gross amounts: Recourse receivables	Reinsurers' share of claims (–)	Coinsurers' share of claims (–)	Change in the gross claims provision (+/–)	Change in the rein-surers' and co-insurers' share of the claims provision (+/–)	Net claims incurred
Personal accident	13,895,309	-1,334	-28,332	54,469	2,275,405	1325	16,196,842
Health	1,979,157	-44469	-170121	0	672,326	-252477	2,184,416
Land vehicles casco	61,364,262	-738,216	-160,430	17,343	1,275,958	-652,099	61,106,818
Railway rolling stock	13,970	0	0	0	606	0	14,576
Aircraft hull	310,494	0	-234314	230987	380,259	106,223	793,649
Ships hull	2,394,843	0	-3,408	0	3,108,513	807	5,500,755
Goods in transit	3,348,391	-931	-2,574	244,973	-981,446	-9,758	2,598,655
Fire and natural forces	50,615,273	-99,149	-6,868,415	58,341	7,326,287	-1,241,588	49,790,749
Other damage to property	19,465,751	-66,137	-1,084,029	219,516	-5,504,435	19,531	13,050,197
Motor liability	62,301,023	-3,872,467	-2,973,598	26,459	953,269	261,939	56,696,625
Aircraft liability	55,584	0	-1,136	0	-111,621	-14,779	-71,952
Liability for ships	105,846	0	-22	0	253,212	34	359,070
General liability	5,029,193	-40,784	-250,377	20,313	4,718,408	264,360	9,741,113
Credit	1,445,183	-1,231,640	0	0	-45,071	0	168,472
Suretyship	201,573	-245,500	-727	0	14,357	424	-29,873
Miscellaneous financial loss	3,463,399	0	-315,362	12,696	-747,375	-153,996	2,259,362
Legal expenses	648	0	0	872	1567	0	3087
Assistance	4,057,224	-974	-3,288,707	0	387,559	-433,634	721,468
Life insurance	29,420,166	0	-244,672	0	643,467	31,193	29,850,154
Unit-linked life	16,320,108	0	-79,399	0	1,211,649	7,235	17,459,593
Total non-life	**230,047,123**	**-6,341,601**	**-15,381,552**	**885,969**	**13,977,778**	**-2,103,688**	**221,084,029**
Total life	**45,740,274**	**0**	**-324,071**	**0**	**1,855,116**	**38,428**	**47,309,747**
Total	**275,787,397**	**-6,341,601**	**-15,705,623**	**885,969**	**15,832,894**	**-2,065,260**	**268,393,776**

(€) 2015	Gross amounts Claims	Recourse receivables	Reinsurers' share of claims (–)	Coinsurers' share of claims (–)	Change in the gross claims provision (+/–)	Change in the reinsurers' and co-insurers' share of the claims provision (+/–)	Net claims incurred
Personal accident	14,437,167	-4,657	-34,832	67,182	3,617,446	8086	18,090,392
Health	2,477,490	0	0	0	67,716	-81775	2,463,431
Land vehicles casco	60,158,247	-1,284,947	-104,305	-8,751	-1,259,996	213,383	57,713,631
Railway rolling stock	2,529	0	0	0	0	0	2,529
Aircraft hull	418,754	0	-65082	0	601,386	-334,999	620,059
Ships hull	2,392,120	-2002	-867	0	575,272	4,909	2,969,432
Goods in transit	1,531,187	-631	-1,049	234,470	1,938,757	-62,242	3,640,492
Fire and natural forces	50,002,813	-32,985	-11,749,863	-84,160	-5,888,889	13,983,493	46,230,409
Other damage to property	22,059,296	-138,159	-673,850	-52,922	-3,700,463	-136,821	17,357,081
Motor liability	58,860,747	-2,623,114	-961,205	-49	3,508,437	158,456	58,943,272
Aircraft liability	23,660	0	-17,417	0	147,510	-13,628	140,125
Liability for ships	136,357	0	-13	0	-57,792	1,635	80,187
General liability	6,634,349	-38,213	-340,653	-26,845	2,349,101	387,773	8,965,512
Credit	2,208,303	-2,670,618	0	0	182,326	0	-279,989
Suretyship	387,171	-67,825	-763	0	42,325	70	360,978
Miscellaneous financial loss	652,101	0	-2,264	149	1,379,855	18,482	2,048,323
Legal expenses	821	0	0	1066	4945	0	6832
Assistance	3,456,451	-361	-2,837,412	0	267,735	-232,253	654,160
Life insurance	30,598,817	0	-968,424	0	426,259	45,231	30,101,883
Unit-linked life	21,928,266	0	-90,342	0	1,171,090	12,070	23,021,084
Capital redemption							0
Total non-life	**225,839,563**	**-6,863,512**	**-16,789,575**	**130,140**	**3,775,671**	**13,914,569**	**220,006,856**
Total life	**52,527,083**	**0**	**-1,058,766**	**0**	**1,597,349**	**57,301**	**53,122,967**
Total	**278,366,646**	**-6,863,512**	**-17,848,341**	**130,140**	**5,373,020**	**13,971,870**	**273,129,823**

The above tables show gross claims incurred as including gross claims paid, gross recourse receivables and retrocession recoveries (including portions relating to recourse receivables). Net claims incurred additionally include movements in the net claims provision; it increased net claims incurred by € 13.7 million (2015: increase of € 19.2 million).

33) Change in other technical provisions and change in the technical provision for policyholders who bear the investment risk

The change in other technical provisions relates to changes in the net provision for unexpired risks. The change in gross technical provisions is described in note 22.

34) Operating expenses

The Group classifies operating expenses by nature. Compared to 2015, operating expenses increased by 7.2 %.

Operating expenses by nature

(€)	2016	2015
Acquisition costs (commissions)	51,882,550	49,853,683
Change in deferred acquisition costs	1,474,454	-1,451,391
Depreciation of operating assets	7,617,184	7,585,742
Personnel costs	64,387,463	59,557,283
Costs of serices by natural persons not performing business, incl. of contributions	491,431	493,489
Other operating expenses	33,710,404	32,879,567
Total	**159,563,486**	**148,918,373**

Audit fees

(€)	2016	2015
Audit of annual report	254,790	287,160
Other assurance services	16,592	0
Other audit services	29,880	63,827
Total	**301,262**	**350,987**

35) Other technical expenses and other expenses

(€)	2016	2015
Expenses for loss prevention activities and fire brigade charge	3,077,583	2,950,578
Contribution for covering claims of uninsured and unidentified vehicles and vessels	1,697,697	2,051,831
Exchange losses	7,870,882	9,876,523
Operating expenses from revaluation	1,611,096	2,684,215
Other technical expenses	3,053,679	2,550,571
Total	**17,310,937**	**20,113,718**

Other expenses of € 2.5 million (2015: € 1.6 million) include contributions relating to the costs of the supervisory authority, allowances for other receivables, health protection contributions and fees for access to electronic police records.

36) Income tax expense

Tax rate reconciliation

(€)	2016	2015
Profit/loss before tax	40,669,987	40,097,971
Income tax expenses at statutory tax rate (17 %)	6,913,898	6,816,655
Adjustment to the actual rates	4,081,310	2,685,736
Tax effect of income that is deducted for tax purposes	-4,462,457	-2,806,256
Tax effect of expenses not deducted for tax purposes	1,799,048	1,615,356
Tax effect of income that is added for tax purposes	148,968	4,421
Income or expenses relating to tax relief	-377,991	-436,844
Balance of expense for (income from) deferred tax due to change in tax rate	-215,559	0
Changes in temporary differences	-135,443	-1,146,548
Total income tax expense in the income statement	**7,751,774**	**6,732,520**
Effective tax rate	19.06 %	16.79 %

18.10. Notes to the consolidated financial statements – cash flow statement

37) Notes to the cash flow statement, which has been prepared using the indirect method.

The cash flow statement shown in section 17.4 "Consolidated statement of cash flows" has been prepared in compliance with statutory regulations. This note gives a reconciliation of net profit to cash flows from operating activities.

The table below presents income statement items not included in cash flow nor presented in other parts of the cash flow statement (other than in cash flow from operating activities).

(€)	2016	2015
Net profit/loss for the period	**32,918,213**	**33,365,451**
Non-monetary income statement items not included in cash flow:	**38,582,796**	**43,755,533**
- change in unearned premiums	861,114	8,390,205
- change in the provision for outstanding claims	13,767,634	19,344,890
- change in other technical provisions	5,254,856	1,282,026
- change in technical provisions for policyholders who bear the investment risk	17,442,161	11,036,450
- operating expenses – amortisation/depreciation and change in deferred acquisition cost	9,091,638	6,134,351
- impairment losses on financial assets	-7,834,607	-2,432,389
Eliminated investment income items	**-22,518,056**	**-23,865,446**
- interest received disclosed under B. a) 1.	-21,233,656	-22,637,172
- receipts from dividends and shares in profit of others disclosed under B. a) 2.	-1,284,400	-1,228,274
Eliminated investment expense items	**842,126**	**1,161,059**
- interest paid disclosed under C. b) 1.	842,126	1,161,059
Cash flows from operating activities – income statement items	**49,825,078**	**54,416,596**

18.11. Contingent receivables and liabilities

The Group discloses contingent liabilities relating to a labour action and surties issued. The estimated contingent liabilities in this regard total € 3.4 million.

Off-balance sheet items are show in the appendix hereto.

18.12. Related party disclosures

The Group makes separate disclosures for the following groups of related parties:

- owners and related enterprises;
- management and supervisory boards including its committees and employees not subject to the tariff section of the collective agreement;
- subsidiary companies.

Owners and related enterprises

The Group's largest shareholder is Slovenian Sovereign Holding (formerly the Slovenian Restitution Fund), holding 25 % plus one share.

The members of the management and supervisory boards, including its committees, and employees not subject to the tariff section of the collective agreement

Remuneration of the members of the management and supervisory boards, including its committees, and of employees not subject to the tariff section of the collective agreement

(€)	2016	2015
Management board	655,175	746,643
Payments to employees not subject to the tariff section of the collective agreement	5,123,400	4,857,391
Supervisory board	128,283	119,963
Supervisory board committees	28,246	26,473
Total	**5,935,104**	**5,750,470**

Remuneration of management board members in 2016

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premiums	Fringe benefits – use of company car	Total
Zvonko Ivanušič (until 23/08/2016)	109,304	15,936	4,170	5,775	135,185
Srečko Čebron	152,592	14,340	5,338	3,620	175,890
Jošt Dolničar	146,866	14,340	5,554	3,874	170,635
Mateja Treven	144,600	14,340	5,186	9,339	173,465
Total	**553,362**	**58,956**	**20,248**	**22,608**	**655,175**

Remuneration of management board members in 2015

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premiums	Fringe benefits – use of company car	Total
Zvonko Ivanušič	168,143	31,872	6,203	10,272	216,490
Srečko Čebron	152,183	28,680	5,269	2,603	188,734
Jošt Dolničar	144,191	28,680	5,112	2,668	180,651
Mateja Treven	144,191	11,428	5,149	0	160,768
Total	**608,707**	**100,660**	**21,732**	**15,543**	**746,643**

Liabilities to members of the management board based on gross remuneration

(€)	31/12/2016	31/12/2015
Zvonko Ivanušič	0	13,946
Srečko Čebron	12,616	12,616
Jošt Dolničar	13,280	11,950
Mateja Treven	11,950	11,950
Total	**37,846**	**50,462**

At 31 December 2016, the Group had no receivables due from the management board members. Management board members are not remunerated for their functions in subsidiary companies.

Remuneration of the supervisory board and its committees in 2016

(€)		Attendance fees	Remuneration for performing the function	Expenses reimbursed	Perks	Total
Supervisory board members						
Branko Tomažič	SB chair (until 11 October 2016)	3,410	15,202	5,230	119	23,960
Mateja Lovšin Herič	SB chair (since 12/10/2016) / SB deputy chair (until 11/10/2016)	5,005	15,446	0	185	20,637
Slaven Mićković	SB deputy chairman (since 12/10/2016) / member (until 11/10/2016)	5,005	13,287	317	39	18,648
Gorazd Andrej Kunstek	member of the SB	5,005	13,000	0	175	18,180
Keith William Morris	member of the SB	4,235	13,000	13,254	200	30,690
Helena Dretnik	SB member (until 19/02/2016)	550	1,793	0	170	2,513
Mateja Živec	SB member (since 01/04/2016)	3,905	9,750	0	0	13,655
Total supervisory board members		**27,115**	**81,477**	**18,802**	**888**	**128,283**
Audit committee members						
Mateja Lovšin Herič	AC member (since 28/10/2016) / chair (until 27/10/2016)	2,376	4,591	0	0	6,967
Slaven Mićković	chair (since 28/10/2016) / member (until 27/10/2016)	2,376	3,534	7	0	5,917
Ignac Dolenšek	member of the AC		10,950	232	0	11,182
Total audit committee members		**4,752**	**19,075**	**239**	**0**	**24,066**
Nomination committee members						
Mateja Lovšin Herič	Chair of the committee	1,100	0	0	0	1,100
Branko Tomažič (until 11/10/2016)	member	660	0	0	0	660
Slaven Mićković	member	880	0	0	0	880
Keith William Morris	member	220	0	0	0	220
Total nomination committee members		**2,860**	**0**	**0**	**0**	**2,860**
Fit & proper committee members						
Mateja Lovšin Herič	Chair of the committee	660	0	0	0	660
Branko Tomažič	member (until 11/10/2016)	220	0	0	0	220
Nika Matjan	member	0	0	0	0	0
Mateja Živec	member	440	0	0	0	440
Total fit & proper committee members		**1,320**	**0**	**0**	**0**	**1,320**

Remuneration paid to members of the supervisory board and the audit committee for 2015

(€)		Attendance fees	Remuneration for performing the function	Expenses reimbursed	Total
Supervisory board members					
Branko Tomažič	chairman of the SB	2,750	19,500	2,747	24,997
Mateja Lovšin Herič	deputy chair of the SB	2,750	14,300	0	17,050
Slaven Mićković	member of the SB	2,750	13,000	0	15,750
Keith William Morris	member of the SB	2,750	13,000	14,916	30,666
Martin Albreht	member of the SB	1,375	5,778	0	7,153
Gorazd Andrej Kunstek	member of the SB	2,750	13,000	0	15,750
Helena Dretnik	member of the SB	1,375	7,222	0	8,597
Total supervisory board members		**16,500**	**85,800**	**17,664**	**119,963**
Audit committee members					
Mateja Lovšin Herič	chair of the AC	1,980	4,875	0	6,855
Slaven Mićković	member of the AC	1,980	3,250	0	5,230
Ignac Dolenšek	member of the AC	0	14,175	213	14,388
Total audit committee members		**3,960**	**22,300**	**213**	**26,473**

Liabilities to members of the supervisory board and audit committee of the supervisory board based on gross remuneration

(€)	31/12/2016	31/12/2015
Branko Tomažič	0	2,230
Mateja Lovšin Herič	3,381	2,093
Slaven Mićković	2,971	1,849
Gorazd Andrej Kunstek	1,908	1,358
Keith William Morris	7,145	13,621
Mateja Živec	2,128	0
Ignac Dolenšek	544	4,332
Helena Dretnik	0	1,358
Total	**18,078**	**26,841**

Employee remuneration not subject to the tariff section of the collective agreement for 2016

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	4,687,613	298,061	137,726	5,123,400

Employee remuneration not subject to the tariff section of the collective agreement for 2015

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	4,455,591	298,296	103,504	4,857,391

Receivables due from the state and majority state-owned companies

(€)	31/12/2016	31/12/2015
Interests in companies	9,406,870	8,770,698
Debt securities and loans	281,292,477	311,386,506
Receivables due from policyholders	141,554	358,169
Total	**290,840,901**	**320,515,374**

Liabilities to the state and majority state-owned companies

(€)	31/12/2016	31/12/2015
Liabilities for shares in claims	4,263	80,548

Income and expenses relating to majority state-owned companies

(€)	2016	2015
Dividend income	459,282	471,565
Interest income	9,758,691	11,937,362
Gross premiums written	13,317,626	12,032,671
Gross claims payments	-2,946,450	-10,502,788
Total	**20,589,149**	**13,938,809**

Characteristics of loans granted to subsidiaries

Borrower	Principal	Type of loan	Maturity	Interest rate
Sava neživotno osiguranje (SRB)	500,000	ordinary	30/06/2017	3.60 %
Sava neživotno osiguranje (SRB)	800,000	ordinary	30/06/2018	2.90 %
Zavarovalnica Sava	734,953	subordinated	no maturity	7.00 %
Zavarovalnica Sava	800,000	subordinated	no maturity	7.50 %
Total	**2,834,953**			

19. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

- On 7 March 2017, the 32nd general meeting of Sava Re took place at the Horus Hall of the Austria Trend Hotel in Ljubljana. The general meeting elected the new supervisory board members for the next four-year term of office: Ivan Davor Gjivoje (term of office to start on 7 March 2017) and Mateja Lovšin Herič, Keith William Morris and Andrej Kren (terms of office to start on 16 July 2017). As of 7 March 2017, the supervisory board of Sava Re has operated with all of its six members.

- In 2006 and 2007, Sava Re raised a subordinated debt in the nominal amount of € 32 million maturing in 2027. Sava Re raised the subordinated debt to expand the Sava Re Group to the markets of the former Yugoslavia and to improve its capital adequacy position in accordance with the then applicable insurance laws and the Standard & Poor's model. In January 2014, Sava Re redeemed € 8 million of the nominal amount of its subordinated debt. Under the contractual provisions, the remaining nominal amount of € 24 million can be early repaid as of 2017. After receiving the approval of the Slovenian Insurance Supervision Agency, Sava Re repaid the first tranche of the subordinated debt in the nominal amount of € 12 million on 15 March 2017. The remaining part of the subordinated debt in a nominal amount of € 12 million is scheduled to be repaid in June 2017. After the repayment of the subordinated debt, Sava Re and the Sava Re Group will maintain a high solvency ratio under the applicable law. Furthermore, the simulations of models of rating agencies Standard & Poor's and A.M. Best have shown that the early repayment of the subordinated debt will not affect the capital position so that both the Company and the Sava Re Group will maintain a solid target level of capitalisation.

Sava Re transacts reinsurance business and is the parent of the Sava Re Group. The opening sections of the Sava Re Group annual report cover the presentation of the Group, the POSR share and share trading, the report of the supervisory board, the corporate governance statement pursuant to Article 70 of the Slovenian Companies Act, a description of the internal control systems, external audit, mission, vision, policies of the Company and the Group, and the business environment. All the above sections relate both to Sava Re and the Sava Re Group. The following business report of Sava Re discusses the Company in terms of its core business with a focus on the notes to its separate financial statements.

SAVA RE

BUSINESS REPORT

20. GLOBAL NON-LIFE REINSURANCE MARKETS[35]

The non-life reinsurance industry is heading for a fifth year of strong underwriting results. The combined ratio for 2016 is estimated to be 93–94 %, a bit higher than in prior years, which benefited from low cat losses. In addition, the claims ratio has been reduced by positive reserve releases from redundant reserves for prior years' claims. Excluding these two impacts, the underlying combined ratio would likely instead be around 99 % in 2016. Assuming average catastrophe losses, moderating reinsurance rates, a less-benign claims environment and declining reserve releases, the combined ratio in non-life reinsurance is forecast to be around 94–96 % in 2017 and 2018.

In the low-yield investment environment, underwriting results remain the main profit driver for non-life reinsurers. The industry achieved a meagre average 3.5 % annualised investment yield in the first half of 2016, up slightly from 2015, 2.6 % from investment income and 0.9 % from capital gains. While interest rates in advanced markets are expected to rise, they are likely to remain below pre-financial crisis levels.

The capital position of global reinsurers, grew by 7 % in the first half of 2016. The increase was almost entirely due to unrealised gains on investments, mainly associated with declines in interest rates during the period. As the industry is enjoying strong capital levels, capital growth has been managed increasingly via dividend payments and share buyback programmes. Return on equity for 2016 declined to around 9 %, down 3 p.p. from 2015. It is expected that due to lower investment returns and combined ratios that will not include any reserve releases, but will include an average of catastrophe events, the return on equity for the next two years is likely to remain below the average of the recent years. The forecast for overall return for the next two years is therefore moderate, around 7 %.

Reinsurance premium rates in 2016 continued to fall, albeit more slowly than in previous years. Given the strong erosion of profit margins over the last two years, property catastrophe reinsurance rates are close to bottoming out. The softening of average rates is expected to moderate across all lines of business. For casualty and specialty lines, significant differences in pricing developments by market and line of business are expected.
Global non-life reinsurance premiums are expected to increase in 2017. Demand will likely also be supported by new solvency regulations. Non-life reinsurance has become more attractive for European insurers under Solvency II, since the new standards better reflect the risk mitigating effect of reinsurance. In the emerging markets, premium growth will improve on the back of macroeconomic recovery, particularly in Latin America, and rising cessions in China. Several other Latin American and Asian countries are strengthening solvency regulations. The addition of risk-based charges is likely to lead to higher

35 Based on Swiss Re: Global Insurance Review 2016 and Outlook 2017/18, November 2016.

capital requirements overall. The growth in global premiums is expected to recover further in 2018, driven by stronger sales of primary insurance on all continents.

Real growth/decline of non-life reinsurance premiums

	2014	2015	2016	2017 Plan
Mature markets	-1.2 %	0.8 %	1.6 %	1.1 %
Emerging markets	3.7 %	2.9 %	-0.7 %	5.3 %
Global markets	0.0 %	1.4 %	1.0 %	2.2 %

21. SAVA RE REVIEW OF OPERATIONS AND FINANCIAL POSITION

21.1. Sava Re review of operations

Net premiums earned

Gross premiums written by geographical area

(€)	2016	2015	Index
Slovenia	52,111,263	51,033,032	102.1
International	95,315,630	100,949,389	94.4
Gross premiums written	**147,426,893**	**151,982,421**	**97.0**

Net premiums earned

(€)	2016	2015	Index
Gross premiums written	147,426,893	151,982,421	97.0
Net premiums written	129,878,160	133,613,496	97.2
Change in net unearned premiums	3,550,715	-8,134,199	243.7
Net premiums earned	**133,428,875**	**125,479,297**	**106.3**

Gross premiums written in Slovenia rose by 2.1 %, or € 1.1 million (increase in premiums written by Zavarovalnica Sava), while gross premiums written abroad decreased by 5.6 % or € 5.6 million. The drop in premiums from abroad is chiefly owing to the decline in premiums written in South Korea and in the USA, which is partly due to the soft market prevailing in international reinsurance markets and the resulting more selective underwriting. Nevertheless, South Korea remains an important market and our cooperation with our partners in this region is stable and long-term. Apart from this, Sava Re generated solid growth in international markets: in Asian markets (excluding South Korea) 12 % growth; in African markets 29 % growth and in Latin American markets average growth of over 13 %.

Despite the drop in gross premiums written, net premiums earned for the period were higher than year on year. Net unearned premiums were lower than at year-end 2015, while the 2015 year-end figure was an increase from end of 2014. The reasons for this trend are the decline in premiums from abroad and a relatively larger share of non-proportional business. Gross unearned premiums relating to international business rose by € 3.5 million, while those relating to reinsurance business dropped by € 0.2 million.

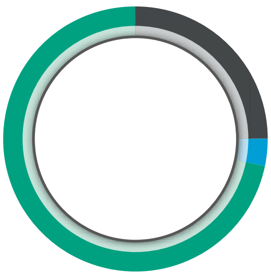
The largest share of premiums in 2016 remained fire business and increased by 4.1 percentage points compared to 2015. There was also a change in the proportion of accident business, down by 2.5 p.p.

Gross premiums written by class of business

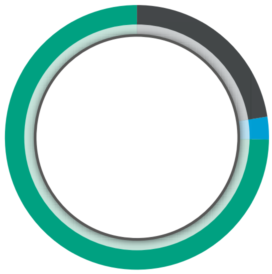
2016		2015
48.6	Fire insurance	44.5
14.4	Other damage to property	14.1
10.8	Land vehicles casco	10.8
8.5	Motor liability	8.2
3.7	Personal accident	6.2
14.0	Other	16.2

Proportional reinsurance premiums declined by € 8.2 million in 2016 (mainly due to the cancellation of South Korean business), while non-proportional reinsurance premiums rose by € 3.2 million. Although the proportion of facultative reinsurance business increased, premiums rose by only € 0.4 million. Thus the share of non-proportional reinsurance premiums rose by 2.9 p.p. due to premium growth, while the share of proportional business dropped by 3.2 p.p.

Gross premiums written by form of reinsurance



2016		2015
71.7%	Proportional reinsurance	74.9%
25.2%	Non-proportional reinsurance	22.4%
3.1%	Facultative reinsurance	2.7%



Net earned premiums by class of business

(€)	Sava Re 2016	Sava Re 2015
Personal accident	6,304,954	8,884,659
Health	712,445	1,854,428
Land vehicles casco	14,474,119	15,963,270
Railway rolling stock	90,732	88,765
Aircraft hull	830,025	579,596
Ships hull	3,492,377	3,463,323
Goods in transit	5,084,727	4,557,322
Fire and natural forces	60,878,857	52,353,695
Other damage to property	19,273,255	18,052,219
Motor liability	11,991,387	12,093,769
Aircraft liability	145,914	-33,434
Liability for ships	529,871	238,797
General liability	5,618,316	4,126,930
Credit	584,669	446,433
Suretyship	179,896	167,629
Miscellaneous financial loss	3,257,056	2,481,708
Legal expenses	9,985	3,580
Assistance	14,097	-2,348
Life insurance	-152,757	32,848
Unit-linked life	108,950	126,107
Total	**133,428,875**	**125,479,297**

Net claims incurred

Gross claims paid by geographical area

(€)	2016	2015	Index
Slovenia	26,870,199	33,203,760	80.9
International	58,295,393	56,485,777	103.2
Total	**85,165,592**	**89,689,537**	**95.0**

Net claims incurred

(€)	2016	2015	Index
Gross claims paid	85,165,592	89,689,537	95.0
Net claims paid	75,354,184	75,938,766	99.2
Change in the net provision for outstanding claims	6,427,381	10,741,816	59.8
Net claims incurred	**81,781,565**	**86,680,582**	**94.3**

Net claims incurred, excluding exchange differences

(€)	2016	2015	Index
Gross claims paid	85,165,592	89,689,537	95.0
Net claims paid	75,354,184	75,938,766	99.2
Change in the net provision for outstanding claims	5,067,276	6,970,592	72.7
Net claims incurred	**80,421,460**	**82,909,358**	**97.0**

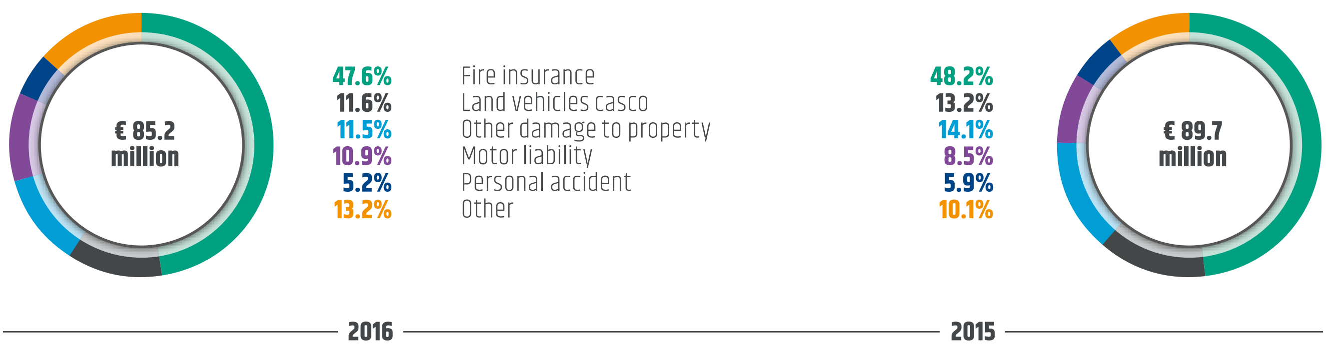
Gross claims paid of Sava Re decreased by 5.0 % in 2016. Gross claims paid relating to domestic business decreased by 19.1 % compared to 2015. In 2015, there were many claim payments for the ice damage loss relating to 2014 (settled from provisions). Gross reinsurance claims from abroad increased by 3.2 % compared to 2015 as a result of claim payments for past underwriting years.

The change in the net claims provision was smaller than in 2015 because of the reserving for a catastrophic event (explosion) in China, while additionally the reinsurers' share of the claims provisions relating to ice damage was released. Claims provisions increased because of the established claims provisions for underwriting year 2016 for which – due to the soft reinsurance market globally – we expect higher incurred loss ratios. The reinsurers' share of the claims provisions for Slovenian business rose in 2016 as a result of additions made relating to hail losses in Slovenia and for one major fire loss on the Group's portfolio. The change in the net claims provision was also affected by exchange differences as the provision increased by € 1.4 million in 2016 (2015: decrease of € 3.8 million).

The 2016 net incurred loss ratio of Sava Re stood at 61.3 %, an improvement by 7.8 percentage points year on year. Excluding exchange differences, the ratio improved by only 6.1 percentage points.

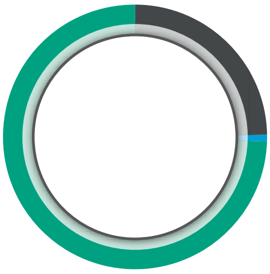
In terms of class of business, 2016 claims were still dominated by fire claims. Compared with 2015, their share decreased by 0.6 percentage points. The share of motor reinsurance business increased by 0.8 p.p., while other damage to property reinsurance business declined by 2.6 p.p.

Gross claims paid by class of business

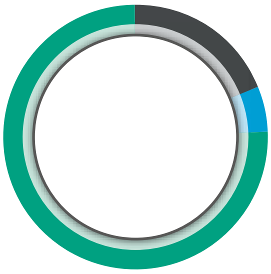


Claims by form of reinsurance: the structure of claims changed in line with the change in the premium structure, with a reduced share of proportional reinsurance claims and an increased share of non-proportional claims. Proportional claims dropped by € 3.4 million, while non-proportional claims rose by € 4.1 million. Facultative claims declined by € 4.2 million.

Gross claims paid by form of reinsurance



2016		2015
74.7%	Proportional reinsurance	75.7%
24.6%	Non-proportional reinsurance	18.8%
0.7%	Facultative reinsurance	5.5%



Net claims incurred by class of business

	Sava Re	
(€)	2016	2015
Personal accident	3,952,571	6,286,414
Health	618,423	1,505,486
Land vehicles casco	10,566,432	11,311,767
Railway rolling stock	14,576	2,529
Aircraft hull	879,959	452,533
Ships hull	5,379,887	2,707,318
Goods in transit	2,315,388	3,343,385
Fire and natural forces	40,374,237	41,517,950
Other damage to property	5,283,733	10,213,560
Motor liability	7,713,839	6,334,720
Aircraft liability	-68,685	113,410
Liability for ships	401,927	31,596
General liability	2,897,308	1,457,390
Credit	-237,131	-149,223
Suretyship	205,910	532,874
Miscellaneous financial loss	1,671,024	1,266,246
Legal expenses	2,379	1,610
Assistance	-1,714	-3,391
Life insurance	-232,309	-279,137
Unit-linked life	43,811	33,545
Total	**81,781,565**	**86,680,582**

Operating expenses

Operating expenses

(€)	2016	2015	Index
Acquisition costs	33,061,396	32,445,281	101.9
Change in deferred acquisition costs (+/-)	3,598,331	-1,492,043	441.2
Other operating expenses	10,629,248	9,275,988	114.6
Operating expenses	**47,288,975**	**40,229,226**	**117.5**
Income from reinsurance commission	-2,813,943	-2,605,901	92.0
Net operating expenses	**44,475,032**	**37,623,325**	**118.2**

Despite the drop in gross premiums written in 2016, acquisition costs increased by 1.9 %. The ratio of acquisition costs to premiums increased by 1.1 p.p. year on year to 22.4 %. In 2016, the change in deferred acquisition costs was smaller than the year-on-year figure, mainly due to the reduction relating to the estimated future sliding scale commission for Group cedants, but also reflecting weaker premium growth resulting in a smaller increase in acquisition costs in 2016 compared to the increase in 2015 over 2014. The mechanisms are much the same as the effect of the movement in gross premiums written on the movement of unearned premiums.

Other operating expenses increased by 14.6 % compared to 2015, due to increased personnel costs (recruitment) and advisory services (relating to the merger of the Slovenian and Croatian insurers). Expenses by nature are shown in note 31 of the notes to the financial statements.

The larger reinsurance commission income is primarily the result of increased commission income generated by Sava Re on retrocessions relating to reinsurance programmes of Slovenian cedants based on the technical performance of retroceded business over the past years.

Net investment income

The net investment income of the investment portfolio of Sava Re totalled € 27.7 million in 2016 (2015: € 15.6 million), of which € 6.6 million relates to financial investments and € 21.9 million to investments in subsidiaries.

The realised net investment income also includes exchange gains relating to investments used by the Company for asset-liability matching in foreign currencies. However, the effect of exchange differences does not fully impact profit or loss since liabilities denominated in a foreign currency move in line wi th investments in that currency. For this reason, the net investment income and the investment return are also shown excluding foreign exchange differences. The total impact of exchange differences on the result is set out in the notes to the financial statements of the annual report, section 24.5.3.1.4 “Currency risk”.

Net investment income of the Sava Re investment portfolio

(€)	2016	2015	Absolute change	Index
Income relating to financial investments, including investment property	13,011,311	18,689,640	-5,678,329	130.4
Expenses relating to financial investments, including investment property	6,462,662	10,292,952	-3,830,290	62.8
Net investment income relating to financial investments, including investment property	**6,548,649**	**8,396,688**	**-1,848,039**	**278.0**
Net investment income of financial investments in subsidiaries and associates	21,977,734	8,134,012	13,843,721	270.2
Net inv. income of the investment portfolio	**28,526,382**	**16,530,700**	**11,995,682**	**172.6**
Expenses relating to financial liabilities	841,834	896,145	-54,311	93.9
Net inv. income of the investment portfolio	**27,684,549**	**15,634,555**	**12,049,994**	**177.1**
Net inv. income of the investment portfolio, excluding exchange differences	**26,323,673**	**12,407,054**	**13,916,619**	**212.2**

After eliminating exchange differences, which do not fully affect profits, the net investment income of the investment portfolio totalled € 26.3 million, an increase of € 13.9 million over 2015. The increase in the net investment income was mostly due to the higher dividends paid by the subsidiaries. Detailed data are shown in the following table.

Income, expenses and the net inv. income relating to the Sava Re investment portfolio

(€)	2016	2015	Absolute change
Income			
Interest income	4,427,975	4,710,946	-282,970
Change in fair value and gains on disposal of FVPL assets	100,222	365,320	-265,098
Gains on disposal of other IFRS asset categories	676,088	603,182	72,906
Income of subsidiary and associate companies	26,308,516	13,004,219	13,304,297
Income from dividends and shares – other investments	742,973	725,812	17,161
Exchange gains	6,926,024	12,264,856	-5,338,832
Other income	138,030	19,524	118,506
Total income from the investment portfolio	**39,319,829**	**31,693,859**	**7,625,969**
Expenses			
Interest expenses	841,834	896,145	-54,311
Change in fair value and losses on disposal of FVPL assets	205,693	218,498	-12,805
Losses on disposal of other IFRS asset categories	185,008	313,525	-128,517
Expenses of subsidiary and associate companies	4,330,782	4,870,049	-539,267
Impairment losses on investments	330,740	713,284	-382,543
Exchange losses	5,565,149	9,037,355	-3,472,206
Other	176,072	10,448	165,624
Total expenses for the investment portfolio	**11,635,278**	**16,059,304**	**-4,424,026**
Net inv. income of the investment portfolio	**27,684,551**	**15,634,555**	**12,049,995**
Net inv. income of the investment portfolio, excluding exchange differences	**26,323,673**	**12,407,054**	**13,916,619**
Return on the investment portfolio	**6.0 %**	**3.5 %**	**2.5 %**
Return on the investment portfolio, excluding exchange differences	**5.8 %**	**2.8 %**	**3.0 %**

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

The largest contribution to total 2016 income related to dividends received from the subsidiaries, totalling € 26.3 million, up € 13.3 million year on year. Compared to 2015, there was a modest rise in realised gains on the disposal of investments and in the dividend income from other investments. Interest income was slightly lower year on year. In 2016 positive exchange differences of € 6.9 million were realised (2015: € 12.3 million).
Compared to the same period last year, investment portfolio expenses decreased by € 4.4 million. The main elements constituting total 2016 investment expenses were impairment losses on the investment portfolio of € 4.6 million (impairment losses on subsidiaries of € 4.3 million and impairment losses on other financial investments of € 0.3 million) and exchange losses of € 5.6 million (2015: € 9.0 million).

21.2. Financial position of Sava Re

As at 31 December 2016, the total assets of Sava Re stood at € 568.1 million, a drop of 0.5 % compared to year-end 2015. Below we set out items of assets and liabilities in excess of 5 % of total assets/liabilities as at 31 December 2016, or items that changed by more than 2 % of equity.

21.2.1. Assets

Total assets by type

(€)	31/12/2016	As % of total as at 31/12/2016	31/12/2015	As % of total as at 31/12/2015
ASSETS	**568,147,764**	**100.0 %**	**570,886,710**	**100.0 %**
Intangible assets	832,567	0.1 %	666,490	0.1 %
Property and equipment	7,753,202	1.4 %	2,455,343	0.4 %
Deferred tax assets	1,373,436	0.2 %	2,285,448	0.4 %
Investment property	3,122,076	0.5 %	2,999,742	0.5 %
Financial investments in Group companies and associates	191,640,382	33.7 %	208,231,721	36.5 %
Financial investments	249,948,775	44.0 %	242,633,203	42.5 %
Reinsurers' share of technical provisions	18,203,912	3.2 %	16,026,358	2.8 %
Receivables	79,836,627	14.1 %	84,425,749	14.8 %
Deferred acquisition costs	6,897,710	1.2 %	10,496,041	1.8 %
Other assets	549,258	0.1 %	380,665	0.1 %
Cash and cash equivalents	7,989,819	1.4 %	285,950	0.1 %

21.2.1.1. Financial investments in subsidiaries and associates and other financial investments

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

The Sava Re investment portfolio totalled € 452.7 million as at 31 December 2016 (31/12/2015: € 454.2 million).

Sava Re investment portfolio by asset class[36]

(€)	31/12/2016	31/12/2015	Absolute change	Index
Deposits	2,398,602	4,923,273	-2,524,670	48.7
Government bonds	122,970,380	111,243,783	11,726,597	110.5
Corporate bonds*	101,722,168	102,964,235	-1,242,067	98.8
Shares	9,798,315	10,892,491	-1,094,176	90.0
Mutual funds	2,388,497	4,075,691	-1,687,194	58.6
Loans granted and other investments	2,834,953	2,834,953	0	100.0
Deposits with cedants	7,835,859	5,698,774	2,137,085	137.5
Total financial investments	**249,948,774**	**242,633,200**	**7,315,575**	**103.0**
Financial investments in subsidiaries	191,640,382	208,231,721	-16,591,339	92.0
Investment property	3,122,076	2,999,742	122,335	104.1
Cash and cash equivalents	7,989,819	285,950	7,703,868	2,794.1
Total investment portfolio	**452,701,051**	**454,150,613**	**-1,449,561**	**99.7**

* In 2015, corporate bonds did not include government guaranteed corporate bonds (€ 9.1 million) as they were classified as government bonds.

The investment portfolio declined by € 1.4 million compared to the prior year. The trend of the investment portfolio was mainly a result of the following factors:

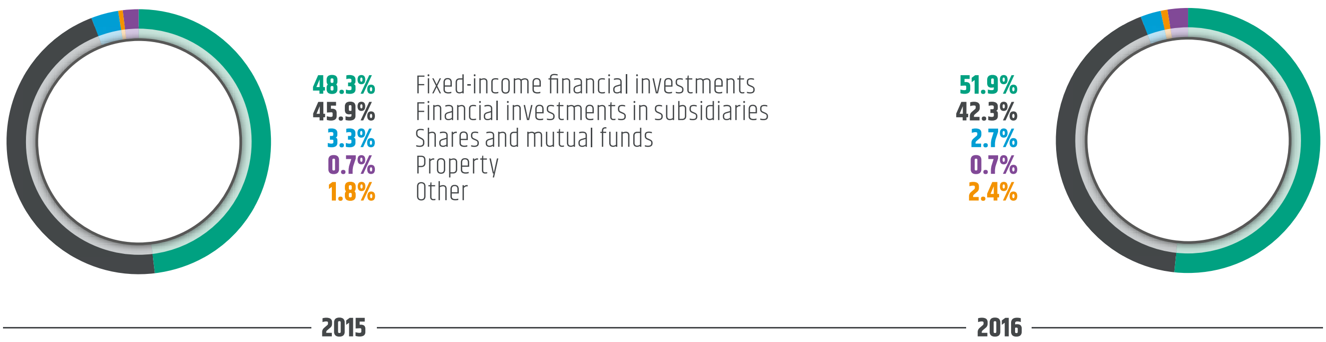
- + dividends received from subsidiaries (€ 26.3 million),
- + positive cash flow from core business (€ 9.5 million),
- + change in accrued interest (€ 4.4 million),
- + change in exchange differences (€ 1.5 million),
- + change in the fair value reserve (€ 1.1 million),
- + dividend income from other investments (€ 0.7 million),
- – winding up of Velebit usluge (€ 12.5 million),
- – dividend payouts to shareholders (€ 12.4 million),
- – own share repurchases (€ 14.6 million),
- – impairment losses on investments in subsidiaries in Serbia and Kosovo (€ 4.3 million),
- – impairment losses on financial investments of € 0.3 million,
- – other factors affecting the level of investments totalling € 0.9 million (interest relating to financing).

As at 31 December 2016, fixed-income investments (deposits, government bonds, corporate bonds) accounted for 50.2 % of the investment portfolio (31/12/2015: 48.3 %). Their proportion in the structure of the investment portfolio rose by 1.9 percentage points. Financial investments in subsidiaries represented 42.3 %, down 3.5 percentage points year on year. The decline is due to the winding up of Velebit usluge and impairment losses on the subsidiaries Sava životno osiguranje and Illyria. The proportion of other asset classes remained broadly the same year on year.

36 Effective as of 1 January 2016, the Company changed the recording of demand deposits under cash and cash equivalents (in 2015 shown under the deposit item).

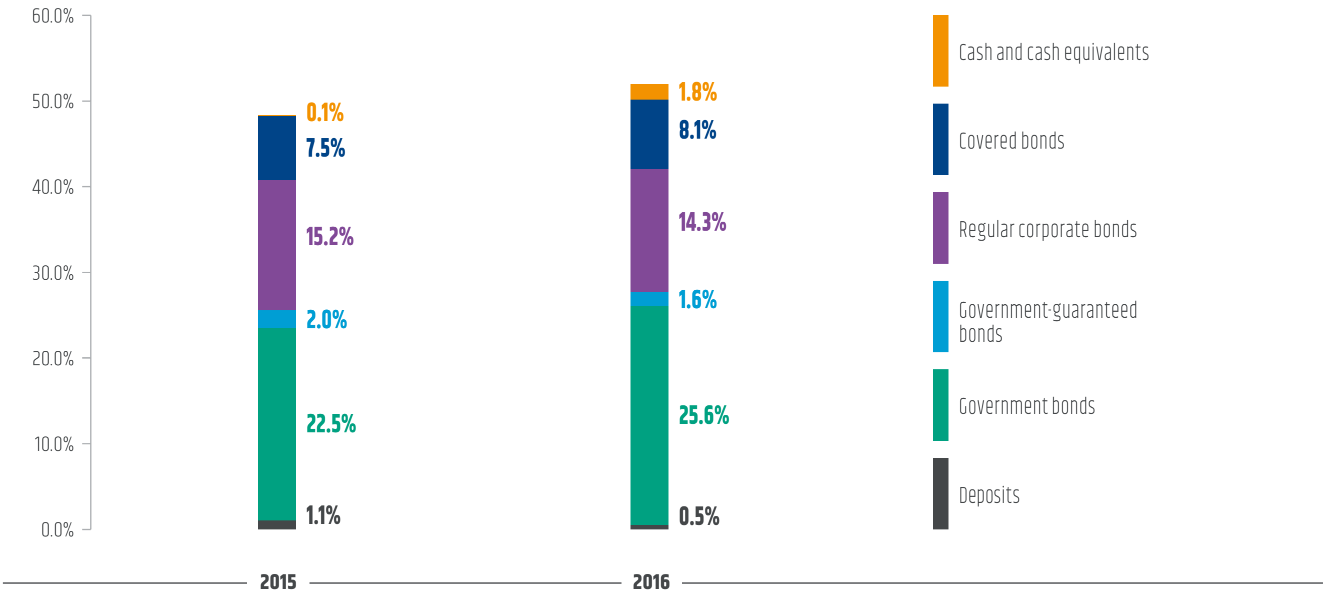
Following is an overview of the structure of the investment portfolio.

Structure of the investment portfolio



Following is a graph showing the structure of fixed-income investments.

Structure of fixed-income investments as part of the investment portfolio



In terms of the structure of fixed-income investments in 2016 relative to 2015, there was a decline in the proportions of regular corporate bonds and government guaranteed bonds. The decline is due to their being reinvested in government bonds upon maturity. The share of deposits decreased due to the change in the classification of demand deposits classified as cash and cash equivalents as of 1 January 2016.

21.2.1.2. Receivables

Receivables declined by 5.4 %, or € 4.6 million, at year-end 2016. The decline stems from the receivables arising out of reinsurance and co-insurance item (as a result of the drop in business from abroad) and the current tax assets item (in 2015 there were tax assets, in 2016 tax liabilities). The percentage of non-past-due receivables was 80.4 %, together with past-due receivables up to 180 days, they accounted for 86.6 %. Sava Re almost exclusively transacts business with highly rated insurers and reinsurers, which is why impairment losses on operating receivables are small.

21.2.1.3. Cash and cash equivalents

Cash and cash equivalents increased in 2016 because of the changed treatment of demand deposits. As of 1 January 2016, demand deposits were classed as items of cash and cash equivalents. At 31 December 2016, demand deposits totalled € 6.9 million.

21.2.2. Liabilities

Equity and liabilities by type

(€)	31/12/2016	As % of total at 31/12/2016	31/12/2015	As % of total at 31/12/2015
EQUITY AND LIABILITIES	**568,147,764**	**100.0 %**	**570,886,710**	**100.0 %**
Capital	270,355,622	47.6 %	263,679,403	46.2 %
Share capital	71,856,376	12.6 %	71,856,376	12.6 %
Capital reserves	54,239,757	9.5 %	54,239,757	9.5 %
Profit reserves	147,004,019	25.9 %	124,175,314	21.8 %
Treasury shares	-24,938,709	-4.4 %	-10,319,347	-1.8 %
Fair value reserve	3,785,553	0.7 %	3,006,703	0.5 %
Reserve due to fair value revaluation	-1,765		-42,835	
Retained earnings	9,283,163	1.6 %	12,769,646	2.2 %
Net profit/loss for the period	9,127,228	1.6 %	7,993,789	1.4 %
Subordinated liabilities	23,570,771	4.1 %	23,534,136	4.1 %
Technical provisions	226,207,479	39.8 %	220,901,954	38.7 %
Other provisions	331,802	0.1 %	347,277	0.1 %
Deferred tax liabilities	0	0.0 %	0	0.0 %
Other financial liabilities	104,280	0.0 %	91,897	0.0 %
Liabilities from operating activities	43,797,970	7.7 %	47,871,910	8.4 %
Other liabilities	3,779,840	0.7 %	14,460,133	2.5 %

* There was a material increase in other liabilities to year-end 2015 from year-end 2014 because of liabilities to Velebit usluge – in liquidation for the payment of the purchase price of shares in Velebit osiguranje and Velebit životno osiguranje in the amount of € 12.3 million.

21.2.2.1. Equity

Equity is the largest item on the liabilities side, representing 47.6 % of liabilities and equity. Compared to 31 December 2015, equity increased by 2.5 % or € 6.7 million due to the following movements:

- the net profit for 2016 amounted to € 32.9 million (increase in equity);
- Sava Re paid out dividends in the amount of € 12.4 million (decrease in equity);
- own shares of € 14.6 million were repurchased (decrease in equity);
- the fair value reserve increased by € 0.8 million as a result of trends in capital markets (decrease in equity).

21.2.2.2. Technical provisions

Technical provisions, the second largest item on the liabilities side, increased by 2.4 % or € 5.3 million compared to 31 December 2015. The increase was mainly due to the growth in the gross provision for outstanding claims of 4.7 %, or € 8.3 million, which increased in the Group's portfolio as a result of some major losses, and in the extra-Group portfolio due to larger premium growth in previous years. Gross unearned premiums decreased by 6.9 %, or € 3.2 million, mainly due to the decrease in gross written premiums of non-Group cedants. The movement in technical provisions is discussed in detail in note 19 of the notes to the financial statements.

21.2.2.3. Liabilities from operating activities

Liabilities from operating activities mainly comprise liabilities for claims and commissions relating to core business and liabilities for reinsurance premiums. Their payment schedules depend on amounts in the fourth quarter reinsurance accounts received, which are to be settled at a later date similar to receivables. As at 31 December 2016, Sava Re held current tax liabilities.

21.2.2.4. Other liabilities

These liabilities decreased due to the winding up of Velebit usluge.

21.2.3. Capital adequacy of Sava Re

On 1 January 2016[37], the Solvency II regime came into force. This new regime requires that a risk-based approach be used in the calculation of capital adequacy. For calculating its capital requirements under Solvency II, Sava Re uses the standard formula. The solvency capital requirement is calculated annually, while eligible own funds supporting solvency requirements are calculated on a quarterly basis.
Pursuant to regulations, Sava Re calculated its capital adequacy position as at 1 January 2016.

Capital adequacy of Sava Re as at 1 Janaury 2016

(€)	As at 1 January 2016 (unaudited)
Eligible own funds	379,163,938
Minimum capital requirement	35,817,895
Solvency capital requirement (SCR)	143,271,578
Solvency ratio	**264.6 %**

Sava Re's eligible own funds as at 30 September 2016 totalled € 422.4 million and were slightly higher than as at 1 January 2016. It needs to be noted that dividend payments for 2016 are not considered in quarterly calculated eligible own funds, while eligible own funds as at 31 December 2016 are net of the expected dividends. We assume that the level of eligible own funds at the end of the year is slightly above the level as at 1 January 2016.

37 During the preparation of the audited annual report, the Sava Re is yet to obtain audited Solvency II data for 2016.

We also expect that the solvency ratio as at 31 December 2016 is broadly on the same level as at 1 January 2016.
Detailed results of Sava Re's capital adequacy calculation as at 31 December 2016 will be presented in the Solvency and Financial Condition Report of Sava Re in May 2017.

21.2.4. Other investments of Sava Re in the insurance industry

In addition to its investments in subsidiaries as at 31 December 2016, Sava Re held investments in other companies in the insurance industry.

Other investments of Sava Re in the insurance industry

	Holding (%) as at 31/12/2016
Slovenia	
Skupina prva, zavarovalniški holding, d.d.	4.04 %
Zavarovalnica Triglav d.d.	0.73 %
EU and other international	
Bosna reosiguranje, d.d., Sarajevo, Bosnia and Herzegovina	0.51 %
Dunav Re, a.d.o., Belgrade, Serbia	1.12 %

21.2.5. Capital structure

As at 31 December 2016, Sava Re held € 270.3 million of equity capital and € 23.6 million of subordinated liabilities. Subordinated liabilities and other financial liabilities accounted for 8.8 % of capital.
For more details on the subordinate debt, see sections 24.2.18 and 24.6 (note 18) in the notes to the financial statements.

21.2.6. Cash flow

Net cash from operating activities of the Company in 2016 was € 11.4 million (2015: € 5.4 million), reflecting positive cash flow from core reinsurance business.
Net disbursements used in financing activities in 2016 totalled € 28.1 million (2015: € 14.1 million). In 2016, the level of net disbursements used in financing activities was mainly affected by purchases of own shares (€ 14.6 million) and dividend payouts (€ 12.4 million). The movement in the net disbursement in financing activities is due to investing activities, however, the amount was also affected by the above factors.

21.3. Human resources management

21.3.1. Strategic guidelines for human resources management

Sava Re follows the below strategic guidelines in human resources management:
- attracting and retaining the best talent,
- developing future leaders, functional expertise, and competent and responsible employees,
- providing effective leadership and employee motivation,
- organising work in a secure, diverse, and sustainable-oriented work environment and
- promoting a modern corporate culture.

21.3.2. Key activities in human resources management

In 2016, our activities were focused on strengthening brand recognition in the labour market, setting up a system for the development of key personnel and succession planning, improving the remuneration system and improving the Company's organisational structure.

We attended a job fair at the faculty of mathematics and physics of the University in Ljubljana, participated in the Elevator Pitch Festival, and presented the Company at the Career Centre of the University of Ljubljana in order to strengthen brand awareness among young, high-potential prospects.

We have developed a leadership model in the form of a competence profile for leaders with the aim of setting the expected competencies and behaviours of leaders, as a basis for further activities in the development of key employees and the development of a modern organisational culture.

We put in place a remuneration policy and made some improvements in the Company's remuneration system.

At the end of 2016, we conducted a reorganisation of the Company in line with the strategic development of the Company and the Sava Re Group.

21.3.3. Recruitment and staffing levels

Recruitment is conducted in line with the adopted recruitment plan.

The Company builds its human resources on the following principles:
- recruitment of the most suitable employees,
- proper induction of new employees and integration, and
- employee development in line with the needs of the Company and the Group.

Number of employees

	31/12/2016	31/12/2015	Change
No. of employees (FTE basis)	94.6	83.0	11.6
No. regular employments	102	97	5

In 2016, we hired 15 new staff, of which 7 arrived from our subsidiaries as part of the reorganisation during the merger project. The remaining staff members were hired for the following areas: risk management, asset management, reinsurance operations for expansion to Latin America, development of information technology, general affairs and public relations. In August, the supervisory board recalled the chairman of the management board. At the end of the year, eight employees were outplaced to the newly established Zavarovalnica Sava.

The below tables give details on employees (under employment contracts) by various criteria.

Number employees by working hours

	2016		2015	
Type of employees by working hours	**Number**	**As % of total**	**Number**	**As % of total**
Part-time	12	11.8	16	16.5
Full-time	90	88.2	81	83.5
Total	**102**	**100.0**	**97**	**100.0**

Most employees work on a full-time employment contract. Part-time employment relates to employees who split their employment between Sava Re and the Group's combined insurer. Additionally, part-time employment is offered to employees with statutory childcare rights.

Number of employees by level of education

	2016		2015	
Level of formal education	**Number**	**As % of total**	**Number**	**As % of total**
Primary and lower secondary education	0	0.0	0	0.0
Secondary education	12	11.8	14	14.4
Higher	5	4.9	5	5.2
University education	62	60.8	58	59.8
Master's degree and doctorate	23	22.5	20	20.6
Total	**102**	**100.0**	**97**	**100.0**

The staffing levels by level of education have not changed significantly over the year. The largest staff group has a university degree. The increase in the size of this group reflects the recruitment of highly qualified staff as required in reinsurance business. The Company encourages employees to join formal education programmes.

Employees by age group

	2016		2015	
Age groups	Number	As % of total	Number	As % of total
20–25	2	2.0	2	2.1
26–30	10	9.8	7	7.2
31–35	16	15.7	17	17.5
36–40	22	21.6	24	24.7
41–45	23	22.5	19	19.6
46–50	16	15.7	14	14.4
51–55	5	4.9	6	6.2
56 and more	8	7.8	8	8.2
Total	**102**	**100.0**	**97**	**100.0**

The Company's average employee age decreased slightly compared to the previous year and was to 41.76 years (2015: 41.92 years), as a result of the recruitment of young people.

Employees by gender

	2016		2015	
Gender	Number	As % of total	Number	As % of total
Women	62	60.8	61	62.9
Men	40	39.2	36	37.1
Total	**102**	**100.0**	**97**	**100.0**

The number of women is considerable larger than the number of men. They are represented at all levels of management and in all professional areas. The share of men increased in 2016.

Number of employees by years of service at Sava Re

	2016		2015	
Years of service	Number	As % of total	Number	As % of total
0–5 years	41	40.2	39	40.2
5–10 years	32	31.4	32	33.0
10–15 years	11	10.8	8	8.2
15–20 years	9	8.8	12	12.4
20–30 years	6	5.9	3	3.1
Over 30 years	3	2.9	3	3.1
Total	**102**	**100.0**	**97**	**100.0**

The high proportion of employees in the first two categories, based on seniority in the Company, is attributed to recruitment from 2009 onwards. The number of employees with over 20 years seniority declined as a result of recent retirements, which reduced the number of employees with long seniority.

21.3.4. Absenteeism

Absenteeism is calculated as the number of lost workdays due to absences divided by the product of the average number of employees multiplied by the average number of workdays during the period multiplied by 100. The 2016 rate of absenteeism increased by 0.57 percentage points to 2.96 %. The rise in the absenteeism rate was primarily the result of the prolonged absences of three employees.

21.3.5. Staff turnover

In 2016, we recruited 15 staff, of which 7 were employees of the subsidiaries and 8 new employees. One staff member left the Company and 9 were employed by subsidiaries. The 2016 turnover rate was 8.82 %, up 7.79 percentage points year on year (2015: 1.03 %). The high turnover rate is solely the result of the outplacement of a large number of employees to the Group's new insurer.

Year	Arrivals*	Departures**	Difference
2014	16	1	15
2015	9	1	8
2016	15	10	5

* Arrivals = number of employees who joined the Company
** Departures = number of employees who left the Company

21.3.6. Employee training and development

The Company encourages the development of competence and responsibility in its employees. Employees are encouraged to join education and training programmes in accordance with the needs of the workplace as well as their personal and career development.

Employees participate in domestic and foreign business and professional conferences and training events. In 2016, we carried out a considerable number of group training in foreign languages, the use of computer applications and personal growth.

We encourage the recruitment of young high-potential people. In order to prepare new employees for their new role quickly and efficiently, the Company prepares programmes for internships and probationary periods. During this period, new employees are placed in the care of a mentor and a leader.

We also encourage knowledge transfer among employees in the Sava Re Group. To this end, Sava Re organised the following events in 2016: sales conferences, an internal audit workshop, an IT workshop, seminars in finance, accounting, controlling, actuarial affairs, risk management, human resources management and a seminar in strategic purchasing. Traditionally, the Group organises two strategic conferences to encourage the Group-wide transfer of best practices in governance and management. This year's focus was on corporate communication, the future of the insurance industry, teamwork and creative thinking.

21.3.7. Management and motivation

We encourage a positive working climate by effective leadership and motivation of employees, effective organisation of work and the involvement of employees in a number of projects.

21.3.7.1. Annual performance appraisal interviews

At the end of the year, all employees went through a regular process of annual performance appraisal interviews. These regular annual interviews are opportunities for leaders and employees to discuss realised and planned activities; achieved and new objectives; realised and required education and training; and other plans.

21.3.7.2. Health and safety at work

Activities of health and safety at work involve all employees, management, human resources, an approved medical examiner and one more external authorised service provider.

Employees are regularly referred to periodic health checks and undergo regular training in health and safety at work in accordance with applicable laws and internal acts.

The Company's holiday facilities in Bohinj and Cres are available for employees to use.

21.3.7.3. Other activities

Sava Re closely cooperated with two workers' organisations in the Company, the workers' council and the union. In 2016, the cooperation was regarding the amendments to the Company's internal acts.

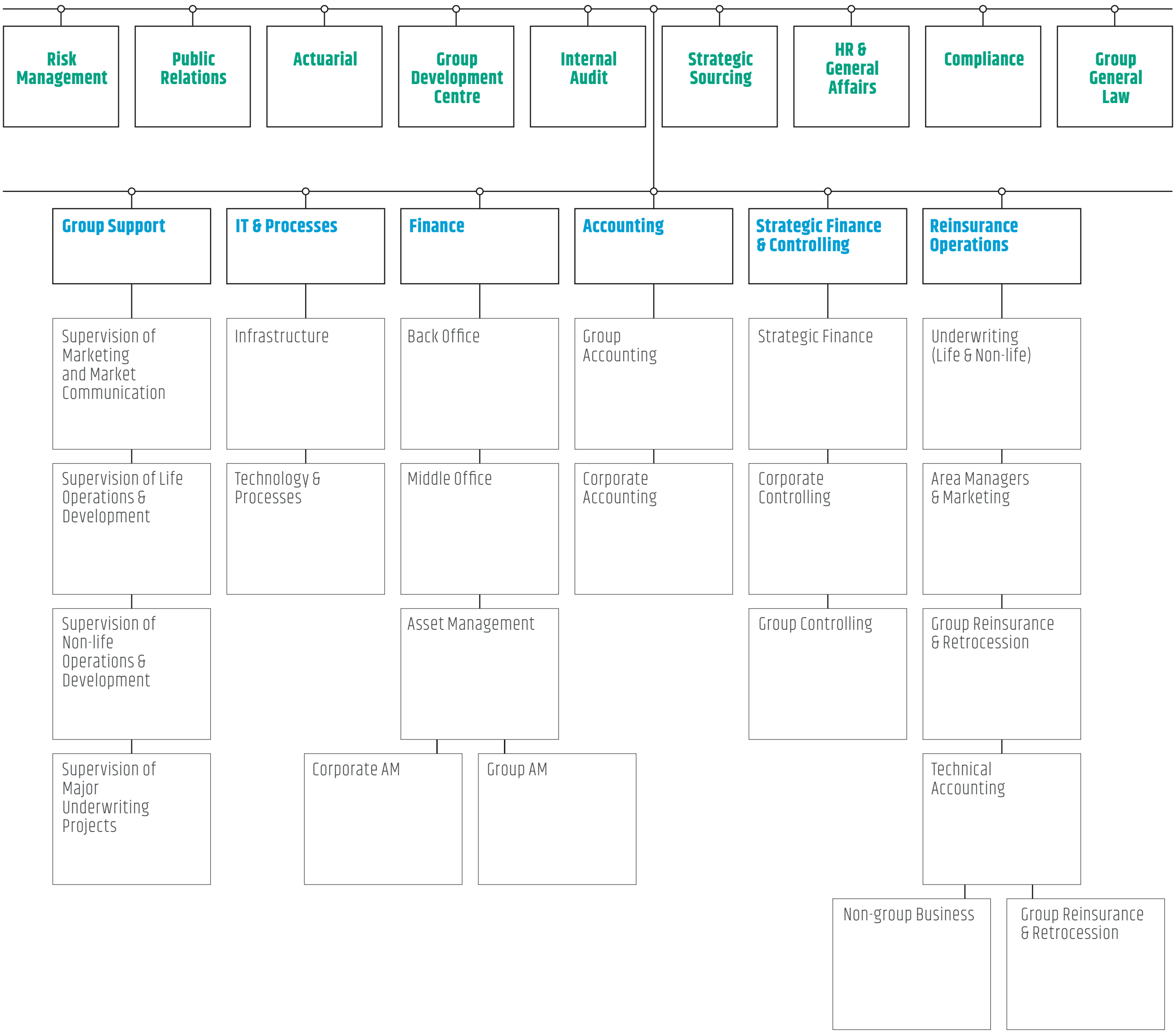
All-staff meetings are an important source of information for employees, where the management board presents results of operations, plans for the current period and the development strategy of the Company and the Group.

The culture of cooperation and integration is strengthened in corporate events, training and various social events. This year again, employees participated in voluntary activities as part of Sava Re Day.

MANAGEMENT BOARD

Company Secretary

Advisor to the Management Board



21.4. Sava Re Risk Management

The organisation, process of risk management as well as the risk management policy of Sava Re is described in the business report of the Sava Re Group, section 11 "Risk management".

21.5. Internal audit

The organisation of internal auditing in 2016 is described in the business report of the Sava Re Group, section 13 "Operation of the internal audit".

21.6. Business processes and IT support

In 2016, Sava Re continued with the implementation of the REvolve application for the support of reinsurance operations. As of the beginning of the year, we started using REvolve as the sole system for the recording and posting of reinsurance accounts, for preparing payment transactions and for netting receivables and liabilities through bank statements. Revolve was integrated with the Navision accounting software, into which reinsurance postings are made automatically. After the first quarter, in which reinsurance postings were fully supported by REvolve, the implementation of an information system to support reinsurance operations was formally completed, although some planned modules remain to be developed. Based on our experience, we gave priority to optimising the existing contract module, which required major changes in the architecture. We will continue upgrading and developing REvolve in line with the needs of the business process.

Even though REvolve was in production use, we continued using the old Reinsurance Contract application in 2016, using it as an interface between REvolve and the current data warehouse. No direct transfer of REvolve into the existing data warehouse has been performed as a new data warehouse using new technology is planned to be set up. In the second half of 2016, we started working on the new data warehouse, which is scheduled to be completed in the first half of 2017. Once the new data warehouse is fully functional, the old Reinsurance Contract application and the old data warehouse will be shut down.

Furthermore, we implemented the PACE tool in 2016 intended for catastrophe modelling used in reinsurance underwriting and pricing. PACE was in test use in the second quarter, but was prepared for production use at the end of the year so it could be used in the reinsurance treaty renewals for 2017.

We continued developing other small applications, in particular the risk register, which started to be used also by some other companies of the Group.

In terms of infrastructure, some major changes were planned for 2016 relating to the consolidation of the Maribor and Novo mesto data centres (purchase of new blade servers, purchase of additional virtual tape library in the Maribor data centre, enhancement of memory capacity), but due to the merger activities surrounding Zavarovalnica Sava, these plans remained unrealised. These activities will be continued in 2017.

21.7. Sava Re performance indicators[38]

Development of gross premiums written

(€)	2016	2015	Index
	1	2	1/2
Personal accident	5,459,215	9,411,698	58.0
Health	439,435	2,150,843	20.4
Land vehicles casco	16,046,517	16,432,253	97.7
Railway rolling stock	111,896	102,650	109.0
Aircraft hull	847,304	616,442	137.5
Ships hull	3,400,041	3,772,148	90.1
Goods in transit	5,217,065	4,975,663	104.9
Fire insurance	71,576,193	67,676,509	105.8
Other damage to property	21,299,464	21,362,766	99.7
Motor liability	12,460,725	12,536,166	99.4
Aircraft liability	56,730	174,181	32.6
Liability for ships	515,436	334,736	154.0
General liability	6,302,548	4,783,141	131.8
Credit	918,053	603,027	152.2
Suretyship	209,725	142,740	146.9
Miscellaneous financial loss	2,135,991	4,930,798	43.3
Legal expenses	10,532	6,228	-
Assistance	15,573	-2,469	-630.8
Life insurance	145,900	1,674,409	8.7
Unit-linked life	258,549	298,491	86.6
Total non-life	**147,022,444**	**150,009,522**	**98.0**
Total life	**404,449**	**1,972,899**	**20.5**
Total	**147,426,893**	**151,982,421**	**97.0**

38 Performance indicators are given pursuant to the Decision on the annual report and quarterly financial statements of insurance companies (Official Gazette of the Republic of Slovenia, nos. 1/2016, 85/2016).

Net premiums written as a percentage of gross premiums written

(€, except percentages)	Gross written premiums	Net premiums written	2016	2015
	1	2	2/1	
Personal accident	5,459,215	5,416,523	99.2 %	99.4 %
Health	439,435	439,435	100.0 %	100.0 %
Land vehicles casco	16,046,517	14,922,485	93.0 %	94.1 %
Railway rolling stock	111,896	111,896	100.0 %	100.0 %
Aircraft hull	847,304	847,304	100.0 %	100.0 %
Ships hull	3,400,041	3,241,229	95.3 %	98.1 %
Goods in transit	5,217,065	4,944,693	94.8 %	95.7 %
Fire insurance	71,576,193	61,188,913	85.5 %	84.1 %
Other damage to property	21,299,464	18,047,835	84.7 %	86.8 %
Motor liability	12,460,725	11,933,665	95.8 %	96.3 %
Aircraft liability	56,730	422	0.7 %	70.8 %
Liability for ships	515,436	509,298	98.8 %	98.4 %
General liability	6,302,548	5,825,429	92.4 %	88.8 %
Credit	918,053	918,053	100.0 %	100.0 %
Suretyship	209,725	209,725	100.0 %	100.0 %
Miscellaneous financial loss	2,135,991	1,669,919	78.2 %	92.3 %
Legal expenses	10,532	10,532	100.0 %	100.0 %
Assistance	15,573	15,573	100.0 %	100.0 %
Life insurance	145,900	-483,720	-331.5 %	-13.1 %
Unit-linked life	258,549	108,950	42.1 %	42.3 %
Total non-life	**147,022,444**	**130,252,931**	**88.6 %**	**89.1 %**
Total life	**404,449**	**-374,771**	**-92.7 %**	**-4.7 %**
Total	**147,426,893**	**129,878,160**	**88.1 %**	**87.9 %**

Development of gross claims paid

(€)	2016	2015	Index
	1	2	1/2
Personal accident	4,442,592	5,279,619	84.1
Health	310,753	1,476,957	21.0
Land vehicles casco	9,866,898	11,810,796	83.5
Railway rolling stock	13,970	2,529	552.4
Aircraft hull	251,644	339,744	74.1
Ships hull	2,183,806	2,068,469	105.6
Goods in transit	3,299,750	1,337,086	246.8
Fire insurance	40,569,708	43,200,550	93.9
Other damage to property	9,805,823	12,634,203	77.6
Motor liability	9,323,574	7,625,754	122.3
Aircraft liability	43,436	4,718	920.6
Liability for ships	112,462	132,005	85.2
General liability	1,521,495	2,023,580	75.2
Credit	-259,264	-150,180	172.6
Suretyship	90,499	338,049	26.8
Miscellaneous financial loss	2,910,701	223,207	1,304.0
Legal expenses	649	821	79.0
Assistance	70	728	9.7
Life insurance	550,715	1,211,842	45.4
Unit-linked life	126,311	129,060	97.9
Total non-life	**84,488,566**	**88,348,635**	**95.6**
Total life	**677,026**	**1,340,902**	**50.5**
Total	**85,165,592**	**89,689,537**	**95.0**

Loss ratios

(€, except percentages)	Gross written premiums	Gross claims paid	2016	2015
	1	2	2/1	
Personal accident	5,459,215	4,442,592	81.4 %	56.1 %
Health	439,435	310,753	70.7 %	68.7 %
Land vehicles casco	16,046,517	9,866,898	61.5 %	71.9 %
Railway rolling stock	111,896	13,970	12.5 %	2.5 %
Aircraft hull	847,304	251,644	29.7 %	55.1 %
Ships hull	3,400,041	2,183,806	64.2 %	54.8 %
Goods in transit	5,217,065	3,299,750	63.2 %	26.9 %
Fire insurance	71,576,193	40,569,708	56.7 %	63.8 %
Other damage to property	21,299,464	9,805,823	46.0 %	59.1 %
Motor liability	12,460,725	9,323,574	74.8 %	60.8 %
Aircraft liability	56,730	43,436	76.6 %	2.7 %
Liability for ships	515,436	112,462	21.8 %	39.4 %
General liability	6,302,548	1,521,495	24.1 %	42.3 %
Credit	918,053	-259,264	-28.2 %	-24.9 %
Suretyship	209,725	90,499	43.2 %	236.8 %
Miscellaneous financial loss	2,135,991	2,910,701	136.3 %	4.5 %
Legal expenses	10,532	649	6.2 %	13.2 %
Assistance	15,573	70	0.5 %	-29.5 %
Life insurance	145,900	550,715	377.5 %	72.4 %
Unit-linked life	258,549	126,311	48.9 %	43.2 %
Total non-life	**147,022,444**	**84,488,566**	**57.5 %**	**58.9 %**
Total life	**404,449**	**677,026**	**167.4 %**	**68.0 %**
Total	**147,426,893**	**85,165,592**	**57.8 %**	**59.0 %**

Administrative expenses as percentage of gross premiums written (€)

(€, except percentages)	Gross written premiums	Operating expenses*	2016	2015
	1	2	2/1	
Personal accident	5,459,215	2,138,063	39.2 %	25.3 %
Health	439,435	182,892	41.6 %	34.4 %
Land vehicles casco	16,046,517	4,471,158	27.9 %	22.7 %
Railway rolling stock	111,896	19,786	17.7 %	9.3 %
Aircraft hull	847,304	174,937	20.6 %	12.8 %
Ships hull	3,400,041	1,050,955	30.9 %	26.7 %
Goods in transit	5,217,065	1,389,807	26.6 %	18.0 %
Fire insurance	71,576,193	19,831,936	27.7 %	22.1 %
Other damage to property	21,299,464	6,316,948	29.7 %	28.2 %
Motor liability	12,460,725	4,054,150	32.5 %	28.4 %
Aircraft liability	56,730	-4,744	-8.4 %	23.0 %
Liability for ships	515,436	168,507	32.7 %	25.5 %
General liability	6,302,548	1,735,545	27.5 %	27.7 %
Credit	918,053	197,414	21.5 %	21.1 %
Suretyship	209,725	61,256	29.2 %	42.0 %
Miscellaneous financial loss	2,135,991	571,640	26.8 %	5.1 %
Legal expenses	10,532	5,531	52.5 %	18.4 %
Assistance	15,573	2,922	18.8 %	25.3 %
Life insurance	145,900	160,257	109.8 %	33.8 %
Unit-linked life	258,549	46,662	18.0 %	18.3 %
Total non-life	**147,022,444**	**42,368,703**	**28.8 %**	**23.5 %**
Total life	**404,449**	**206,920**	**51.2 %**	**31.5 %**
Total	**147,426,893**	**42,575,623**	**28.9 %**	**23.6 %**

Included are only the operating expenses relating to reinsurance operations (excluding administrative expenses relating to the Group).

Acquisition costs (commission) as percentage of gross premiums written (€)

(€, except percentages)	Gross written premiums	Acquisition costs	2016	2015
	1	2	2/1	
Personal accident	5,459,215	1,261,274	23.1 %	24.3 %
Health	439,435	124,444	28.3 %	34.8 %
Land vehicles casco	16,046,517	3,330,359	20.8 %	20.4 %
Railway rolling stock	111,896	11,263	10.1 %	8.9 %
Aircraft hull	847,304	135,197	16.0 %	12.8 %
Ships hull	3,400,041	783,954	23.1 %	23.1 %
Goods in transit	5,217,065	1,024,381	19.6 %	13.9 %
Fire insurance	71,576,193	16,854,563	23.5 %	20.8 %
Other damage to property	21,299,464	4,733,898	22.2 %	25.2 %
Motor liability	12,460,725	2,741,399	22.0 %	22.2 %
Aircraft liability	56,730	-22,464	-39.6 %	27.2 %
Liability for ships	515,436	118,517	23.0 %	26.4 %
General liability	6,302,548	1,280,329	20.3 %	21.6 %
Credit	918,053	230,257	25.1 %	23.1 %
Suretyship	209,725	48,646	23.2 %	29.9 %
Miscellaneous financial loss	2,135,991	311,651	14.6 %	6.5 %
Legal expenses	10,532	4,932	46.8 %	28.1 %
Assistance	15,573	1,534	9.8 %	25.3 %
Life insurance	145,900	50,767	34.8 %	27.2 %
Unit-linked life	258,549	36,522	14.1 %	14.9 %
Total non-life	**147,022,444**	**32,974,134**	**22.4 %**	**21.3 %**
Total life	**404,449**	**87,289**	**21.6 %**	**25.4 %**
Total	**147,426,893**	**33,061,422**	**22.4 %**	**21.3 %**

Net paid loss ratio

(€, except percentages)	Net premiums earned	Net claims incurred	2016	2015
	1	2	2/1	
Personal accident	6,304,954	3,952,572	62.7 %	70.8 %
Health	712,446	618,423	86.8 %	81.2 %
Land vehicles casco	14,474,119	10,566,432	73.0 %	70.9 %
Railway rolling stock	90,732	14,576	16.1 %	2.8 %
Aircraft hull	830,025	879,958	106.0 %	78.1 %
Ships hull	3,492,377	5,379,887	154.0 %	78.2 %
Goods in transit	5,084,728	2,315,389	45.5 %	73.4 %
Fire insurance	60,878,856	40,374,237	66.3 %	79.3 %
Other damage to property	19,273,254	5,283,732	27.4 %	56.6 %
Motor liability	11,991,388	7,713,840	64.3 %	52.4 %
Aircraft liability	145,914	-68,685	-47.1 %	-339.2 %
Liability for ships	529,870	401,928	75.9 %	13.2 %
General liability	5,618,316	2,897,308	51.6 %	35.3 %
Credit	584,669	-237,131	-40.6 %	-33.4 %
Suretyship	179,896	205,909	114.5 %	317.9 %
Miscellaneous financial loss	3,257,056	1,671,024	51.3 %	51.0 %
Legal expenses	9,986	2,380	23.8 %	45.0 %
Assistance	14,096	-1,714	-12.2 %	144.4 %
Life insurance	-152,757	-232,311	152.1 %	-849.8 %
Unit-linked life	108,950	43,811	40.2 %	26.6 %
Total non-life	**133,472,682**	**81,970,065**	**61.4 %**	**69.4 %**
Total life	**-43,807**	**-188,500**	**430.3 %**	**-154.5 %**
Total	**133,428,875**	**81,781,565**	**61.3 %**	**69.1 %**

Combined loss ratio for non-life insurance business (€)

Net claims incurred	Administrative expenses	Net premiums earned	2016	2015
1	2	3	(1+2)/3	
81,970,065	10,629,248	133,472,682	69.4 %	76.8 %

Net investment income as percentage of average investments

(€)	Average investments	Investment income	Investment expenses	Investment return 1-12/2016	Investment return 1-12/2015
Liability fund	214,886,542	11,622,041	6,278,774	2.5 %	3.5 %
Capital fund	234,401,405	27,566,540	5,184,887	9.5 %	3.5 %
Total	**449,287,947**	**39,188,581**	**11,463,661**	**6.2 %**	**3.5 %**

Net provisions for outstanding claims as percentage of net earned premiums

(€, except percentages)	Net provision for outstanding claims	Net premiums earned	2016	2015
	1	2	1/2	
Personal accident	8,475,800	6,304,954	134.4 %	100.9 %
Health	587,668	712,446	82.5 %	15.1 %
Land vehicles casco	6,203,471	14,474,119	42.9 %	34.3 %
Railway rolling stock	606	90,732	-	-
Aircraft hull	1,137,393	830,025	137.0 %	87.8 %
Ships hull	8,085,162	3,492,377	231.5 %	141.1 %
Goods in transit	6,032,423	5,084,728	118.6 %	153.9 %
Fire insurance	68,333,650	60,878,856	112.2 %	118.8 %
Other damage to property	16,461,477	19,273,254	85.4 %	112.2 %
Motor liability	35,046,553	11,991,388	292.3 %	285.5 %
Aircraft liability	71,262	145,914	48.8 %	-548.5 %
Liability for ships	605,497	529,870	114.3 %	132.3 %
General liability	14,110,211	5,618,316	251.1 %	308.5 %
Credit	393,833	584,669	67.4 %	83.3 %
Suretyship	397,307	179,896	220.9 %	168.2 %
Miscellaneous financial loss	352,718	3,257,056	10.8 %	53.1 %
Legal expenses	2,520	9,986	25.2 %	22.0 %
Assistance	575	14,096	4.1 %	-100.5 %
Life insurance	303,655	-152,757	-198.8 %	2565.0 %
Unit-linked life	66,549	108,950	61.1 %	55.2 %
Total non-life	**166,298,126**	**133,472,682**	**124.6 %**	**127.1 %**
Total life	**370,203**	**-43,807**	**-845.1 %**	**573.9 %**
Total	**166,668,329**	**133,428,874**	**124.9 %**	**127.7 %**

Gross profit/loss for the period as percentage of net premiums written (€)

Gross profit/loss	Net premiums written	2016	2015
1	2	1/2	
34,977,140	129,878,160	26.9 %	12.5 %

Gross profit/loss for the period as percentage of average equity (€)

Gross profit/loss	Average equity	2016	2015
1	2	1/2	
34,977,140	267,017,513	13.1 %	6.4 %

Gross profit/loss for the period as percentage of average assets (€)

Gross profit/loss	Average assets	2016	2015
1	2	1/2	
34,977,140	569,517,237	6.1 %	3.0 %

Gross profit/loss for the period per share (€)

Gross profit/loss	No. of shares		2016	2015
1	2		1/2	
34,977,140	17,219,662		2.03	0.97

Receivables arising out of reinsurance business and reinsurers' share of technical provisions as a percentage of equity (€)

Receivables arising out of reinsurance business	Reinsurers' share of technical provisions	Equity	2016	2015
1	2	3	1/2	
79,603,551	18,203,912	270,355,622	36.2 %	37.3 %

Net premiums written as percentage of average equity and average technical provisions (€)

Net premiums written	Average equity	Average technical provisions	2016	2015
1	2	3	1/(2+3)	
129,878,160	267,017,513	223,554,717	26.5 %	27.9 %

Average technical provisions as percentage of net earned premiums (€)

Average net technical provisions	Net premiums earned		2016	2015
1	2		1/2	
206,439,582	133,428,874		154.7 %	155.7 %

Equity as percentage of liabilities and equity (€)

Equity	Liabilities and equity		2016	2015
1	2		1/2	
270,355,622	568,147,764		47.6 %	46.2 %

Net technical provisions as percentage of liabilities and equity (€)

Net technical provisions	Liabilities and equity		2016	2015
1	2		1/2	
208,003,567	568,147,764		36.6 %	35.9 %

Gross premiums written per employee (€)

Gross written premiums	Number of employees in regular employment		2016	2015
1	2		1/2	
147,426,893	94.58		1,558,836	1,832,217

SAVA RE

FINANCIAL STATEMENTS WITH NOTES

22. AUDITOR'S REPORT

EY
Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pozavarovalnica Sava, d.d.

Opinion

We have audited the financial statements of Pozavarovalnica Sava, d.d. ("the Company"), which comprise the statement of financial position as at 31 December 2016, the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pozavarovalnica Sava, d.d. as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Estimations concerning premium recognition, technical provisions, reinsurance assets and liabilities

Technical provisions of the Company consist solely of provisions related to reinsurance business. Part of those provisions are related to estimates based on input data received from cedants, underwriters' assumptions and historical data developed internally by the Company. The Company estimates claims provision for business outside the Sava Re Group, taking into account expected premiums and expected combined ratios. Those estimates also influence other significant areas within the financial statements, such as gross premium income, commission and premium receivables. Premium estimates are made based on expected premiums from reinsurance contracts which, according to due dates, are already in force, although the Company has yet to receive reinsurance accounts.	We involved actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in setting of assumptions. We assessed the design and verified the operating effectiveness of internal controls over the estimation process including the initial input of the data in the model based on reinsurance contracts as well as the later update of assumptions based on current information from cedants. We reviewed the methodology and assumptions used by the Company to establish its IBNR provisions and performed recalculation of Company IBNR provisions. We reviewed the methodology used by the Company to calculate claim provisions established by estimation using actuarial methods.

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The Company prepares back testing analyses to assess correctness of previous period assumption and builds projections on experience.

Additionally, incurred but not reported ("IBNR") provisions are calculated independently by the Company to confirm reasonability of ceded amounts, using development triangles of cumulative claim payments by underwriting year.

There is a risk that the estimates and judgements made by the underwriters and the actuary may result in a material misstatement in the financial statements. We determined this to be a significant item for our audit and a key audit matter.

We performed detailed analytical procedures on estimates relating to premiums, commissions and technical provisions and assessed the experience (back testing) analyses performed by the Company in their assumption setting processes. We tested on a sample basis whether the input data in the model for recalculation of estimates is accurate and complete. We assessed the adequacy of the disclosures included in notes 24.2.19 and 24.6.19 of the financial statements.

Other information

Other information comprises the information included in the annual report other than the financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, supervisory board and audit committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with the audit committee and supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ljubljana, 31 March 2017

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana

Primož Kovačič
Certified auditor

23. FINANCIAL STATEMENTS

23.1. Statement of financial position

(€)	Notes	31/12/2016	31/12/2015
ASSETS		568,147,764	570,886,710
Intangible assets	1	**832,567**	**666,490**
Property and equipment	2	**7,753,202**	**2,455,343**
Deferred tax assets	3	**1,373,436**	**2,285,448**
Investment property	4	**3,122,076**	**2,999,742**
Financial investments in subsidiaries and associates	5	**191,640,382**	**208,231,721**
Financial investments:	6	**249,948,775**	**242,633,203**
- loans and deposits		13,069,414	13,457,000
- held to maturity		2,074,813	2,074,258
- available for sale		233,517,137	223,973,704
- at fair value through profit or loss		1,287,411	3,128,241
Reinsurers' share of technical provisions	7	**18,203,912**	**16,026,358**
Receivables	8	**79,836,627**	**84,425,749**
Receivables arising out of co-insurance and reinsurance business		79,603,551	82,453,006
Current tax assets		0	1,633,620
Other receivables		233,076	339,123
Deferred acquisition costs	9	**6,897,710**	**10,496,041**
Other assets	10	**549,258**	**380,665**
Cash and cash equivalents	11	**7,989,819**	**285,950**
EQUITY AND LIABILITIES		568,147,764	570,886,710
Equity		**270,355,622**	**263,679,403**
Share capital	12	71,856,376	71,856,376
Capital reserves	13	54,239,757	54,239,757
Profit reserves	14	147,004,019	124,175,314
Treasury shares	15	-24,938,709	-10,319,347
Fair value reserve	16	3,785,553	3,006,703
Reserve due to fair value revaluation		-1,765	-42,835
Retained earnings	17	9,283,163	12,769,646
Net profit/loss for the period	17	9,127,228	7,993,789
Subordinated liabilities	18	**23,570,771**	**23,534,136**
Technical provisions	19	**226,207,479**	**220,901,954**
Unearned premiums		43,345,415	46,546,065
Provision for outstanding claims		182,167,780	173,912,911
Other technical provisions		694,284	442,978
Other provisions	20	**331,802**	**347,277**
Other financial liabilities	10	**104,280**	**91,897**
Liabilities from operating activities	21	**43,797,970**	**47,871,910**
Liabilities from reinsurance and co-insurance business		43,723,843	47,871,910
Current income tax liabilities		74,127	0
Other liabilities	22	**3,779,840**	**14,460,133**

The notes to the financial statements in sections 24.2–24.10 form an integral part of these financial statements.

23.2. Income statement

(€)	Notes	2016	2015
Net earned premiums	**24**	**133,428,875**	**125,479,297**
Gross premiums written		147,426,893	151,982,421
Written premiums ceded to reinsurers and co-insurers		-17,548,733	-18,368,925
Change in gross unearned premiums		3,200,650	-7,457,308
Change in unearned premiums, reinsurers' and co-insurers' shares		350,065	-676,891
Income from investments in subsidiaries and associates	**25**	**26,308,516**	**13,004,219**
Investment income	**26**	**12,880,066**	**18,675,409**
Interest income		4,427,975	4,710,946
Other investment income		8,452,091	13,964,463
Other technical income	**27**	**9,263,194**	**9,809,545**
Commission income		2,813,943	2,605,901
Other income		6,449,251	7,203,644
Other income	**28**	**33,974**	**82,496**
Net claims incurred	**29**	**-81,781,565**	**-86,680,582**
Gross claims payments, net of income from recourse receivables		-85,165,592	-89,689,537
Reinsurers' and co-insurers' shares		9,811,408	13,750,771
Change in the gross claims provision		-8,254,869	3,418,581
Change in the provision for outstanding claims, reinsurers' and co-insurers' shares		1,827,488	-14,160,397
Change in other technical provisions	**30**	**-88,760**	**-121,984**
Expenses for bonuses and rebates	**30**	**-162,545**	**-83,193**
Operating expenses	**31**	**-47,288,975**	**-40,229,226**
Acquisition costs		-33,061,396	-32,445,281
Change in deferred acquisition costs		-3,598,331	1,492,043
Other operating expenses		-10,629,248	-9,275,988
Expenses for investments in subsidiaries and associates	**25**	**-4,330,782**	**-4,870,049**
Expenses for financial assets and liabilities	**26**	**-7,132,879**	**-11,187,465**
Impairment losses on financial assets not measured at fair value through profit or loss		-330,740	-713,284
Interest expenses		-841,834	-896,145
Diverse other expenses		-5,960,305	-9,578,036
Other technical expenses	**32**	**-6,033,695**	**-7,139,116**
Other expenses	**28**	**-118,284**	**-2**
Profit/loss before tax		**34,977,140**	**16,739,349**
Income tax expense	**33**	**-2,103,323**	**-547,447**
Net profit/loss for the period		**32,873,817**	**16,191,902**
Earnings/loss per share (basic and diluted)	17	2.08	0.98

The notes to the financial statements in sections 24.2–24.10 form an integral part of these financial statements.

23.3. Statement of comprehensive income

(€)	2016	2015
PROFIT/LOSS FOR THE PERIOD, NET OF TAX	**32,873,817**	**16,191,902**
OTHER COMPREHENSIVE INCOME, NET OF TAX	**819,920**	**-1,377,871**
a) Items that will not be reclassified subsequently to profit or loss	**41,070**	**-26,975**
Other items that will not be reclassified subsequently to profit or loss	44,864	-27,705
Tax on items that will not be reclassified subsequently to profit or loss	-3,794	730
b) Items that may be reclassified subsequently to profit or loss	**778,850**	**-1,350,896**
Net gains/losses on remeasuring available-for-sale financial assets	**1,050,990**	**-1,627,587**
Net change recognised in the fair value reserve	1,209,941	-2,843,226
Net change transferred from fair value reserve to profit or loss	-158,952	1,215,639
Tax on items that may be reclassified subsequently to profit or loss	-272,140	276,691
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**33,693,737**	**14,814,031**

The notes to the financial statements in sections 24.2–24.10 form an integral part of these financial statements.

23.4. Cash flow statement

(€)			2016	2015
A.	Cash flows from operating activities			
	a)	Items of the income statement	**12,055,355**	**18,361,573**
	1.	Net premiums written in the period	129,878,160	133,613,496
	2.	Investment income (other than financial income)	6,785	5,291
	3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	9,297,168	9,892,041
	4.	Net claims payments in the period	-75,354,184	-75,938,766
	5.	Expenses for bonuses and rebates	-162,545	-83,193
	6.	Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	-43,350,273	-41,432,073
	7.	Investment expenses (excluding amortisation and financial expenses)	-4,454	-8,658
	8.	Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	-6,151,979	-7,139,118
	9.	Tax on profit and other taxes not included in operating expenses	-2,103,323	-547,447
	b)	**Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the statement of financial position**	**-643,807**	**-12,991,806**
	2.	Change in receivables from reinsurance	2,849,455	-11,154,609
	4.	Change in other receivables and other assets	-9,830,595	-1,901,300
	5.	Change in deferred tax assets	912,012	-1,244,856
	6.	Change in liabilities arising out of reinsurance business	-4,148,067	4,189,682
	7.	Change in other operating liabilities	9,571,237	-2,180,466
	8.	Change in other liabilities (except unearned premiums)	2,151	-700,257
	c)	**Net cash from/used in operating activities (a + b)**	**11,411,548**	**5,369,767**
B.	Cash flows from investing activities			
	a)	**Cash receipts from investing activities**	**807,729,186**	**394,488,992**
	1.	Interest received from investing activities	4,427,975	4,710,946
	2.	Cash receipts from dividends and participation in the profit of others	27,051,488	13,730,032
	4.	Proceeds from sale of property and equipment	25,240	2,516
	5.	Proceeds from sale of financial investments	776,224,483	376,045,498
	b)	**Cash disbursements in investing activities**	**-783,321,091**	**-385,976,038**
	1.	Purchase of intangible assets	-260,516	-283,742
	2.	Purchase of property and equipment	-4,152,156	-223,828
	3.	Purchase of financial investments	-778,908,419	-385,468,468
	c)	**Net cash from/used in investing activities (a + b)**	**24,408,094**	**8,512,954**
C.	Cash flows from financing activities			
	b)	**Cash disbursements in financing activities**	**-28,115,774**	**-14,109,112**
	1.	Interest paid	-841,834	-896,145
	4.	Repayment of short-term financial liabilities	-256,421	-3,942,665
	5.	Dividends and other profit participations paid	-12,398,157	-9,065,978
	6.	Own share repurchases	-14,619,362	-204,324
	c)	**Net cash from/used in financing activities (a + b)**	**-28,115,774**	**-14,109,112**
C2.	Closing balance of cash and cash equivalents		**7,989,819**	**285,950**
	x)	**Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)**	**7,703,869**	**-226,392**
	y)	**Opening balance of cash and cash equivalents**	**285,950**	**512,342**

The notes to the financial statements in sections 24.2–24.10 form an integral part of these financial statements.

23.5. Statement of changes in equity for the year ended 31 December 2016

(€)	I. Share capital	II. Capital reserves	III. Profit reserves	
			Contingency reserve	Legal reserves and reserves provided for in the articles of association
	1.	2.	3.	4.
Closing balance in previous financial year	**71,856,376**	**54,239,757**	**0**	**14,986,525**
Opening balance in the financial period	**71,856,376**	**54,239,757**	**0**	**14,986,525**
Comprehensive income for the period, net of tax	**0**	**0**	**0**	**0**
a) Net profit/loss for the period	0	0	0	0
b) Other comprehensive income	0	0	0	0
Net purchase/sale of treasury shares	0	0	0	0
Dividend payouts	0	0	0	0
Allocation of net profit to profit reserve	0	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0
Transfer of profit	0	0	0	0
Closing balance in the financial period	**71,856,376**	**54,239,757**	**0**	**14,986,525**

23.6. Statement of changes in equity for the year ended 31 December 2015

(€)	I. Share capital	II. Capital reserves	III. Profit reserves
			Legal reserves and reserves provided for in the articles of association
	1.	2.	3.
Closing balance in previous financial year	**71,856,376**	**54,239,757**	**14,986,525**
Opening balance in the financial period	**71,856,376**	**54,239,757**	**14,986,525**
Comprehensive income for the period, net of tax	**0**	**0**	**0**
a) Net profit/loss for the period	0	0	0
b) Other comprehensive income	0	0	0
Net purchase/sale of treasury shares	0	0	0
Dividend payouts	0	0	0
Allocation of net profit to profit reserve	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0
Transfer of profit	0	0	0
Closing balance in the financial period	**71,856,376**	**54,239,757**	**14,986,525**

The notes to the financial statements in sections 24.2–24.10 form an integral part of these financial statements.

III. Profit reserves									
Reserve for treasury shares	Credit risk reserve	Catastrophe equalisation reserve	Other	IV. Fair value reserve	V. Reserve due to fair value revaluation	VI. Retained earnings	VII. Net profit/ loss for the period	VIII. Treasury shares (contra account)	Total (1–13)
5.	6.	7.	8.	9.	10.	11.	12.	13.	14.
10,319,347	**917,885**	**10,000,000**	**87,951,558**	**3,006,703**	**-42,835**	**12,769,646**	**7,993,789**	**-10,319,347**	**263,679,403**
10,319,347	**917,885**	**10,000,000**	**87,951,558**	**3,006,703**	**-42,835**	**12,769,646**	**7,993,789**	**-10,319,347**	**263,679,403**
0	**0**	**0**	**0**	**778,850**	**41,070**	**0**	**32,873,817**	**0**	**33,693,737**
0	0	0	0	0	0	0	32,873,817	0	32,873,817
0	0	0	0	778,850	41,070	0	0	0	819,920
14,619,362	0	0	0	0	0	0	-14,619,362	-14,619,362	-14,619,362
0	0	0	0	0	0	-12,398,157	0	0	-12,398,157
0	0	0	9,127,227	0	0	0	-9,127,227	0	0
0	-917,885	0	0	0	0	917,885	0	0	0
0	0	0	0	0	0	7,993,789	-7,993,789	0	0
24,938,709	**0**	**10,000,000**	**97,078,786**	**3,785,553**	**-1,765**	**9,283,163**	**9,127,228**	**-24,938,709**	**270,355,622**

III. Profit reserves									
Reserve for treasury shares	Credit risk reserve	Catastrophe equalisation reserve	Other	IV. Fair value reserve	V. Reserve due to fair value revaluation	VI. Retained earnings	VII. Net profit/ loss for the period	VIII. Treasury shares (contra account)	Total (1–12)
4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
10,115,023	**845,522**	**10,000,000**	**80,030,132**	**4,357,599**	**-15,860**	**15,713,039**	**6,122,585**	**-10,115,023**	**258,135,674**
10,115,023	**845,522**	**10,000,000**	**80,030,132**	**4,357,599**	**-15,860**	**15,713,039**	**6,122,585**	**-10,115,023**	**258,135,674**
0	**0**	**0**	**0**	**-1,350,896**	**-26,975**	**0**	**16,191,902**	**0**	**14,814,031**
0	0	0	0	0	0	0	16,191,902	0	16,191,902
0	0	0	0	-1,350,896	-26,975	0	0	0	-1,377,871
204,324	0	0	0	0	0	0	-204,324	-204,324	-204,324
0	0	0	0	0	0	-9,065,978	0	0	-9,065,978
0	0	0	7,921,426	0	0	0	-7,921,426	0	0
0	72,363	0	0	0	0	0	-72,363	0	0
0	0	0	0	0	0	6,122,585	-6,122,585	0	0
10,319,347	**917,885**	**10,000,000**	**87,951,558**	**3,006,703**	**-42,835**	**12,769,646**	**7,993,789**	**-10,319,347**	**263,679,403**

24. NOTES TO THE FINANCIAL STATEMENTS

24.1. Basic details

Pozavarovalnica Sava, d.d. (hereinafter also: "Sava Re" or "the Company") was established under the Foundations of the Life and Non-Life Insurance System Act, and was entered in the company register kept by Ljubljana Basic Court, Ljubljana Unit (now Ljubljana District Court), on 10 December 1990. Its legal predecessor, Pozavarovalna skupnost Sava, was established in 1977.

Sava Re transacts reinsurance business both in the domestic and in the international market. Under the Standard Classification of Activities, its subclass code is 65.200. In accordance with the Slovenian Companies Act (hereinafter: ZGD), the Company is classified as a large company.

The Company has its registered office at Dunajska cesta 56, Ljubljana, Slovenia.

In the 2016 financial year, the Company employed 88.8 people (2015: 80.8) on average. As at 31 December 2016, the total number of employees was 95 (31/12/2015: 83), employed on a full-time equivalent basis. Statistics on employees in regular employment by various criteria are given in section 21.3.3 "Recruitment and staffing levels".

Qualification profile of employees (full-time equivalent basis)

	2016	2015
Secondary education	12	11
Higher education	5	5
University education	58	50
Master's degree and doctorate	20	17
Total	**95**	**83**

The bodies of the Company are the general meeting, the supervisory board and the management board.

As at 31 December 2016, the largest shareholder of the Company was Slovenian Sovereign Holding (former Slovenian Restitution Fund, SOD), which held 25 % plus one share. The second largest shareholder was Zagrebačka banka (fiduciary account) with a 14.3 % stake. Under the table "Ten largest shareholders of Sava Re as at 31 December 2016", there is a note regarding the share of voting rights.

It is the responsibility of the Company's management board to prepare the annual report and authorise it for issue to the supervisory board. The audited annual report is then approved by the Company's supervisory board. If the annual report is not approved by the supervisory board, or if the management and the supervisory boards leave the decision about its approval to the general meeting of shareholders, the general meeting decides on the approval of the annual report.

The owners have the right to amend the financial statements after they have been authorised for issue to the supervisory board by the Company's management board.

The Company is the controlling company of the Sava Re Group, which, apart from the controlling company, comprises the following companies:

Subsidiaries as at 31 December 2016

(€)	Activity	Registered office	Assets	Liabilities	Equity as at 31/12/2016	Profit/loss for 2016	Total income	Share of voting rights (%)
Zavarovalnica Sava	insurance	Slovenia	1,144,797,037	986,967,872	157,829,165	24,685,939	314,884,660	99.74 %
Sava neživotno osiguranje (SRB)	insurance	Serbia	25,387,084	20,316,459	5,070,625	116,929	15,379,795	100.00 %
Illyria	insurance	Kosovo	14,538,265	10,841,158	3,697,107	-171,970	7,300,855	100.00 %
Sava osiguruvanje (MKD)	insurance	Macedonia	21,377,413	16,348,215	5,029,198	465,490	11,850,287	92.44 %
Sava osiguranje (MNE)	insurance	Montenegro	22,112,854	16,725,274	5,387,580	1,204,218	11,889,234	100.00 %
Illyria Life	insurance	Kosovo	7,866,533	4,213,820	3,652,713	128,266	1,813,319	100.00 %
Sava životno osiguranje (SRB)	insurance	Serbia	5,834,828	2,389,128	3,445,700	-206,975	1,612,217	100.00 %
Illyria Hospital	currently it does not perform any activities	Kosovo	1,800,772	4,495	1,796,277	-84	0	100.00 %
Sava Car	research and analysis	Montenegro	481,718	36,624	445,094	39,883	708,948	100.00 %
ZS Vivus	consulting and marketing of insurances of the person	Slovenia	267,008	54,548	212,460	-103,271	598,713	99.74 %
ZM Svetovanje	insurance agent	Slovenia	33,767	128,609	-94,842	-122,823	162,848	99.74 %
Ornatus KC	ZM call centre	Slovenia	46,896	25,166	21,730	7,494	216,000	99.74 %
Sava Agent	insurance agent	Montenegro	2,322,627	2,129,557	193,070	72,788	641,735	100.00 %
Sava Station	motor research and analysis	Macedonia	281,143	32,291	248,852	38,537	171,424	92.44 %
Moja naložba	pension fund	Slovenia	134,444,848	126,401,679	8,043,169	581,695	3,210,125	100.00 %

Subsidiaries as at 31 December 2015

(€)	Activity	Registered office	Assets	Liabilities	Equity as at 31/12/2015	Profit/loss for 2015	Total income	Share of voting rights (%)
Zavarovalnica Maribor	insurance	Slovenia	908,898,300	790,328,325	118,569,975	23,968,366	248,119,066	100.00 %
Zavarovalnica Tilia	insurance	Slovenia	165,237,444	136,299,998	28,937,446	4,319,400	78,633,144	100.00 %
Sava neživotno osiguranje (SRB)	insurance	Serbia	23,857,347	18,990,278	4,867,069	-579,545	14,748,214	100.00 %
Illyria	insurance	Kosovo	14,679,093	10,822,466	3,856,627	40,997	7,919,776	100.00 %
Sava osiguruvanje (MKD)	insurance	Macedonia	21,060,203	16,406,655	4,653,548	452,959	11,025,527	92.44 %
Sava osiguranje (MNE)	insurance	Montenegro	22,274,653	16,313,528	5,961,125	1,991,841	11,697,891	100.00 %
Illyria Life	insurance	Kosovo	6,923,299	3,402,448	3,520,851	82,020	1,470,572	100.00 %
Sava životno osiguranje (SRB)	insurance	Serbia	5,399,994	1,956,335	3,443,659	-288,182	1,279,062	100.00 %
Velebit usluge in liquidation	wholesale, retailer	Croatia	12,324,595	577	12,324,018	-763	11,107	100.00 %
Velebit osiguranje	insurance	Croatia	17,462,301	13,180,789	4,281,512	4,477	6,791,189	92.08 %
Velebit životno osiguranje	insurance	Croatia	9,365,330	6,173,033	3,192,297	-420,647	3,253,363	88.71 %
Illyria Hospital	currently it does not perform any activities	Kosovo	1,800,772	4,495	1,796,277	-30	0	100.00 %
Sava Car	research and analysis	Montenegro	396,944	31,633	365,311	49,011	663,824	100.00 %
ZS Vivus	consulting and marketing of insurances of the person	Slovenia	405,873	74,894	330,979	123,966	1,099,289	100.00 %
ZM Svetovanje	insurance agent	Slovenia	48,831	20,850	27,981	-49,150	28,565	100.00 %
Ornatus KC	ZM call centre	Slovenia	35,540	21,137	14,403	3,068	226,724	100.00 %
Sava Agent	insurance agent	Montenegro	2,478,916	2,352,786	126,130	92,907	656,955	100.00 %
Sava Station	motor research and analysis	Macedonia	227,010	15,740	211,270	11,436	108,352	92.44 %
Moja naložba	pension fund	Slovenia	122,707,805	115,412,757	7,295,048	366,815	2,653,260	100.00 %

After the acquisition of Moja naložba, the Company had no associate companies.

24.2. Significant accounting policies

Below is a presentation of significant accounting policies applied in the preparation of the financial statements. In 2016, the Company applied the same accounting principles as in 2015.

24.2.1. Statement of compliance

Sava Re prepared both separate and consolidated financial statements for the year ended 31 December 2016. The consolidated financial statements are part of this annual report. Annual reports are available on Sava Re's website and at its registered office.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee's ("IFRIC"), as adopted by the European Union. They have also been prepared in accordance with applicable Slovenian legislation (the Companies Act, "ZGD-1"), the Insurance Act and implementing regulations).

In selecting and applying accounting policies, as well as in preparing the financial statements, the management board aims to provide understandable, relevant, reliable and comparable accounting information.

The financial statements have been prepared based on the going-concern assumption.

The Company's management board approved the financial statements on 31 March 2017.

24.2.2. Measurement bases

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, which are measured at fair value.

24.2.3. Functional and presentation currency

The financial statements are presented in euros (€), rounded to the nearest euro. Due to rounding, figures in tables may not add up to the totals.

Assets and liabilities as at 31 December 2016 denominated in foreign currencies were translated into euros using the mid-rates of the European Central Bank (ECB) as at 31 December 2016. Amounts in the income statement have been translated using the exchange rate on the day of the transaction. As at 31 December 2016 and 31 December 2015, they were translated using the then applicable mid-rates of the ECB. Foreign exchange differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve.

24.2.4. Use of major accounting estimates and sources of uncertainty

Assumptions and other sources of uncertainty relate to estimates that require management to make difficult, subjective and complex judgements. Areas that involve major management judgement are presented below.

- Criteria for impairment of investments in subsidiaries and associates are determined using the accounting policy under section 24.2.12 as discussed under note 5.
- Deferred tax assets are recognised if the Company plans to realise a profit in the medium-term.
- Receivables are impaired item-by-item based on the accounting policy set out in section 24.2.15. Any recognised impairment loss is shown in note 8.
- Financial investments. Classification, recognition, measurement and derecognition, as well as investment impairment and fair value measurement, are made based on the accounting policy set out in section 24.2.13. Movements in investments and their classification are shown in note 6, while the associated income and expenses, and impairment, are shown in note 26.
- Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are shown in section 24.2.19. Movements in these provisions are shown in note 19.

The Company recognises estimates of technical items because it does not receive reinsurance accounts in time. Estimates are made on the basis of amounts in reinsurance contracts, which, according to due dates, have already accrued although the Company has yet to receive reinsurance accounts. These items include: premiums, claims, commission, unearned premiums, claim provisions and accruals and prepayments relating to deferred acquisition costs.

24.2.5. Materiality

To serve as a starting point in determining a materiality threshold for the financial statements, the Company's management used the equity of the Company, specifically 2 % thereof as at 31 December 2016, which is € 5.4 million. The disclosures and notes required under regulatory or statutory requirements are presented, even if below the materiality threshold.

24.2.6. Cash flow statement

The cash flow statement has been prepared using the indirect method. Cash flows from operating activities have been prepared based on data from the 2016 statement of financial position and income statement, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities have been disclosed based on actual disbursements. Items relating to changes in net operating assets are disclosed in net amounts.

24.2.7. Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the period. Profit reserves are shown to include certain technical provisions that are inherently provisions for future risks and not liabilities according to IFRSs, i.e. the catastrophe equalisation reserve.

24.2.8. Intangible assets

Intangible assets are stated at cost, plus any expenses directly attributable to preparing them for their intended use, less accumulated amortisation and any impairment losses. Amortisation is calculated for each item separately, on a straight-line basis. Intangible assets are first amortised upon their availability for use.

Intangible assets include computer software, and licences pertaining to computer software. Their useful life is five years.

24.2.9. Property and equipment

Property and equipment assets are initially recognised at cost plus directly attributable costs. Subsequently, the cost model is applied: assets are carried at cost, less any accumulated depreciation and any impairment losses. The Company assesses whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

Property and equipment assets are first depreciated upon their availability for use. Depreciation is calculated for each item separately, on a straight-line basis. Depreciation rates are determined so as to allow the cost of property and equipment assets to be allocated to expenses over their estimated useful lives.

Depreciation rates of property and equipment assets

Depreciation group	Rate
Land	0 %
Buildings	1.3–2 %
Transportation	15.5–20 %
Computer equipment	33.0 %
Office and other furniture	10–12.5 %
Other equipment	6.7–20 %

Gains and losses on the disposal of items of property and equipment, calculated as the difference between sales proceeds and carrying amounts, are included in profit or loss. The costs of property and equipment maintenance and repairs are recognised in profit or loss as incurred. Investments in property and equipment assets that increase future economic benefits are recognised in their carrying amount.

24.2.10. Deferred tax assets and liabilities

Based on medium-term business projections, the Company expects to make a profit and therefore meets the requirement for recognising deferred tax assets.

The Company recognises deferred tax assets for temporary non-deductible impairments of portfolio securities and allowances for receivables, any unused tax losses and for provisions for employees. Deferred tax liabilities were recognised for the credit risk and catastrophe equalisation reserves transferred (as at 1 January 2007) from technical provisions to profit reserves, which used to be tax-deductible when set aside (prior to 1 January 2007). The Company does not have deferred tax assets associated with impairment losses on investments in subsidiaries.

In addition, the Company establishes deferred tax assets/liabilities for the part of value adjustments that is recorded

under the negative/positive fair value reserve. Deferred tax assets and liabilities are also accounted for actuarial gains/losses when calculating provisions for severance pay upon retirement. This is because actuarial gains/losses affect comprehensive income as well as the related deferred tax assets/liabilities.
The rate of corporate income tax is 17 % (the same as in 2015). Due to amended tax regulations governing corporate income tax effective as of 1 January 2017, deferred tax assets and liabilities are accounted for using a tax rate of 19 % (2015: 17 %).

24.2.11. Investment property

Investment property is property that the Company does not use directly in carrying out its activities, but holds to earn rentals. Investment property is accounted for using the cost model and straight-line depreciation. Investment property is depreciated at the rate of 1.3–2 %. The basis for calculating the depreciation rate is the estimated useful life. All leases where the Company acts as lessor are operating leases. Payments received, i.e. rental income, are recognised as income on a straight-line basis over the term of the lease. The Company assesses annually whether there is any indication of impairment of investment property. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of the value in use and the net selling price. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.
The Company has investment property leased out under cancellable operating lease contracts.

24.2.12. Financial investments in subsidiaries and associates

Investments in subsidiaries and associates are initially recognised at fair value. Subsequently, the Company measures them using the cost model less any impairment losses.
Subsidiaries are entities in which the Company holds more than 50 % of the voting rights, entities the Company controls and over which the Company thus has the power to control the financial and operating policies so as to obtain benefits from their activities. Associates are entities in which the Company holds between 20 % and 50 % of voting rights or over which the Company has significant influence.
Impairment testing in Group companies and associates is carried out at least on an annual basis. Pursuant to IAS 36, the controlling company when reviewing whether there are indications that an asset may be impaired, considers external (changes in market or legal environment; interest rates; elements of the discount rate, market capitalisation) as well as internal sources of information (business volume; manner of use of asset; actual versus budgeted performance results; decline in expected cash flows and such like).
For the purpose of impairment testing of the cost of subsidiaries, pursuant to IAS 36, the controlling company reviews on an annual basis whether there are indications that assets are impaired. If impairment is necessary, an impairment test is carried out so that the recoverable amount of the cash-generating unit is calculated for each individual investment based on the value in use. Cash flow projections used in these calculations were based on the business plans approved by the management for the period until and including 2021, as well as on extrapolations of growth rates for an additional 5-year period. Projections are for more than five years because we consider that the markets where Group insurers operate are still underdeveloped and operations of subsidiaries have not normalised yet. The discount rate used is based on market rates adjusted to reflect each insurance company-specific risk. The recoverable amount of each cash-generating unit so calculated was compared against its carrying amount.

Key assumptions used in cash flow projections with calculations of the value in use

Discounted cash flow projections were based on the Group's business plans covering a 10-year period (strategic business plans for individual companies for the period 2017–2021 with a further 5-year extrapolation of results). Only 10-year normalised cash flows are appropriate for extrapolation into perpetuity.
The growth in premiums earned in the companies set out in the previous table reflects the growth expected in their insurance markets, as well as the characteristics of their portfolios (low share of non-motor business). In all their markets, insurance penetration is relatively low. However, insurance penetration is expected to increase due to the expected convergence of their countries' macroeconomic indicators towards EU levels. Social inflation is also expected to increase, i.e. claims made against insurance companies are expected to become more frequent and higher. Costs are expected to lag slightly behind premiums owing to business process optimisation in subsidiaries. Business process optimisation will thus contribute to the growth in net profits.
The discount rate is determined as cost of equity, using the capital asset pricing model. It is based on the interest rate

applying to risk-free securities and equity premium as well as insurance business prospects. Added is a country risk premium and, for some companies, a smallness factor.
Discount rates used in 2016 ranged from 14.0 to 15.0 % and are marginally lower than those in 2015 due to a decrease in the risk-free rate of return.
Subsidiaries have been valued using internal models with a long-term growth rate of 3.5 %. This rate is based on the long-term consumer price index for non-Slovenian markets used also for the discount rate for non-Slovenian markets where the Group operates.
In assessing whether there is any indication of impairment of its investments in subsidiaries, the Company uses the same model as with goodwill. For more information on the assumptions, see section 18.4.9 of the consolidated financial statements with notes.

24.2.13. Financial investments

24.2.13.1. Classification

The Company classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss

These assets comprise financial assets held for trading.
Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e. realising gains in the short term.

Held-to-maturity financial assets

Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Company can, and intends to, hold to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are assets that the Company intends to hold for an indefinite period and are not classified as financial assets at fair value through profit or loss or held-to-maturity financial assets.

Loans and receivables (deposits)

This category includes loans and bank deposits with fixed or determinable payments that are not traded in any active market, and deposits with cedants. Under some reinsurance contracts, part of the reinsurance premium is retained by cedants as guarantee for payment of future claims, and generally released after one year. These deposits bear contractually agreed interest.

24.2.13.2. Recognition, measurement and derecognition

Available-for-sale financial assets and held-to-maturity financial assets are initially measured at fair value plus any transaction costs. Financial assets at fair value through profit or loss are initially measured at fair value, with any transaction costs recognised as investment expenses.
Acquisitions and disposals of financial assets, loans and deposits are recognised on the trade date.
Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in the statement of comprehensive income, and transferred to the income statement upon disposal or impairment. Gains and losses arising from fair value revaluation of financial assets at fair value through profit or loss are recognised directly in the income statement. Held-to-maturity financial assets are measured at amortised cost less any impairment losses.
Financial assets are derecognised when the contractual rights from the cash flows from the financial assets expire or when the assets are transferred and the transfer qualifies for derecognition in accordance with IAS 39.
If their fair value cannot be reliably measured, investments are valued at cost.
Loans and receivables (deposits) are measured at amortised cost less any impairment losses.

24.2.13.3. Impairment of investments

A financial asset other than at fair value through profit or loss is impaired and an impairment loss incurred, provided there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that such events have an impact on future cash flows that can be reliably estimated.
The Company assesses whether there is any objective evidence that individual financial assets are impaired on a three-month basis (when preparing interim and annual reports).

24.2.13.3.1. Debt securities

Investments in debt securities are impaired only if one of the following conditions is met:

- the issuer fails to make a coupon or principal payment, and it is likely that such liabilities will not be settled in the short term;
- the issuer is subject to a bankruptcy, liquidation or compulsory settlement procedure.

If the first condition above is met, an impairment loss is recognised in the income statement in the amount of the difference between the fair value and carrying amount of the debt security (if the carrying amount exceeds the fair value). If the second condition above is met, an impairment loss is recognised in profit or loss, being the difference between the potential payment out of the bankruptcy or liquidation estate and the cost of the investment. The potential payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement proceedings, or, if such information is not available, based on experience or estimates made by credit rating or other financial institutions.
In respect of debt securities, only impairment losses recognised pursuant to indent one above (first condition) may be reversed. An impairment loss is reversed when the issuer's liability is settled. Impairment losses are reversed through profit or loss.

24.2.13.3.2. Equity securities

Investments in equity securities are impaired if on the statement of financial position date:
- their market price is more than 40 % below cost; or
- their market price has remained below cost for more than one year;
- the model based on which the Company assesses the need for impairment of unquoted securities indicates that the asset needs to be impaired.

An impairment loss is recognised in the amount of the difference between market price and cost of financial assets.

24.2.13.4. Measurement of fair values

The Company measures all financial instruments at fair value, except for deposits, shares not quoted in any regulated market, loans and subordinated debt (assumed that the carrying amount is a reasonable approximation of fair value) and financial instruments held to maturity, which are measured at amortised cost. The fair value of investment property and land and buildings used in business operations and the fair value of financial instruments measured at amortised cost are set out in note 23. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to to the company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The company shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
The Company determines the fair value of a financial asset on the valuation date by determining the price on the principal market based on:
- for stock exchanges: the quoted closing price on the stock exchange on the measurement date or on the last day of operation of the exchange on which the investment is quoted;
- for the OTC market: the quoted closing bid CBBT price or, if unavailable, the Bloomberg bid BVAL on the valuation date or on the last day of operation of the OTC market;
- the price is calculated on the basis of an internal valuation model.

Assets and liabilities measured or disclosed at fair value in the consolidated financial statements are measured and presented in accordance with the IFRS 13 fair-value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.
Assets and liabilities are classified in accordance with IFRS 13 especially based on the availability of market information, which is determined by the relative levels of trading identical or similar instruments in the market, with a focus on information that represents actual market activity or binding quotations of brokers or dealers.
Investments measured or disclosed at fair value, are presented in accordance with the levels of fair value under IFRS 13, which categorises the inputs to measure fair value into the following three levels of the fair value hierarchy:

- Level 1 financial investments are those for which the fair value is determined based on quoted prices (unadjusted) in active markets for identical financial assets that the Company can access at the measurement date.
- Level 2 financial investments are those whose fair value is determined using data that are directly or indirectly observable other than the prices quoted within level 1.
- Level 3 comprise financial investments for which observed market data are unavailable. Thus the fair value is determined based on valuation techniques using inputs that are not directly or indirectly observable in the market.

The Company discloses and fully complies with its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred. Policies for the timing of recognising transfers are the same for transfers into as for transfers out of any level. Examples of policies include: (a) the date of the event or change in circumstances that caused the transfer (b) the beginning of the reporting period (c) at the end of the reporting period.

24.2.14. Reinsurers' share of technical provisions

Reinsurers' share of technical provisions comprises the reinsurers' share of unearned premiums and of technical provisions. The amount is determined in accordance with reinsurance (retrocession) contracts and in line with movements in the retroceded portfolio based on gross reinsurance provisions for the business that is the object of these reinsurance (retrocession) contracts at the close of each accounting period.
The Company tests these assets for impairment on the reporting date. Assets retroceded to counterparties are tested strictly individually. For retrocession risks, see section 24.5.1.6 "Retrocession programme".

24.2.15. Receivables

Receivables include receivables for gross premiums written and receivables for claims and commission relating to retrocession business.

24.2.15.1. Recognition of receivables

Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commissions relating to retrocession business are invoiced to cedants or reinsurers, respectively. For existing reinsurance contracts for which no confirmed invoices have been received from cedants or reinsurers, receivables are recognised in line with policies outlined in sections 24.2.23 "Net premiums earned" and 24.2.24 "Net claims incurred".

24.2.15.2. Impairment of receivables arising out of reinsurance business

As regards its core activity of reinsurance, the Company transacts business exclusively with legal entities. Before entering a business relationship with a prospective client, especially if foreign, the Company either carefully reviews its credit rating or relies on recommendations by its long-standing business partners. The Company individually assesses receivables in terms of their recoverability or impairment, accounting for allowances based on payment history of individual cedants and retrocessionaires.
The Company nevertheless periodically reviews its reinsurance receivables on a client-by-client basis, at least once a year.
No receivables have been pledged as security.

24.2.15.3. Deferred acquisition costs

The Company discloses deferred commissions under deferred acquisition costs. These are booked commissions relating to the next financial year and are recognised based on (re)insurance accounts taking into account straight-line amortisation and estimated amounts for non-past due final commission payments under reinsurance contracts with Group cedants.

24.2.15.4. Other assets

Other assets include capitalised short-term deferred costs and short-term accrued income. Short-term deferred costs comprise stamps and prepayments of unearned commissions to counterparties.

24.2.16. Cash and cash equivalents

The statement of financial position and cash flow item "cash and cash equivalents" comprises:
- cash, including cash in hand, cash in bank accounts of commercial banks or other financial institutions and overnight deposits, and

- cash equivalents, including demand deposits and deposits with an original maturity of up to three months.

24.2.17. Equity

Composition:
- share capital comprises the par value of paid-up ordinary shares, expressed in euro;
- capital reserves comprise amounts in excess of the par value of shares;
- profit reserves comprise reserves provided for by the articles of association, legal reserves, reserves for treasury shares, credit risk and catastrophe equalisation reserves and other profit reserves;
- treasury shares;
- fair value reserve;
- retained earnings.

Reserves provided for by the articles of association are used:
- to cover the net loss that cannot be covered (in full) out of retained earnings and other profit reserves, or if these two sources of funds are insufficient to cover the net loss in full (an instrument of additional protection of tied-up capital);
- to increase share capital;
- to regulate the dividend policy.

Profit reserves also include catastrophe equalisation reserves set aside pursuant to the rules on technical provisions and reserves as approved by appointed actuaries. Thus the distribution of these reserves cannot be decided in general meeting.
Pursuant to the Companies Act, either the management or the supervisory board may allocate up to half of net profit to other reserves.

24.2.18. Subordinated liabilities

Subordinated debt represents the Company's long-term liabilities, which was issued in 2006 and 2007 for the expansion of Group operations. Subordinated liabilities are measured at amortised cost on a monthly basis.

24.2.19. Technical provisions

Technical provisions are shown gross in the statement of financial position. The share of gross technical provisions for the business retroceded by the Company is shown in the statement of financial position under the item reinsurers' share of technical provisions. The main principles used in the calculation of gross technical provisions are described below.

Unearned premiums are the portions of premiums written pertaining to periods after the accounting period. They are accounted for on the basis of received reinsurance accounts for unearned premiums, following the cedants' methods: principally a pro rata temporis basis at insurance policy level. In cases where the Company does not receive timely accounts for unearned premiums on reinsurance business, the fractional value method is used at individual premium account level for periods for which premiums are written.

Provisions for outstanding claims (also "claims provisions") are established for incurred but not settled claims. These comprise provisions for incurred claims, both reported and unreported (IBNR). They are accounted for on the basis of received reinsurance accounts for provisions for outstanding claims and on the basis of received loss advices for non-proportional reinsurance business. Sava Re establishes the IBNR provision following three procedures. In the first procedure, the Company assumes a portion of the IBNR provision as calculated by cedants based on relevant reinsurance contract's provisions. In the second procedure, it is necessary to estimate the claims provision for business outside the Sava Re Group for which reinsurance accounts are not received timely to estimate technical categories, taking into account expected premiums and expected combined ratios for each underwriting year, class of business and form of reinsurance. This estimated claims provision is also added to the IBNR provision. As the triangular method is used in making estimates, the procedure also represents a liability adequacy test for the reinsurance portfolio outside the Sava Re Group. In the third procedure, the IBNR provision is calculated as part of the liability adequacy test for portfolio segments where reinsurance accounts are received timely and for which no estimates are made. This calculation is made for gross data of Slovenian cedants and subsidiaries at insurance class level, using development triangles of cumulative claim payments by underwriting year. If the provision for outstanding claims exceeds the one already set aside (and calculated based on reinsurance accounts), a reinsurance IBNR provision is set aside. The described procedures show that the outstanding claims provision is established based on statistical data and using actuarial methods; therefore, its calculation also constitutes a liability adequacy test.

The provision for bonuses, rebates and cancellations is intended for agreed and expected pay-outs due to good results of insurance contracts and expected payment due to cancellations in excess of unearned premiums. The Company establishes these provisions on the basis of reinsurance accounts for quota share reinsurance treaties withsubsidiaries.

Other technical provisions solely include the provision for unexpired risks derived from a liability adequacy test of unearned premiums, as described below.

Unearned premiums are deferred premiums based on coverage periods. If based on such a calculation, the premium is deemed to be inadequate, the unearned premium is also inadequate. The Company carries out liability adequacy tests separately for gross unearned premiums and for the retroceded portion of unearned premiums at the insurance class level. Calculation of the expected combined ratio at insurance class level was based on the weighted average of the combined ratios realised in the last three to five years, which were also trend-adjusted. The calculation of the realised combined ratios was based on premiums earned, claims incurred, commission expenses and other operating expenses. Where the expected combined ratio so calculated exceeds 100 %, thus revealing a deficiency in unearned premiums, a corresponding provision for unexpired risks is set aside within other technical provisions.

24.2.20. Other provisions

Other provisions comprise the net present value of employee benefits including severance pay upon retirement and jubilee benefits. They are calculated in accordance with IAS 19 based on the ratio of accrued service time in the Company to the entire expected service time in the Company (projected unit credit method).

Provisions are calculated based on personal data of employees: date of birth, date of commencement of employment, anticipated retirement, and salary. Entitlement to severance pay on retirement and jubilee benefits are based on provisions of the collective bargaining agreement or the employee's employment contract. Expected pay-outs also include tax liabilities where payments exceed statutory non-taxable amounts. The probability of an employee staying with the Company includes both the probability of death (under tables SLO 2007 M/F) and the probability of employment relationship termination based on internal data. Accordingly, the assumed annual real growth of salaries is based on internal data and the consumer price index. The assumed nominal growth in jubilee benefits equals expected inflation determined based on the ECB's long-term inflation target. The same term structure of risk-free interest rates is used for discounting as in the capital adequacy calculation under the Solvency II regime.

Pension insurance

The Company is required by law to pay pension insurance contributions on gross salaries at the rate of 8.85 %. In addition, in 2001 the Company concluded a contract setting up a pension insurance scheme as part of the voluntary pension system, and has been making monthly contributions to it since then.

24.2.21. Other liabilities

Liabilities are initially recognised at amounts recorded in the relevant documents. Subsequently, they are increased in line with documents or decreased on the same basis or through payments. Other liabilities comprise: liabilities for claims and outwards retrocession premiums, liabilities for claims arising out of inwards reinsurance contracts, liabilities for retained deposits, amounts due to employees, amounts due to clients and other short-term liabilities.

The Company established provisions for unexpended annual leave recognised under accrued expenses. Unexpended leave may be used by no later than 30 June of the succeeding year.

24.2.22. Classification of insurance contracts

The Company classifies contracts as insurance contracts if they are concluded to transfer a considerable portion of risk; otherwise, they are classified as financial contracts. Whether there has been a considerable transfer of risk may be established either (i) directly when the Company assumes risks from contracts on a proportional basis that have been classified as insurance contracts by their cedants, or (ii) indirectly by determining that a reinsured event would result in significant additional pay-outs.

The Company only transacts reinsurance business the basic purpose of which is the transfer of underwriting risk. Thus the Company classified all the reinsurance contracts it concluded as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, which are insurance contracts. Since non-proportional reinsurance contracts provide for the payment of significant additional pay-outs in case of loss events, they also qualify as insurance contracts.

24.2.23. Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of cash inflows or increases in assets. Net premiums earned are gross premiums written (inwards reinsurance premiums), less reinsurance or retrocession premiums (outward reinsurance premiums). The amount of premiums earned is also affected by changes in (the Company's and reinsurers' shares of) unearned premiums. Estimates of premiums and unearned premiums are taken into account. Estimates are made on the basis of amounts in reinsurance contracts, which, according to due dates, have already accrued although the Company has yet to receive reinsurance accounts, or on the basis of received estimates of final premiums that are yet to fall due based on contractual provisions. These items are used to calculate earned premiums in the income statement.

24.2.24. Net claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. Net claims incurred comprise gross claims paid net of recourse receivables and reinsured claims, i.e. amounts invoiced to retrocessionaires. The amount of gross claims paid includes the change in the claims provision, taking into account estimated claims and provisions for outstanding claims. Estimates are made on the basis of amounts in reinsurance contracts, which, according to due dates, have already accrued although the Company has yet to receive reinsurance accounts. These items are used to calculate net claims incurred in the income statement. Claims incurred are estimated based on estimated premiums and expected combined ratios for individual reinsurance contracts.

24.2.25. Income and expenses relating to investments in subsidiaries and associates

Income relating to investments in subsidiaries and associates also includes dividends. Expenses relating to investments in subsidiaries and associates include impairment losses on investments. Dividend income is recognised when pay-out is authorised in accordance with the relevant general meeting resolution of any subsidiary or associate.

24.2.26. Investment income and expenses

The Company records investment income and expenses separately depending on whether they relate to the capital fund or the liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions.
Investment income includes:

- dividend income (income from shares),
- interest income,
- exchange gains,
- income from changes in the fair value and gains on the disposal of investments designated at fair value through profit or loss,
- gains on the disposal of investments of other investment categories and
- other income.

Investment expenses include:

- interest expense,
- exchange losses,
- expenses due to changes in fair value and losses on disposal of investments designated at fair value through profit or loss,
- losses on disposal of investments of other investment categories,
- other expenses.

The mentioned income and expenses are disclosed depending on how the underlying investments are classified, i.e. investments held to maturity, at fair value through profit or loss, available for sale, loans and receivables, or deposits.
Interest income and expenses for investments classified as held to maturity or available for sale are recognised in the income statement using the effective interest rate method. Interest income and expenses for investments at fair value through profit or loss are recognised in the income statement using the coupon interest rate. Dividend income

is recognised in the income statement when payout is authorised. Gains and losses on the disposal of investments represent the difference between the carrying amount of a financial asset and its sale price, or between its cost less impairment, if any, and sale price in the case of investments available for sale.

24.2.27. Operating expenses

Operating expenses comprise:

- acquisition costs; reinsurance commission expenses recognised based on reinsurance accounts and estimates derived from estimated premiums and contractually agreed commission rates;
- change in deferred acquisition costs; deferred costs comprise deferred reinsurance commission expenses. These are booked commissions relating to the next financial year. They are recognised based on reinsurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line amortisation;
- other operating expenses classified by nature are as follows:
  a) depreciation/amortisation of operating assets,
  b) personnel costs including employee salaries, social and pension insurance costs and other personnel costs,
  c) remuneration of the supervisory board and audit committee; and payments under contracts for services,
  d) other operating expenses relating to services and materials.

24.2.28. Other technical income

Other technical income comprises income from reinsurance commission, less the change in deferred acquisition costs relating to reinsurers, and is recognised based on confirmed reinsurance accounts and estimated commission income taking into account straight-line amortisation.

24.2.29. Income tax expense

Income tax expense for the year comprises current and deferred tax. Income tax is presented in the income statement, except for the portion relating to the items presented in equity. The same applies to deferred tax. Current tax is payable on the taxable profit for the year using the tax rates enacted by the date of the statement of financial position, as well as on any adjustments to tax liabilities of prior periods. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax amount is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the tax rates that have been enacted by the date of the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.
The rate of corporate income tax is 17 % (the same as in 2015). Due to amended tax regulations governing corporate income tax effective as of 1 January 2017, deferred tax assets and liabilities are accounted for using a tax rate of 19 % (2015: 17 %).

24.3. Changes in accounting policies and correction of errors

In 2015, the Company's cash and cash equivalents item in the statement of financial position and the cash flow statement comprised cash balances in bank accounts and overnight deposits. As of 1 January 2016, the Company changed the disclosure of cash assets to include cash equivalents. Previously, in the statement of financial position as at 31 December 2015, these were disclosed under financial investments. Thus, the cash and cash equivalents item in the statement of financial position and cash flow statement now comprises:

- cash, including cash in hand, cash in bank accounts of commercial banks or other financial institutions and overnight deposits, and
- cash equivalents, including demand deposits and deposits with an original maturity of up to three months.

Had this classification been used as at 31 December 2015, the level of cash and cash equivalents of the Company would have been higher by € 0.9 million, totalling € 1.2 million.

24.4. Standards and interpretations issued but not yet effectiveand new standards and interpretations

New and amended standards and interpretations

The accounting policies applied in the compilation of the financial statements are the same as those used in the preparation of the financial statements for the year ended 31 December 2015, except for adoption of new or amended standards that came into effect for annual periods beginning on or after 1 January 2016 and which are presented below.

Amendments to IFRS 11, Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively.

These amendments do not have any impact on the financial statements. In the reporting period, the Company completed a merger of four of its subsidiaries into one company but made no acquisitions of interests in joint operations.

Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the accounging policies in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively and do not have any impact on the Company's financial statements, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41, Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply.

The amendments are applied retrospectively and do not have any impact on the financial statements as the Company does not have any bearer plants.

Amendments to IAS 27, Equity Method in Separate Financial Statements

This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively.

The amendments have no effect on the Company's financial statements.

Amendments to IAS 1, Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.
The amendments have no effect on the Company's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
These amendments are applied retrospectively and do not have any impact on the Company's financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
Generally, the Company disposes assets (or disposal groups) either by sale or distribution between the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7, Financial Instruments: Disclosures
(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19, Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

New IFRS Standards and Interpretations adopted by the EU but not yet Effective

The standards and interpretations disclosed below have been issued and adopted by the EU; but are not yet effective up to the date of issuance of the separate financial statements. The Company intends to adopt these standards and interpretations, if applicable, in the preparation of its financial statements when they become effective. The Company did not early adopt any of the below standards.

IFRS 9, Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which includes the requirements of all phases of the IFRS 9 improvement project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The revised standard introduces new requirements for the classification and measurement of financial assets and liabilities, the recognition of their impairment, and hedge accounting. The revised IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.
The adoption of the revised IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of its financial liabilities.
Regarding the implementation of IFRS 9, the Company will opt to apply the temporary exemption from this standard until the coming into force of IFRS 17 Insurance contracts.

IFRS 15, Revenue from Contracts with Customers
The IASB issued IFRS 15 in May 2014. It establishes a five-step model to account for revenue arising from contracts

with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early application is permitted.
The Company is currently assessing the impact of the new standard and plans to adopt it on the required effective date. As the Company's core business is reinsurance, we do not expect any significant impacts from this new standard.

New IFRS Standards and Interpretations not yet Adopted by the European Union

IFRS 16, Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.
Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.
IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, if the Company already reports in line with the requirements of IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.
In 2017, the Company plans to assess the potential effect of IFRS 16 on its separate financial statements.

IFRS 14, Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.
The Company estimates that the amendment will have no impact on the separate financial statements.

IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Comany estimates that the amendment will not have a significant impact on its financial statements.

IAS 7, Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1 January 2017. Early application is permitted. Application of amendments will result in additional disclosure provided by the Company.

Clarifications to IFRS 15, Revenue from Contracts with Customers

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition.

The amendments clarify:

- when a promised good or service is distinct within the context of the contract,
- how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators,
- when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time,
- the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract.
- Furthermore, they add two practical expedients to the transition requirements of IFRS 15 for:
  (a) completed contracts under the full retrospective transition approach; and
  (b) contract modifications at transition.

The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

The Company is required to apply these amendments retrospectively. Early application is permitted and must be disclosed.

The Company is currently assessing the impact of the clarification and plans to adopt it on the required effective date. As the Company's core business is reinsurance, we do not expect any significant impacts from these clarifications.

IFRS 2, Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The Company is assessing the potential effect of the amendments on its financial statements.

IFRS 17, Applying IFRS 9, Financial Instruments with IFRS 17, Insurance Contracts – Amendments to IFRS 17

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The amendments are effective for periods beginning on or after 1 January 2018. The Company will opt to apply the temporary exemption from the application of IFRS 9 until the enforcement of IFRS 17.

Annual Improvements to IFRS Standards 2014–2016 Cycle

Include amendments to three Standards:

- IFRS 12 Disclosure of Interests in Other Entities: The standard is effective for annual periods beginning on or after 1 January 2018. The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- IFRS 1 First-time Adoption of International Financial Reporting Standards. The standard is effective for annual periods beginning on or after 1 January 2018. The amendments deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- IAS 28 Investments in Associates and Joint Ventures. The standard is effective for annual periods beginning on or after 1 January 2018. The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition,

The Company is assessing the potential effect of the amendments on its financial statements.

IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration

The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The interpretation can be applied either prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation in or the beginning of a prior reporting period presented as comparative information.

The Company is assessing the potential effect of the amendments on its financial statements.

Amendments to IAS 40, Transfers of Investment Property

The amendments clarify the requirements on transfers to, or from, investment property.

The amendments are effective for periods beginning on or after 1 January 2018. Early application is permitted.

Amendments are applied to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

The Company is assessing the potential effect of the amendments on its financial statements.

24.5. Risk management

The following table shows the changes in the risk profile in 2016 compared to 2015.

Change in the Sava Re risk profile compared to the previous year

		Risk described in section
Operational risks	→	**24.5.4**
Strategic risks	↑	**24.5.5**
Financial risks		**24.5.3**
Interest rate risk	↑	24.5.3.1.1
Equity risk	↓	24.5.3.1.2
Currency risk	→	24.5.3.1.4
Liquidity risk	→	24.5.3.2
Credit risk	↓	24.5.3.3
Non-life underwriting risks		
Underwriting process risk	→	24.5.2.1
Pricing risk	→	24.5.2.2
Claims risk	→	24.5.2.3
Net retention risk	→	24.5.2.4
Reserving risk	→	24.5.2.5
Retrocession programme	→	24.5.2.6
Estimated exposure to underwriting risks	→	24.5.2.7

Key	
↑	The risk increased in 2016 compared to 2015.
→	The risk remained at about the same level in 2016 compared to 2015.
↓	The risk decreased in 2016 compared to 2015.

24.5.1. Capital adequacy of Sava Re

On 1 January 2016[39], the Solvency II regime came into force. This new regime requires that a risk-based approach be used in the calculation of capital adequacy. For calculating its capital requirements under Solvency II, Sava Re uses the standard formula. The solvency capital requirement is calculated annually, while eligible own funds supporting solvency requirements are calculated on a quarterly basis.

Pursuant to regulations, Sava Re calculated its capital adequacy position as at 1 January 2016.

Capital adequacy of Sava Re as at 1 January 2016

(€)	As at 1 January 2016 (unaudited)
Eligible own funds	379,163,938
Minimum capital requirement	35,817,895
Solvency capital requirement (SCR)	143,271,578
Solvency ratio	264.6 %

Sava Re's eligible own funds as at 30 September 2016 totalled € 422.4 million and were slightly higher than as at 1 January 2016. It needs to be noted that dividend payments for 2016 are not considered in quarterly calculated eligible own funds, while eligible own funds as at 31 December 2016 are net of the expected dividends. We assume that the level of eligible own funds at the end of the year is slightly above the level as at 1 January 2016.

We also expect that the solvency ratio as at 31 December 2016 is broadly on the same level as at 1 January 2016.

Detailed results of Sava Re's capital adequacy calculation as at 31 December 2016 will be presented in the Solvency and Financial Condition Report of Sava Re in May 2017.

24.5.2. Underwriting risk

Underwriting risks are risks related to the main activity pursued by insurance companies, i.e., the assumption of risks from policyholders. Insurance companies transfer any excess of risk to reinsurance companies, which is why reinsurance companies are exposed to underwriting risk. Underwriting risks that are important for reinsurers comprise mainly underwriting process risk, pricing risk, claims risk, net retention risk and reserving risk. Some other underwriting risks, such as product design risk, economic environment risk and policyholder behaviour risk are important mainly for insurers, but are transferred to reinsurance companies, especially through proportional reinsurance treaty arrangements. Such risks can only be managed through appropriate underwriting, additional requirements or clauses in reinsurance contracts and through an appropriate retrocession programme. Therefore, below we will give no separate discussion of product design risk, economic environment risk nor policyholder behaviour risk.

Sava Re only assumes underwriting risk from its subsidiaries and other cedants. Part of the assumed risk is retained, any excess over its capacity is retroceded. Sava Re classi-

39 During the preparation of the audited annual report, the Sava Re is yet to obtain audited Solvency II data for 2016.

fies all reinsurance contracts as insurance contracts within the meaning of IFRS 4. As the Company has no reinsurance contracts that qualify as financial contracts, we give below a detailed description of the risks arising from insurance contracts, as required under IFRS 4.

24.5.2.1. Underwriting process risk

The underwriting process risk is the risk of incurring financial losses caused by an incorrect selection and approval of risks to be reinsured. In respect of reinsurance treaties, Sava Re follows the fortune of its ceding companies, while with facultative contracts, the decision on assuming a risk is on Sava Re.

It follows from the above that in order to manage this risk, it is essential to review the practices of existing and future ceding companies and to analyse developments on the relevant markets and in the relevant classes of insurance. Consequently, coverage may only be granted by taking into account internal underwriting guidelines. These guidelines define requirements for customers, minimum required level of information on the business and the framework of the expected business results. In addition, they lay down the coverage procedure and levels of authority so that appropriate controls are included in the process. Sava Re's professionals with relevant qualifications assist in the underwriting of large risks assumed by the Company's subsidiaries (and subsequently reinsured with the controlling company).

The following table shows exposure measured by the number of contracts and aggregated limits of contracts. The sum does not include unlimited motor third-party liability XL covers that are fully retroceded.

Breakdown of reinsurance contracts and limits (before retrocession)

(€)	U/W year 2016		U/W year 2015	
Form of contract	No. of contracts	Aggregate limit	No. of contracts	Aggregate limit
Treaty business	698	1,395,369,549	666	1,439,567,940
Facultative business	195	776,396,956	187	693,166,901
Total	**893**	**2,171,766,505**	**853**	**2,132,734,841**

Aggregate limits again increased marginally in 2016 compared to 2015, mainly as a result of the larger facultative portfolio, while the volume of obligatory treaties shrank. This is due to the cancellation of a small number of unbalanced treaties with very high limits. This finding is further supported by the fact that there was also an increase in premium income and technical provisions in 2016.

We believe that the reinsurance underwriting process risk is well managed. Sava Re reduces underwriting risk through partial or full retrocession.

24.5.2.2. Pricing risk

Pricing risk is the risk that the reinsurance premiums charged will be insufficient to cover liabilities under reinsurance contracts.

In proportional reinsurance contracts, reinsurance premiums depend on insurance premiums, mostly set by ceding companies, while the risk premium also depends on the commission recognised by the reinsurer. Therefore, this risk is managed by appropriate underwriting of risks to be reinsured and relevant adjustments to the commission policy. Likewise in respect of non-proportional reinsurance treaties, the pricing risk is managed by properly underwriting the risks to be reinsured and by determining adequate reinsurance premiums. Expected results of reinsurance contracts entered into on the basis of available information and set prices must be in line with target combined ratios; the adequacy of prices is verified based on the results by form and class of reinsurance.

The international reinsurance market remains in a soft market phase, but as reinsurance underwriting is adequately managed, pricing risk for Sava Re is assessed as moderate in both 2016 and 2015.

24.5.2.3. Claims risk

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. In proportional reinsurance business, this risk is closely connected with the same risk in relation to ceding companies, which may arise due to incorrect assessments made in the course of underwriting, changes in court practice, new types of

losses, increased public awareness of the rights attached to insurance contracts, macroeconomic changes and such like. In non-proportional reinsurance business, the Company has greater control over the expected claims risk through direct control on pricing; however, since this business is more volatile, the risk is managed mainly through portfolio diversification. A treaty may be either very profitable for the reinsurer (if there are no losses in excess of a predetermined amount, the priority) or very unprofitable, if a loss exceeds the priority.
This risk is managed by appropriate underwriting, controlling risk concentration in a particular location or geographical area, and especially by adequate reinsurance and retrocession programmes.
Although we are altering the composition of the portfolio to maximise profitability, we assess that there was no significant difference between the claims risk of 2016 and 2015.

24.5.2.4. Net retention risk

Net retention risk is the risk that higher retention of insurance loss exposures will result in large aggregate losses due to catastrophic or concentrated claims experience. This risk may also materialise in the event of "shock losses", where a large number of insured properties are impacted. This may occur especially through losses caused by natural peril events, which are generally covered by a basic or an additional fire policy or by a policy attached to an underlying fire policy (e.g. business interruption policy or earthquake policy).
Sava Re manages net retention risk by way of (i) appropriate professional underwriting of the risks to be insured, (ii) measuring the exposure (by aggregating sums insured) by geographical area for individual natural perils and especially by (iii) designing an appropriate reinsurance programme. In managing this risk, we take into account that maximum net aggregate losses in any one year are affected both by the maximum net claim arising from a single catastrophe event and by the frequency of such events.
The table below shows exposure to natural perils and diversification by region.

Earthquake aggregates by region

(€)	31/12/2016	31/12/2015
EU members	767,654,390	743,394,132
Non-EU members	138,091,549	167,276,871
Russia and CIS	25,447,591	34,840,926
Africa	47,032,821	33,942,271
Middle East	51,842,192	48,264,175
Asia	263,262,632	196,364,656
Latin America	34,299,612	35,358,886
USA and Canada	23,135,770	29,536,584
Caribbean Islands	27,483,539	22,588,484
Oceania	23,215,554	20,153,611
Total	**1,401,465,649**	**1,331,720,596**

Flood aggregates by region

(€)	31/12/2016	31/12/2015
EU members	425,256,326	421,543,714
Non-EU members	108,459,503	90,686,329
Russia and CIS	25,440,091	34,833,426
Africa	47,032,821	33,942,271
Middle East	34,932,628	33,494,159
Asia	223,152,020	185,128,414
Latin America	34,441,205	35,501,743
USA and Canada	23,135,770	29,536,584
Caribbean Islands	27,483,539	22,588,484
Oceania	22,043,679	20,153,611
Total	**971,377,581**	**907,408,735**

Storm aggregates by region

(€)	31/12/2016	31/12/2015
EU members	432,701,483	424,083,689
Non-EU members	108,443,253	90,660,079
Russia and CIS	25,440,091	34,833,426
Africa	47,032,821	33,942,271
Middle East	34,932,628	33,494,159
Asia	224,598,174	187,111,747
Latin America	32,346,638	32,547,157
USA and Canada	23,135,770	29,536,584
Caribbean Islands	27,483,539	22,588,484
Oceania	23,215,554	20,153,611
Total	**979,329,950**	**908,951,208**

The Group considers the net retention risk to have remained essentially the same in both 2016 and 2015. Nevertheless, Sava Re was not seriously impacted due to its adequate retention limits and adequate retrocession programme, as shown in the section on estimated exposure to underwriting risks.

24.5.2.5. Reserving risk

Reserve risk is the risk that technical provisions are not sufficient to cover the commitments of the (re)insurance business assumed. This may occur because of inaccurate actuarial estimates or an unexpected unfavourable loss development. It may be a result of new types of losses that have not been excluded in cedants' insurance conditions and for which no claims provisions have been established, which is common with liability insurance contracts but can also happen due to changed court practices. We consider that this risk does exist, mainly in respect of the claims provision; however, it is minor.

Sava Re manages reserving risk by strict adherence to the law and regulations on technical provisions, by applying recognised actuarial methods, critical observation of information received from ceding companies on reinsurers' shares of their claims provisions and, especially, by adopting a sufficiently prudent approach in setting the level of technical provisions, which is described in the notes to technical provisions.

Unlike primary insurers, Sava Re cannot use triangles of paid losses based on accident year data for actuarial estimations. This is because ceding companies report claims under proportional treaties by underwriting years. As claims under one-year policies written during any one year may occur either in the year the policy is written or in the year after, aggregated data for proportional reinsurance contracts are not broken down by accident year. Furthermore, some markets renew treaty business during the year, resulting in additional discrepancies between the underwriting year and the accident year.

In line with reinsurance practice, Sava Re analyses data concerning claims paid by underwriting year and estimates its future liabilities with respect to individual underwriting years by using appropriate actuarial methods. The estimated liabilities relate to claims that have already been incurred (reported and not reported) the settlement of which is provided for within the claims provision, and claims that have not yet been incurred the settlement of which is covered by unearned premiums, net of deferred commission.

Owing to the mentioned feature, the following two tables include as originally estimated gross or net liabilities. At any year-end claims provisions are included plus unearned premiums less deferred commission, which are compared to subsequent estimates of these liabilities. Such testing or analysis of whether technical provisions are adequate can only be applied to past years – the further back in time, the more precise the results. Given that the claims provision is calculated using the same actuarial method as in previous years, we conclude based on past discrepancies between originally estimated liabilities and subsequently established actual liabilities arising from claims at individual dates of the statement of financial position, that the provisions as at 31 December 2016 are adequate.

Adequacy analysis of gross technical provisions for past years

(€ thousand)	Year ended 31 December					
Estimate of gross liabilities	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
As originally estimated	173,525	206,099	199,339	207,416	209,963	218,615
Reestimated as of 1 years later	169,377	179,499	170,890	183,590	191,260	
Reestimated as of 2 years later	155,552	169,304	160,099	174,579		
Reestimated as of 3 years later	155,334	158,181	156,865			
Reestimated as of 4 years later	145,246	155,634				
Reestimated as of 5 years later	143,162					
Cumulative gross redundancy (latest estimate – original estimate)	**30,363**	**50,464**	**42,473**	**32,838**	**18,703**	
Cumulative gross redundancy as % of original estimate	17.5 %	24.5 %	21.3 %	15.8 %	8.9 %	

Adequacy analysis of net technical provisions for past years

(€ thousand)	Year ended 31 December					
Estimate of net liabilities	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
As originally estimated	156,370	174,480	173,344	177,031	194,262	200,824
Reestimated as of 1 years later	144,939	153,136	153,577	161,973	175,595	
Reestimated as of 2 years later	132,255	147,655	142,529	151,267		
Reestimated as of 3 years later	136,571	136,270	137,887			
Reestimated as of 4 years later	125,973	132,322				
Reestimated as of 5 years later	122,826					
Cumulative gross redundancy (latest estimate – original estimate)	**33,544**	**42,158**	**35,457**	**25,764**	**18,667**	
Cumulative net redundancy as % of original estimate	21.5 %	24.2 %	20.5 %	14.6 %	9.6 %	

The cumulative gross redundancies for underwriting years 2011 to 2014 increased compared to amounts at the end of the preceding year, which were 16.3 %, 23.2 %, 19.7 % and 11.5 % of original estimates. The cumulative net redundancies for underwriting years 2011 to 2014 are also larger than the amounts at the end of the preceding year, which were 19.4 %, 21.9 %, 17.8 % and 8.5 % of original estimates.

The cumulative gross and net redundancies are a result of prudent estimation of liabilities. They are also partly due to the fact that unearned premiums calculated based on the pro rata temporis rule, less deferred commission, for those classes of business where loss ratios are significantly below 100 % are too large by the very nature of the calculation method. This is also the reason why the reestimate as of 1 year later is quickly decreasing compared to the original estimate, as unearned premiums relating to one-year insurance contracts are largely released in the following year when any redundancy is also released. Subsequent reestimates are slowly decreasing; and only after a long time do they stabilise.

In respect of those classes of insurance where the sum of the claims and the expense ratio exceeds 100 %, Sava Re sets aside provisions for unexpired risks in addition to unearned premiums, as described in the notes to technical provisions.

Due to the high cumulative redundancies of both gross and net technical provisions, we estimate that reserving risk at the end of 2016 is relatively small and similar to that at year-end 2015.

24.5.2.6. Retrocession programme

An adequate retrocession programme is fundamental for managing the underwriting risk that Sava Re is exposed to. The programmes are designed to reduce potentially large risk exposures as largest amounts set out in the tables of maximum retentions are used only exceptionally with best risks. Sava Re uses retrocession treaties to diversify risk. The Company's net retained insurance portfolio (relating to both Slovenian and foreign ceding companies) is further covered for potentially large losses through prudently selected non-proportional reinsurance programmes.

We consider that the 2016 retrocession programme of Sava Re is comparable with that of 2015.

24.5.2.7. Estimated exposure to underwriting risks

Sava Re's maximum net retentions and its retrocession programmes are of key importance to estimating the exposure to underwriting risks. The net retention limit is set at € 4 million for the majority of non-life classes of insurance and a combined limit of € 4 million is used for the classes fire and natural forces, other damage to property and miscellaneous financial loss; a net retention limit of € 2 million is set for motor liability and for marine; for life policies net retention limits are uniformly set at € 300,000. In principle, this caps any net claim arising out of any single loss event at a maximum of € 4 million. In case of any catastrophe event, e.g. flood, hail, storm or even earthquake, the maximum net claim payable is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is € 5 million for Group business as well as extra Group business. These amounts represent the maximum net claim for a single catastrophe event based on reasonable actuarial expectations. In case of multiple catastrophic events in any single year, the non-proportional treaties include reinstatement provisions. Hence, the probability that a large number of catastrophe events would compromise the solvency position of Sava Re is negligible. Due to the random fluctuation in the number of catastrophic events, an increase in net claims must always be expected. This would negatively impact business results, but would certainly pose no threat to Sava Re's solvency.

If the net combined ratio changed due to higher/lower underwriting risks by one percentage point, net profit before tax would change by € 1.3 million (2015: € 1.3 million). In 2016 an additional maximum net claim of € 5 million would have deteriorated the combined ratio by 3.7 % (2015: 4.0 %), which is still acceptable.

The probability that the underwriting risk may seriously undermine the Company's financial stability is deemed, according to our assessment, to have been low in both 2016 and 2015.

24.5.3. Financial risks

In its financial operations, Sava Re is exposed to financial risks, including market, liquidity and credit risk.

24.5.3.1. Market risks

Financial investments exposed to market risks[40]

Type of investment	31/12/2016	In % as at 31/12/2016	31/12/2015*	In % as at 31/12/2015	Absolute difference 31/12/2016 / 31/12/2015	Change in structure 31/01/2016 / 31/12/2015
Deposits and CDs	2,398,602	0.9 %	4,923,273	2.0 %	-2,524,670	-1.1 %
Government bonds	122,920,903	47.1 %	111,243,783	45.2 %	11,677,120	1.8 %
Corporate bonds*	101,771,645	39.0 %	102,964,235	41.9 %	-1,192,590	-2.9 %
Shares (excluding strategic shares)	9,798,315	3.8 %	10,892,492	4.4 %	-1,094,176	-0.7 %
Mutual funds	2,388,497	0.9 %	4,075,692	1.7 %	-1,687,194	-0.7 %
mixed funds	1,594,081	0.6 %	1,631,125	0.7 %	-37,045	-0.1 %
equity funds	794,417	0.3 %	1,778,274	0.7 %	-983,857	-0.4 %
other	0	0.0 %	666,292	0.3 %	-666,292	-0.3 %
Loans granted and other investments	2,834,953	1.1 %	2,834,953	1.2 %	0	-0.1 %
Deposits with cedants	7,835,859	3.0 %	5,698,774	2.3 %	2,137,086	0.7 %
Financial investments	**249,948,775**	**95.7 %**	**242,633,203**	**98.7 %**	**7,315,572**	**-2.9 %**
Investment property	3,122,076	1.2 %	2,999,742	1.2 %	122,335	0.0 %
Cash and cash equivalents	7,989,819	3.1 %	285,950	0.1 %	7,703,868	2.9 %
Total financial investments	**261,060,670**	**100.0 %**	**245,918,895**	**100.0 %**	**15,141,775**	**0.0 %**

* In 2015 corporate bonds do not include government guaranteed corporate bonds (€ 9.1 million); they were classified as government bonds.

The value of financial investments exposed to market risk rose by € 15.1 million in 2016 compared to year-end 2015. The increase is discussed in the business report section 21.2.1.1.

24.5.3.1.1. Interest rate risk

Interest rate risk is the risk that the Company will suffer a loss as a result of fluctuations in interest rates, resulting in a decrease in the value of assets or an increase in liabilities. Given that according to the prescribed methodology for the calculation of technical provisions for the purpose of financial statements, Sava Re does not have interest-rate sensitive technical provisions, changes in market interest rates are only reflected in the value of the investment portfolio.

Interest rate risk is measured through a sensitivity analysis, by observing the change in the value of investments in bonds if interest rates rise by one percentage point. The analysed investments do not include held-to-maturity bonds as they are measured at amortised cost for the purpose of preparing financial statements and thus are not sensitive to changes in market interest rates. These amount to € 2.1 million.

40 Effective as of 1 January 2016, the Company changed the recording of demand deposits under cash and cash equivalents (in 2015 shown under the deposit item).

Results of the sensitivity analysis

(€)						31/12/2016
			+100 bp			-100 bp
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	120,846,089	116,628,711	-4,217,378	120,846,089	125,432,749	4,586,660
Corporate bonds	101,771,648	98,529,323	-3,242,324	101,771,648	105,271,137	3,499,490
Total	**222,617,736**	**215,158,034**	**-7,459,702**	**222,617,736**	**230,703,886**	**8,086,150**
Effect on equity		-7,459,702			8,086,150	
Effect on the income statement		0			0	

(€)						31/12/2015*
			+100 bp			-100 bp
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	109,169,525	106,465,797	-2,703,729	109,169,525	111,989,651	2,820,125
Corporate bonds	102,964,235	100,450,264	-2,513,971	102,964,235	105,591,119	2,626,884
Total	**212,133,761**	**206,916,061**	**-5,217,699**	**212,133,760**	**217,580,770**	**5,447,009**
Effect on equity		-5,205,039			5,441,837	
Effect on the income statement		-12,660			5,172	

* In 2015 corporate bonds did not include government guaranteed corporate bonds (€ 7.0 million); these are classified as government bonds, which is why the values given differ from those published in the 2015 annual report.

The sensitivity analysis showed that in case of an increase in interest rates, the value of bonds included in the analysis would decrease by € 7.5 million (31/12/2015: € 5.2 million) or 3.4 % (31/12/2015: 2.5 %).

Based on the results of the sensitivity analysis, the interest rate risk slightly increased compared to 2015.

24.5.3.1.2. Equity risk

Equity risk is the risk that the value of investments will decrease due to fluctuations in equity markets.

Equity risk is measured by Sava Re through a stress test scenario assuming a 10- and 20-percent drop in equity prices. Equity risk affects equities, equity mutual funds and mixed mutual funds (in stress tests, we include half of the amount). Investments in subsidiaries are excluded from stress tests as the Company assesses their value in accordance with the policy described in section 24.2.12 "Financial investments in subsidiaries and associates". At year-end 2016, investments in subsidiaries totalled € 191.6 million (31/12/2015: € 208.2 million). Sava Re maintains and increases the value of its investments in subsidiaries through active management.

As at 31 December 2016, equity securities accounted for 4.7 % of the investment portfolio, 1.1 percentage points less than in 2015.

Sensitivity assessment of investments to equity risk

(€)			31/12/2016			31/12/2015
Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
by -10 %	11,389,772	10,250,795	-1,138,977	13,486,328	12,137,695	-1,348,633
by -20 %	11,389,772	9,111,818	-2,277,954	13,486,328	10,789,062	-2,697,266

To assess the Group's sensitivity of investments to equity risk, we assume a 10 % drop in the value of all equity securities, which would have resulted in a decrease in the value of investments of € 1.1 million (31/12/2015: € 1.3 million).

Unlike the bond portfolio, which moves inversely to interest rates, the value of equities and mutual funds changes linearly with stock prices. Thus, a 20 % fall in equity prices would reduce the value of investments by € 2.3 million.
The exposure to equity risk declined in 2016.

24.5.3.1.3. Property risk

The exposure to property risk is monitored through a stress test assuming a 25 % drop in prices. The basis for the calculation is the balance of investment property.

Sensitivity assessment of investments to equity risk

(€)	31/12/2016			31/12/2015		
Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
by -25 %	3,122,076	2,341,557	-780,519	2,999,742	2,249,806	-749,935

A 25 % drop in property prices would decreased the value of investments as at 31 December 2016 by € 0.8 million (31/12/2015: € 0.7 million).
The risk increased marginally compared to year-end 2015.

24.5.3.1.4. Currency risk

Currency risk is the risk that changes in exchange rates will decrease foreign investments or increase liabilities denominated in foreign currencies.
As at 31 December 2016, the Company's liabilities denominated in foreign currencies accounted for 16.7 % of its total liabilities. As the proportion of international business is rising (and so is the number of different currencies), Sava Re has put in place currency matching policies. It took measures for the matching of assets and liabilities in foreign currencies aimed at decreasing currency risk.
Under the adopted currency matching policy, matching activities in respect of any accounting currency[41] are to start as soon as the currency mismatch with that currency exceeds € 2 million. If the financial market allows for the purchase and settlement of investments in the accounting currency, the Company starts investing in the accounting currency of the liability. If the financial market does not allow for the purchase and settlement of investments in the accounting currency and the transaction currency[42] is a global currency, the currency mismatch may be reduced through placements in the transaction currency. This requires a correlation between the accounting currency and the transaction currency of at least 90 %. The correlation is the average of a one-, two-, three-, four- and five-year correlation between the accounting currency and the transaction currency calculated at the end of each quarter of the current year.

Measurement of currency risk

The Company uses a stochastic analysis to measure currency risk and to predict the average surplus funds as well as the 5th percentile of surplus funds after one year from the risk valuation date.
Based on exchange rates to which Sava Re has been exposed to over the past six years and the corresponding euro equivalent surpluses of assets and liabilities as at 31 December 2016, we made a stochastic analysis that projected that, assuming an unaltered currency structure, after one year the average surplus of assets over liabilities would be € 0.2 million (31/12/2015: € 0.8 million), but with a 5-percent probability that the deficit of assets would exceed € 0.6 million (31/12/2015: € 3.4 million).
Currency mismatch of assets and liabilities is monitored by individual accounting currency. The following table includes the currency mismatch for the five currencies that account for the largest share of liabilities.

41 The accounting currency is the local currency used in the accounting documentation. Reinsurance contracts may be accounted for in various accounting currencies. Generally, this is the currency of liabilities and receivables due from cedants, and hence also the reinsurer.
42 The transaction currency is the currency in which reinsurance contract transactions are processed.

Currency (mis)match as at 31 December 2016 (all amounts translated to euro)

Currency 2016	Assets	Liabilities	Mismatch	% of matched liabilities
Euro (€)	**478,755,305**	**472,780,085**		
Foreign currencies	**89,392,458**	**95,367,680**	**19,625,899**	**93.7**
US dollar (USD)*	39,073,698	38,108,473	965,225	102.5
US dollar (USD)	35,945,392	29,739,019	6,206,373	120.9
Korean won (KRW)	13,406,991	13,287,940	119,051	100.9
Indian rupee (INR).	7,119,812	6,619,897	499,915	107.6
Taka (BDT)	2,409,710	5,612,845	3,203,135	42.9
Chinese yuan (CNY)	7,109,309	7,343,230	233,920	96.8
Other	23,401,244	32,764,749	9,363,505	71.4
Total	**568,147,764**	**568,147,764**		
% of currency matched liabilities			96.5 %	

* This takes into account all accounting currencies (AED, ANG, BDT, BSD, GTQ, HKD, KWD, MVR, OMR, PKR, QAR, SAR, XCD, VND) correlated with the USD transaction currency.

Currency (mis)match as at 31 December 2015 (all amounts translated to euro)

Currency 2015	Assets	Liabilities	Mismatch	% of matched liabilities
Euro (€)	**458,352,974**	**451,433,270**		
Foreign currencies	**112,533,736**	**119,453,440**	**24,210,485**	**94.2**
US dollar (USD)*	46,377,315	42,589,395	3,787,920	108.9
US dollar (USD)	43,593,750	34,948,360	8,645,390	124.7
Korean won (KRW)	18,390,624	19,152,860	762,236	96.0
Chinese yuan (CNY)	8,876,770	9,884,339	1,007,569	89.8
Indian rupee (INR).	6,507,058	6,550,900	43,842	99.3
Taka (BDT)	2,403,781	4,696,390	2,292,609	51.2
Other	32,761,753	44,220,591	11,458,838	74.1
Total	**570,886,710**	**570,886,710**		
% of currency matched liabilities			95.8 %	

* This takes into account all accounting currencies (AED, ANG, BDT, BSD, GTQ, HKD, KWD, MVR, OMR, PKR, QAR, SAR, XCD, VND) correlated with the USD transaction currency.

The Company has set itself the target of matching assets and liabilities at least 90 %. In 2016 assets and liabilities were matched 96.5 % (2015: 95.8 %), which indicates high quality of currency risk management.

Since many accounting currencies are at least 90 % correlated to the US dollar, the surplus of assets over liabilities in US dollars is reduced to € 1.0 million (from € 6.2 million). This would further increase the currency matching percentage to 98.9 % (2015: 97.6 %).

Effect of exchange differences on the income statement

A currency mismatch also affects profit or loss through accounting for exchange rate differences due to the impact of exchange rate changes on various statement of financial position items.

When assets and liabilities are 100 % matched in terms of foreign currencies, changes in foreign exchange rates have no impact on profit or loss. This is because any change in the value of assets denominated in a foreign currency as a result of a change in the exchange rate is offset by the change in the value of liabilities denominated in that foreign currency. As Sava Re's assets and liabilities are not 100 % currency matched, changes in exchange rates do affect profit or loss. The following table shows the impact of exchange differences.

Effect of exchange differences on the income statement

Statement of financial position item	Exchange differences	
Euro (€)	31/12/2016	31/12/2015
Investments	1,360,875	3,227,501
Technical provisions and deferred commissions	-1,571,251	-3,635,776
Receivables and liabilities	-260,125	230,791
Total effect on the income statement	-470,502	-177,485

We estimate that currency risk did not change significantly in 2016 compared to 2015. In 2016 the Company continued active currency matching of assets and liabilities both directly through accounting currencies and indirectly through transaction currencies.

24.5.3.2. Liquidity risk

Liquidity risk is the risk that because of unexpected or unexpectedly high obligations, the Company will suffer a loss when ensuring liquid assets.

The Company minimises liquidity risk through ensuring funds in the amount of the estimated liquidity requirement. This comprises estimated ordinary current liquidity needs and liquidity reserves, which are ensured through the allocation of funds in money market instruments and through setting minimum percentages of portfolios that must be invested in highly liquid assets readily available to provide liquidity in case of emergency needs.

The normal current liquidity assessment is made based on the projected cash flow analysis in the period of up to one year included in the monthly and weekly plans that take into account the planned investment maturity dynamics as well as other inflows and outflows from operating activities. To this end, the Company uses historical data from previous monthly and weekly liquidity plans and projections regarding future operations. The liquidity reserve is calculated on the basis of an assessment of the maximum weekly outflows based on historical data.

In accordance with its liquidity risk management policy, the Company oversees the liquidity quality of its securities classified in line with the ECB methodology. The investment portfolio must include as a minimum 15 % of securities of the liquidity class L1A. As shown in the table below, L1A securities exceeded the minimum 15 %.

Investments as per ECB methodology

Class of ECB-eligible funds			
31/12/2016	Value of investments	Deduction	Value after deduction
L1A	71,228,753	2,738,851	68,489,903
L1B	15,013,414	354,868	14,658,546
L1C	46,356,185	3,504,593	42,851,592
L1D	18,557,171	2,943,382	15,613,788
Not classed	73,537,025	32,723,976	40,813,049
Total	**224,692,548**	**42,265,670**	**182,426,878**

Exposure to liquidity risk is also measured by maturity-matching of assets and liabilities. The table below shows the value of financial investments by year based on undiscounted cash flows, while the value of technical provisions is shown by year and expected maturity based on triangular development.

Maturity profile of financial assets and liabilities

(€)	Carrying amount as at 31/12/2016	Callable	Up to 1 year	1–5 years	Over 5 years	No maturity	Total 31/12/2016
Financial investments	**249,948,775**	**0**	**53,433,668**	**139,072,800**	**54,491,508**	**12,186,812**	**259,184,788**
- at fair value through profit or loss	1,287,411	0	0	0	0	1,287,411	1,287,411
- held to maturity	2,074,813	0	102,500	410,000	2,512,500	0	3,025,000
- loans and deposits	13,069,414	0	10,160,970	3,376,419	857,299	0	14,394,688
- available-for-sale	233,517,137	0	43,170,198	135,286,381	51,121,709	10,899,402	240,477,689
Reinsurers' share of technical provisions	**18,203,912**	**0**	**7,467,400**	**5,293,796**	**5,442,715**	**0**	**18,203,912**
Cash and cash equivalents	**7,989,819**	**6,930,776**	**1,059,043**	**0**	**0**	**0**	**7,989,819**
TOTAL ASSETS	**276,142,505**	**6,930,776**	**61,960,111**	**144,366,596**	**59,934,223**	**12,186,812**	**285,378,518**
Subordinated liabilities	23,570,771	0	23,570,771	0	0	0	23,570,771
Technical provisions	226,207,479	0	93,201,727	65,580,454	67,425,297	0	226,207,478
TOTAL LIABILITIES	**249,778,249**	**0**	**116,772,498**	**65,580,454**	**67,425,297**	**0**	**249,778,249**
Difference (assets – liabilities)	**26,364,256**	**6,930,776**	**-54,812,387**	**78,786,142**	**-7,491,074**	**12,186,812**	**35,600,268**

(€)	Carrying amount as at 31/12/2015	Callable	Up to 1 year	1–5 years	Over 5 years	No maturity	Total 31/12/2015
Financial investments	**242,633,203**	**908,109**	**68,891,773**	**133,298,937**	**35,170,665**	**14,968,183**	**253,237,666**
- at fair value through profit or loss	3,128,241	0	1,736,880	0	0	1,396,185	3,133,065
- held to maturity	2,074,258	0	102,500	410,000	2,615,000	0	3,127,500
- loans and deposits	13,457,000	908,109	8,813,621	2,722,787	2,472,399	0	14,916,915
- available-for-sale	223,973,704	0	58,238,772	130,166,151	30,083,266	13,571,997	232,060,186
Reinsurers' share of technical provisions	**16,026,358**	**0**	**5,846,883**	**5,494,991**	**4,684,484**	**0**	**16,026,358**
Cash and cash equivalents	**285,950**	**0**	**285,950**	**0**	**0**	**0**	**285,950**
TOTAL ASSETS	**258,945,511**	**908,109**	**75,024,606**	**138,793,928**	**39,855,149**	**14,968,183**	**269,549,974**
Subordinated liabilities	23,534,136	0	11,767,068	11,767,068	0	0	23,534,136
Technical provisions	220,901,954	0	80,872,847	75,589,234	64,439,873	0	220,901,954
TOTAL LIABILITIES	**244,436,090**	**0**	**92,639,915**	**87,356,302**	**64,439,873**	**0**	**244,436,090**
Difference (assets – liabilities)	**14,509,421**	**908,109**	**-17,615,309**	**51,437,626**	**-24,584,724**	**14,968,183**	**25,113,884**

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. In this regard, the Company maintains a liquidity buffer of highly liquid assets accounting for at least 15 % of its investment portfolio. Highly liquid assets are intended to provide liquidity to meet any extraordinary liquidity requirements and are available on an ongoing basis.

An additional liquidity cushion is provided by a credit line of € 10 million arranged by the Company with two commercial banks, also for the purpose of covering the liquidity needs of its Group members. The Company has in its books € 86.2 million of investments assessed as highly liquid by the ECB (first two categories under ECB methodology for assessing the liquidity of investments).

In terms of the Company's liquidity, it is also very important that gross technical provisions and reserves are covered by the liability fund.

The Company's liquidity also depends on the average maturity of assets and liabilities. The average maturity of bonds and deposits of the liability fund was 3.49 years at year-end 2016 (31/12/2015: 2.51 years), while the expected maturity of liabilities was 4.01 years (31/12/2015: 3.86 years).

Based on the proportion of liquid assets and the level of asset and liability matching, we assess that liquidity risk is well managed.

24.5.3.3. Credit risk

Credit risk is the risk that issuers or other counterparties will fail to meet their obligations to the Company.

Assets exposed to credit risk include fixed-income financial investments (deposit investments, bonds, deposits with cedants, and cash and cash equivalents), receivables due from reinsurers and other receivables.

Exposure to credit risk

(€)	31/12/2016	31/12/2015*
Type of asset	**Amount**	**Amount**
Fixed-income investments	**242,916,828**	**225,116,016**
Debt instruments	227,091,150	219,131,292
Deposits with cedants	7,835,859	5,698,774
Cash and cash equivalents	7,989,819	285,950
Receivables due from reinsurers	**21,656,024**	**20,028,888**
Reinsurers' share of technical provisions	18,203,912	16,026,358
Receivables for shares in claims payments	3,452,112	4,002,530
Other receivables	**76,384,515**	**78,789,599**
Receivables arising out of primary insurance business	75,715,787	77,744,651
Receivables arising out of co-insurance and reinsurance business (excluding receivables for shares in claims)	435,652	705,825
Current tax assets	60,938	55,518
Other receivables	172,138	283,605
Total exposure	**340,957,367**	**323,934,503**

* The total exposure as at 31 December 2015 differs from the one disclosed in the 2015 annual report due to the inclusion of cash and cash equivalents in fixed-income investments. (Loans granted are not included in the calculation of exposure to credit risk.)

Credit risk due to issuer default

Credit risk for investments is estimated based on two factors:

- credit ratings used in determining credit risk for fixed-income investments[43] and cash assets[44];
- performance indicators for other investments.

Below we set out an estimation of credit risk for fixed-income investments (included are debt securities, bank deposits, cash and cash equivalents, and deposits with cedants).

Fixed-income investments by issuer credit rating

(€)	31/12/2016		31/12/2015*		
Rated by S&P/Moody's	**Amount**	**As % of total**	**Amount**	**As % of total**	**Change As % of total**
AAA/Aaa	83,095,870	34.2 %	77,353,316	34.4 %	-0.2 p.p.
AA/Aa	37,089,276	15.3 %	34,821,557	15.5 %	-0.2 p.p.
A/A	67,743,311	27.9 %	37,506,767	16.7 %	11.2 p.p.
BBB/Baa	29,257,378	12.0 %	51,435,605	22.8 %	-10.8 p.p.
Less than BBB/Baa	9,634,140	4.0 %	10,398,757	4.6 %	-0.7 p.p.
Not rated	16,096,853	6.6 %	13,600,014	6.0 %	0.6 p.p.
Total	**242,916,828**	**100.0 %**	**225,116,016**	**100.0 %**	

* Fixed-income investments as at 31 December 2015 also include cash and cash equivalents, which is why the value of fixed-income investments differs from the one published in the 2015 annual report.

43 This includes bonds, corporate bonds, deposits and deposits with cedants.
44 This includes cash and demand deposits.

Fixed-income investments rated A or better at 31 December 2016 accounted for 77.4 %, an increase of 10.8 percentage points over 2015. The improved credit profile compared to year-end 2015 is primarily as a result of (re)investments in higher grade securities.

The largest structural shift was from the BBB/Baa class to the A/A class, largely as a result of the changes in the sovereign rating of the Republic of Slovenia: rating agencies Standard & Poor's and Fitch upgraded the ratings on the Republic of Slovenia to A and A- respectively.

Sava Re mitigates credit risk with other investments through a high degree of diversification and by investing in liquid securities.

Credit risk due to issuer default includes concentration risk representing the risk of excessive concentration in a geographic area, economic sector or issuer.

The Company's investment portfolio is reasonably diversified in accordance with the Slovenian Insurance Act and the Company's internal rules in order to avoid large concentration of a certain type of investment, large concentration with any counterparty or economic sector or other potential forms of concentration.

Diversification of financial investments by region

(€)	31/12/2016		31/12/2015		
Region	Amount	As % of total	Amount	As % of total	Change As % of total
Slovenia	62,820,061	24.1 %	63,504,972	25.8 %	-1.8 p.p.
EU members	138,764,117	53.2 %	123,071,267	50.0 %	3.1 p.p.
Non-EU members	10,749,824	4.1 %	11,837,138	4.8 %	-0.7 p.p.
Russia and Asia	18,251,368	7.0 %	17,822,752	7.2 %	-0.3 p.p.
Africa and the Middle East	2,619,479	1.0 %	1,813,076	0.7 %	0.3 p.p.
America and Australia	27,855,822	10.7 %	27,869,690	11.3 %	-0.7 p.p.
Total	**261,060,670**	**100.0 %**	**245,918,895**	**100.0 %**	

* The 2015 figures also included investment property and cash and cash equivalents, which is why the figures for Slovenia and the total differ from the data published in the 2015 annual report.

Financial investments (financial investments, investment property, and cash and cash equivalents) have the largest regional exposure to the EU Member States (31/12/2016: 53.2 %, 31/12/2015: 50.1 %), with exposure spread between 25 countries. The second largest exposure is to Slovenian-based issuers (31/12/2016: 24.1 %; 31/12/2015: 25.9 %). The exposure to other regions remained broadly flat year-on-year.

Exposure to Slovenia by asset type

(€)	31/12/2016		31/12/2015*		
Type of investment	Amount	As % of total	Amount	As % of total	Change As % of total
Deposits	742,085	0.3 %	2,849,069	1.2 %	-0.9 p.p.
Government bonds	35,789,278	13.7 %	32,288,303	13.1 %	0.6 p.p.
Corporate bonds**	7,525,592	2.9 %	12,953,111	5.3 %	-2.4 p.p.
Shares	9,418,063	3.6 %	10,498,654	4.3 %	-0.7 p.p.
Mutual funds	1,594,081	0.6 %	1,631,125	0.7 %	-0.1 p.p.
Cash and cash equivalents***	4,628,886	1.8 %	284,968	0.1 %	1.7 p.p.
Investment property	3,122,076	1.2 %	2,999,742	1.2 %	0.0 p.p.
Sum total	**62,820,061**	**24.1 %**	**63,504,972**	**25.8 %**	**-1.8 p.p.**

* Data as at 31 December 2015 also include cash and cash equivalents, and investment property, which is why figures differ from those published in the 2015 annual report.

** In 2015 corporate bonds did not include government guaranteed corporate bonds (€ 2.0 million); they were classified as government bonds.

*** The value of cash and cash equivalents as at 31 December 2016 differs from the figure in the statement of financial position because € 3.4 million (31/12/2015: € 1 thousand) refers to the EU Member State region.

The % of total is calculated based on the amount of market-risk sensitive investments.

Diversification of financial investments by industry

(€)	31/12/2016		31/12/2015*		
Industry	**Amount**	**As % of total**	**Amount**	**As % of total**	**Change As % of total**
Banking	53,789,276	20.6 %	53,526,883	21.8 %	1.2 p.p.
Government	122,920,903	47.1 %	103,265,283	42.0 %	-5.1 p.p.
Finance & insurance	30,062,940	11.5 %	27,730,156	11.3 %	-0.2 p.p.
Industry	19,010,010	7.3 %	22,907,231	9.3 %	2.0 p.p.
Consumables	12,743,410	4.9 %	14,980,401	6.1 %	1.2 p.p.
Utilities	22,534,131	8.6 %	23,508,941	9.6 %	0.9 p.p.
Total	**261,060,670**	**100.0 %**	**245,918,895**	**100.0 %**	

* Data as at 31 December 2015 also include cash and cash equivalents, and investment property, which is why figures differ from those published in the 2015 annual report.

The Company's largest exposure in terms of industry as at 31 December 2016 was to governments, albeit with a high degree of diversification by issuers. Compared with the end of last year, the diversification by industry has not changed significantly.

As at 31 December 2016, exposure to the ten largest issuers was € 89.0 million, representing 34.1 % of financial investments (31/12/2015: € 82.4 million; 32.0 %). The largest single issuer of securities that Sava Re is exposed to is the Republic of Slovenia. As at 31 December 2016, it totalled € 32.7 million or 12.5 % of financial investments (31/12/2015: € 30.3 million; 12.3 %). No other issuer exceeds the 2.7 % of financial assets threshold.

Based on the above, we estimate that by reducing its regional exposure to Slovenia and additional diversification by issuer, region and industry, the Company managed its credit risk well in 2016, and reduced it compared to 2015.

Counterparty default risk

The total exposure to retrocessionaires as at 31 December 2016 was € 21.7 million (31/12/2015: € 20.0 million). Of this, € 18.2 million (31/12/2015: € 16.0 million) relate to retroceded gross technical provisions (€ 2.7 million to unearned premiums and € 15.5 million to provisions for outstanding claims) and € 3.2 million (31/12/2015: € 4.0 million) to receivables for reinsurers' shares in claims.

The total credit risk exposure of the Company arising from retrocessionaires represented 3.8 % of total assets in 2016 (31/12/2015: 3.5 %). Retrocession programmes are mostly placed with first-class reinsurers with an appropriate credit rating (at least A– according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). We consider this risk as low, particularly as the investment portfolio is adequately diversified. See details in the following table.

Receivables due from reinsurers by reinsurer credit rating

(€)	31/12/2016		31/12/2015	
Rated by S&P / A.M. Best	**Amount**	**As % of total**	**Amount**	**As % of total**
AAA/A++	1,122,148	5.2 %	1,025,134	5.1 %
AA/A+	8,248,329	38.1 %	5,197,443	25.9 %
A/(A or A-)	8,789,152	40.6 %	9,029,912	45.1 %
BBB / (B++ or B+)	566,101	2.6 %	527,945	2.6 %
Less than BBB / less than B+	625,970	2.9 %	404,190	2.0 %
Not rated	2,304,323	10.6 %	3,844,264	19.2 %
Total	**21,656,023**	**100.0 %**	**20,028,888**	**100.0 %**

The tables below show the receivables ageing analysis, including the above-mentioned receivables for reinsurers' shares in claims.

Receivables ageing analysis

(€) 31/12/2016	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	62,789,076	10,072,536	2,854,175	75,715,787
Receivables for reinsurers' shares in claims	2,283,318	605,855	562,939	3,452,112
Receivables for commission	415,197	20,454	0	435,652
Receivables arising out of co-insurance and reinsurance business	**65,487,591**	**10,698,845**	**3,417,114**	**79,603,551**
Short-term receivables arising out of financing	14,172	30,995	15,771	60,938
Other short-term receivables	147,163	2,646	22,329	172,138
Other receivables	**161,334**	**33,641**	**38,101**	**233,076**
Total	**65,648,925**	**10,732,486**	**3,455,214**	**79,836,627**

(€) 31/12/2015	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	64,379,115	9,807,918	3,557,618	77,744,651
Receivables for reinsurers' shares in claims	3,010,675	361,161	630,694	4,002,530
Receivables for commission	635,156	57,320	13,349	705,825
Receivables arising out of co-insurance and reinsurance business	**68,024,946**	**10,226,399**	**4,201,661**	**82,453,006**
Current tax assets	**1,633,620**	**0**	**0**	**1,633,620**
Short-term receivables arising out of financing	55,518	0	0	55,518
Other short-term receivables	283,605	0	0	283,605
Other receivables	**339,123**	**0**	**0**	**339,123**
Total	**69,997,689**	**10,226,399**	**4,201,661**	**84,425,749**

The Company assessed its receivables for impairment. Allowances were established for receivables that needed to be impaired. Receivables are discussed in greater detail in note 8.

24.5.4. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

For effective management of operational risk, the Company has established processes for identifying, measuring, monitoring, managing and reporting of such risks. Operational risk management processes are defined in the operational risk management policy.

Identification of operational risk is carried out regularly and in all organisational units of the Company, especially after new regulatory requirements become effective, upon the introduction of new products, changes in operations and the transformation of other internal and external factors that could affect the level of operational risk. Each risk is assigned a risk owner, who is responsible for regular monitoring and reporting. The risk management department regularly informs the risk management committee and the management board of any new risks. The risk management department and risk management committee may propose measures for managing individual risks.

Sava Re measures (assesses) operational risks primarily in terms of qualitative assessment of the probability and financial impact of risks listed in the risk register and through scenario analysis. The Company makes regular risk assessments to obtain insight into the level of its exposure to operational risk. The risk management service regularly monitors the identified risks and their assessed levels, regularly reporting qualitative risk assessment results to the risk management committee and the management board.

At least annually, Sava Re calculates its capital requirements for operational risk using the Solvency II standard formula. This calculation of operational risk, however, has only limited practical value as the formula is not based on the actual exposure of the Company to operational risk, but on an approximation calculated mainly based on consolidated premiums, provisions and expenses.

To manage operational risk, the Company has in place an effective internal control system and a business process management system.

Operational risk generally arises together with other risks (e.g. underwriting risk, market risk), having a tendency to compound them. Inconsistencies in the underwriting process, for example, may significantly increase underwriting risks.

The chief operational risk management measures implemented by the Company are:

· maintaining an effective business processes management system and system of internal controls;
· awareness-raising and training of all staff on their role in the implementation of the internal control system and management of operational risks;
· implementing security policies regarding information security;
· having in place a business continuity plan for all critical processes in order to minimise the risk of unpreparedness for incidents and external events and any resulting business interruption;
· having in place IT-supported processes and controls in the key areas of business of the Company;
· internal audit reviews.

Operational risk categories are not among the most important risk types that Sava Re is exposed to. Nevertheless, some of them are quite important, such as:

· risk of inside information leakage,
· risk of internal and external fraud,
· risk of loss of key, professional and high-potential staff,
· risk of physical loss of assets due to natural disaster or fire,
· risk of loss or failure of computer or telecommunication system,
· risks associated with transactions, execution and maintenance,
· risk of incorrect data input and inadequate documentation,
· risks associated with outsourcing,
· risk of loss relating to information technology.

It is estimated that in 2016 the exposure to operational risk has increased due to the entry into force of Solvency II and the introduction of a new IT system to support reinsurance operations.

24.5.5. Strategic risks

Strategic risk is the risk of an unexpected decrease in the Company's value due to the adverse effects of management decisions, changes in business and legal environment and market developments. Such adverse events could impact the Company's income and capital adequacy.

The Company is exposed to a variety of internal and external strategic risks. The main strategic risks include as below:

· regulatory risk,
· reputation risk,
· project risk,
· impact of market and economic conditions,
· competitor risk.

Such risks are identified by the Company's individual organisational units, the management board, the risk management committee and the risk management function.

Strategic risks are by their nature very diverse, they are difficult to quantify and are heavily dependent on diverse (external) factors.

Strategic risks are not included in the calculation of the solvency capital requirement in accordance with the Solvency II standard formula. Therefore, strategic risks are assessed qualitatively by assessing the frequency and potential financial impact of each event. In addition, key strategic risks are evaluated using qualitative analysis of various scenarios (also as part of the own risk and solvency assessment). Based on both analyses combined, an overview is obtained of the extent and change in the exposure to this type of risk.

Strategic risks are managed mainly through prevention; individual strategic risks are mitigated through preventive measures. Strategic risks are also managed through on-going monitoring of the realisation of the Company's short- and long-term goals, by monitoring regulatory changes and market development.

24.5.5.1. Reputation risk

The Company is aware that reputation is important for realising its business goals and achieving its strategic plans in the long term. Therefore, the risk strategy identifies reputation risk as one of the Company's key risks. The Company must constantly seek to minimise the probability of actions that could have a major impact on its reputation. In addition, the Company implements activities that mitigate reputation risk, such as: setting up fit & proper procedures for staff in key positions, a systematic functioning of the compliance function, business continuity plan, stress tests and scenarios, and planning appropriate activities and responses to events.

24.5.5.2. Regulatory risk

The Company manages and mitigates regulatory risk through ongoing monitoring of legal changes and assessing such potential effects on operations in the short and longer term. In accordance with statutory regulations, the Company has established a compliance function to monitor and assesses the adequacy and effectiveness of regular procedures and measures taken to remedy any deficiencies in the Company's compliance with the law and regarding other commitments.

We estimate that in 2016, Sava Re's exposure to strategic risks has somewhat increased because of the enforcement of new Solvency II legislation.

24.6. Notes to the financial statements – statement of financial position

1) Intangible assets

Movement in cost and accumulated amortisation/impairment losses of intangible assets

(€)	Software	Other intangible assets	Total
COST			
Balance as at 01/01/2016	1,171,111	12,159	1,183,270
Additions	260,188	27,526	287,714
Balance as at 31/12/2016	1,431,299	39,685	1,470,984
ACCUMULATED AMORTISATION			
Balance as at 01/01/2016	516,780	0	516,780
Additions	121,637	0	121,637
Balance as at 31/12/2016	638,417	0	638,417
Carrying amount as at 01/01/2016	**654,331**	**12,159**	**666,490**
Carrying amount as at 31/12/2016	**792,883**	**39,685**	**832,567**

(€)	Software	Other intangible assets	Total
COST			
Balance as at 01/01/2015	887,369	8,862	896,231
Additions	283,742	3,297	287,039
Balance as at 31/12/2015	1,171,111	12,159	1,183,270
ACCUMULATED AMORTISATION			
Balance as at 01/01/2015	428,808	0	428,808
Additions	87,972	0	87,972
Balance as at 31/12/2015	516,780	0	516,780
Carrying amount as at 01/01/2015	**458,561**	**8,862**	**467,423**
Carrying amount as at 31/12/2015	**654,331**	**12,159**	**666,490**

2) Property and equipment

Movement in cost and accumulated depreciation/impairment losses of property and equipment assets

(€)	Land	Buildings	Equipment	Other property and equipment	Total
COST					
Balance as at 01/01/2016	146,616	2,285,900	1,464,770	126,552	4,023,839
Additions	3,260	5,305,547	347,741	0	5,656,548
Disposals	0	0	-253,322	-34,296	-287,618
Balance as at 31/12/2016	149,876	7,591,448	1,559,190	92,256	9,392,770
ACCUMULATED DEPRECIATION					
Balance as at 01/01/2016	0	573,263	951,117	44,116	1,568,496
Additions	0	39,330	187,103	6,905	233,337
Disposals	0	0	-158,220	-4,046	-162,266
Balance as at 31/12/2016	0	612,593	980,000	46,975	1,639,568
Carrying amount as at 01/01/2016	**146,616**	**1,712,638**	**513,653**	**82,436**	**2,455,344**
Carrying amount as at 31/12/2016	**149,876**	**6,978,856**	**579,190**	**45,281**	**7,753,202**

The increase in property and equipment assets was mainly due to the acquisition of a property at Baragova 5 in the amount of € 5.3 million, which as at 31 December 2016 was classified as property for own use in the course of acquisition. The property is not unencumbered; as it is still burdened by a mortgage, the purchase price has not been fully settled.
Property and equipment assets have not been acquired under financial lease arrangements.
The fair values of land and buildings are disclosed in note 23 "Fair values of assets and liabilities".

(€)	Land	Buildings	Equipment	Other property and equipment	Total
COST					
Balance as at 01/01/2015	146,616	2,285,900	1,369,753	84,291	3,886,561
Additions	0	0	181,569	42,261	223,830
Disposals	0	0	-86,552	0	-86,552
Balance as at 31/12/2015	146,616	2,285,900	1,464,770	126,552	4,023,839
ACCUMULATED DEPRECIATION					
Balance as at 01/01/2015	0	543,546	837,641	42,561	1,423,748
Additions	0	29,717	169,953	1,555	201,225
Disposals	0	0	-56,477	0	-56,477
Balance as at 31/12/2015	0	573,263	951,117	44,116	1,568,496
Carrying amount as at 01/01/2015	**146,616**	**1,742,355**	**532,112**	**41,730**	**2,462,814**
Carrying amount as at 31/12/2015	**146,616**	**1,712,638**	**513,653**	**82,436**	**2,455,343**

3) Deferred tax assets and liabilities

(€)	31/12/2016	31/12/2015
Deferred tax assets	1,373,436	2,285,448

(€)	01/01/2016	Recognised in the IS	Recognised in the SCI	31/12/2016
Long-term financial investments	2,247,334	-779,612	-272,140	1,195,582
Short-term operating receivables	181,834	40,621	0	222,455
Provisions for jubilee benefits and severance pay (retirement)	39,840	-8,400	0	31,440
Other	-183,560	111,312	-3,794	-76,041
Total	**2,285,448**	**-636,080**	**-275,934**	**1,373,436**

(€)	01/01/2015	Recognised in the IS	Recognised in the SCI	31/12/2015
Long-term financial investments	980,502	990,142	276,690	2,247,334
Short-term operating receivables	208,402	-26,568	0	181,834
Provisions for jubilee benefits and severance pay (retirement)	35,979	3,861	0	39,840
Other	-184,290	0	730	-183,560
Total	**1,040,593**	**967,435**	**277,420**	**2,285,448**

In 2016 deferred tax assets were subject to a change in the tax rate from 17 % to 19 %, in the amount of € 121,484.

4) Investment property

Movement in cost and accumulated depreciation of investment property

(€)	Land	Buildings	Total
COST			
Balance as at 01/01/2016	10,027	3,023,753	3,033,780
Additions	0	213,000	213,000
Disposal	-4,217	-36,322	-40,539
Balance as at 31/12/2016	5,810	3,200,431	3,206,241
ACCUMULATED DEPRECIATION			
Balance as at 01/01/2016	0	34,038	34,038
Additions	0	59,315	59,315
Disposal	0	-9,188	-9,188
Balance as at 31/12/2016	0	84,165	84,165
Carrying amount as at 01/01/2016	**10,027**	**2,989,715**	**2,999,742**
Carrying amount as at 31/12/2016	**5,810**	**3,116,266**	**3,122,076**

(€)	Land	Buildings	Total
COST			
Balance as at 01/01/2015	10,027	137,713	147,740
Disposal	0	2,886,040	2,886,040
Balance as at 31/12/2015	10,027	3,023,753	3,033,780
ACCUMULATED DEPRECIATION			
Balance as at 01/01/2015	0	32,248	32,248
Additions	0	1,790	1,790
Balance as at 31/12/2015	0	34,038	34,038
Carrying amount as at 01/01/2015	**10,027**	**105,465**	**115,492**
Carrying amount as at 31/12/2015	**10,027**	**2,989,715**	**2,999,742**

Investment property assets comprise offices in the Bežigrajski dvor building at Dunajska 56 in Ljubljana, which the Company has leased out for an indefinite period of time. At the end of 2015, the Company purchased part of a building at Tivolska 48, which was offered for long-term rent.

All investment property assets yield rent. In 2016 the Company realised income of € 131,245 from investment properties leased out, of which € 11,152 was paid by subsidiaries and associates and € 120,093 by third parties. In 2015, the income from associated companies totalled € 14,233. Maintenance costs associated with investment property are either included in rent or charged to the lessees in a proportionate amount. These recovered costs amounted to € 24,797 in 2016 (2015: € 4,404).

The investment properties are unencumbered by any third-party rights.

The fair values of investment property are disclosed in note 23 “Fair values of assets and liabilities”.

5) Financial investments in subsidiaries and associates

Financial investments in subsidiaries and associates are recognised at cost in accordance with IAS 27 “Separate Financial Statements”.

Financial investments in the equity of Group companies

(€)	01/01/2016		Acquisition/ recapitalisation	Merger	Liquidation	Impairment (-)	31/12/2016	
	Holding	Value	Value			Value	Holding	Value
Zavarovalnica Sava	100.00 %	0	0	122,312,446	0	0	99.74 %	122,312,446
Zavarovalnica Maribor	100.00 %	94,760,785	0	-94,760,785	0	0	0.00 %	0
Zavarovalnica Tilia	100.00 %	13,967,082	0	-13,967,082	0	0	0.00 %	0
Velebit osiguranje	92.08 %	7,110,658	2,500	-7,113,158	0	0	0.00 %	0
Velebit životno osiguranje	88.71 %	6,467,858	3,580	-6,471,438	0	0	0.00 %	0
Sava neživotno osiguranje (SRB)	100.00 %	13,457,144	0	0	0	0	100.00 %	13,457,144
Illyria	100.00 %	13,633,529	0	0	0	-3,315,084	100.00 %	10,318,445
Sava osiguruvanje (MKD)	92.44 %	10,278,898	0	0	0	0	92.44 %	10,278,898
Sava osiguranje (MNE)	100.00 %	15,373,019	0	0	0	0	100.00 %	15,373,019
Illyria Life	100.00 %	4,035,892	0	0	0	0	100.00 %	4,035,892
Sava životno osiguranje (SRB)	100.00 %	6,739,639	250,341	0	0	-1,015,698	100.00 %	5,974,281
Velebit usluge in liquidation	100.00 %	12,516,962	0	0	-12,516,962	0	0.00 %	0
Illyria Hospital	100.00 %	1,800,317	0	0	0	0	100.00 %	1,800,317
Moja naložba	100.00 %	8,089,939	0	0	0	0	100.00 %	8,089,939
Total		**208,231,721**	**256,421**	**-16**	**-12,516,962**	**-4,330,782**		**191,640,382**

(€)	01/01/2015		Acquisition/ recapitalisation	Impairment (-)	31/12/2015	
	Holding	Value	Value	Value	Holding	Value
Zavarovalnica Maribor	100.00 %	94,760,785	0	0	100.00 %	94,760,785
Zavarovalnica Tilia	100.00 %	13,967,082	0	0	100.00 %	13,967,082
Sava neživotno osiguranje (SRB)	99.99 %	13,694,800	25	-237,681	100.00 %	13,457,144
Illyria	100.00 %	16,332,526	0	-2,698,997	100.00 %	13,633,529
Sava osiguruvanje (MKD)	92.44 %	10,278,898	0	0	92.44 %	10,278,898
Sava osiguranje (MNE)	100.00 %	15,373,019	0	0	100.00 %	15,373,019
Illyria Life	100.00 %	4,035,892	0	0	100.00 %	4,035,892
Sava životno osiguranje (SRB)	99.99 %	5,870,654	1,414,917	-545,932	100.00 %	6,739,639
Velebit usluge in liquidation	100.00 %	12,516,962	0	0	100.00 %	12,516,962
Illyria Hospital	100.00 %	1,800,317	0	0	100.00 %	1,800,317
Velebit osiguranje		0	7,185,784	-75,126	92.08 %	7,110,658
Velebit životno osiguranje		0	7,780,171	-1,312,313	88.71 %	6,467,858
Moja naložba	20.00 %	1,011,059	7,078,880		100.00 %	8,089,939
Total		**189,641,994**	**23,459,777**	**-4,870,049**		**208,231,721**

In 2016, the Company liquidated its subsidiary Velebit usluge. As a result, investments decreased by € 12.5 million and the Company no longer discloses any liabilities relating to the purchase price in the amount of € 12.3 million as detailed in note 22. The Company recognised impairment losses on two investments (Illyria, and Sava životno osiguranje (SRB)) in a total amount of € 4.3 million. The Company purchased the non-controlling interests in Velebit životno osiguranje and Velebit osiguranje for a total amount of approximately € 6 thousand.

In November 2016, the merger of four of the Group's insurers into Zavarovalnica Sava was completed (Zavarovalnice Maribor, Zavarovalnice Tilia, Velebit osiguranje and Velebit životno osiguranje).

6) Financial investments

(€)		At fair value through P/L			
		Non-derivative			
31/12/2016	Held-to-maturity	Designated to this category	Available-for-sale	Loans and receivables	Total
Debt instruments	**2,074,813**	**0**	**222,617,735**	**5,233,555**	**229,926,103**
Deposits and CDs	0	0	0	2,398,602	2,398,602
Government bonds	2,074,813	0	113,688,540	0	115,763,353
Corporate bonds	0	0	108,929,195	0	108,929,195
Loans granted	0	0	0	2,834,953	2,834,953
Equity instruments	**0**	**1,287,411**	**10,899,402**	**0**	**12,186,812**
Shares	0	376,807	9,421,508	0	9,798,315
Mutual funds	0	910,604	1,477,893	0	2,388,497
Deposits with cedants	**0**	**0**	**0**	**7,835,859**	**7,835,859**
Total	**2,074,813**	**1,287,411**	**233,517,137**	**13,069,414**	**249,948,775**

(€)	At fair value through P/L				
		Non-derivative			
31/12/2015	Held-to-maturity	Designated to this category	Available-for-sale	Loans and receivables	Total
Debt instruments	**2,074,258**	**1,732,055**	**210,401,706**	**7,758,226**	**221,966,245**
Deposits and CDs	0	0	0	4,923,273	4,923,273
Government bonds	2,074,258	1,732,055	98,385,421	0	102,191,734
Corporate bonds	0	0	112,016,285	0	112,016,285
Loans granted	0	0	0	2,834,953	2,834,953
Equity instruments	**0**	**1,396,186**	**13,571,998**	**0**	**14,968,184**
Shares	0	464,420	10,428,072	0	10,892,492
Mutual funds	0	931,766	3,143,926	0	4,075,692
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	**0**	**0**	**0**	**5,698,774**	**5,698,774**
Total	**2,074,258**	**3,128,241**	**223,973,704**	**13,457,000**	**242,633,203**

Sava Re held 0.5 % of financial investments that constitute subordinated debt for the issuer (31/12/2015: 0.3 %).

Loans granted to Group companies

(€)	Type of debt instrument	31/12/2016	31/12/2015
Sava neživotno osiguranje (SRB)	loan	1,300,000	1,300,000
Velebit osiguranje	subordinated loan	0	734,953
Velebit životno osiguranje	subordinated loan	0	800,000
Zavarovalnica Sava	subordinated loan	1,534,953	0
Total		**2,834,953**	**2,834,953**

In the merger involving Velebit osiguranje and Velebit životno osiguranje, Zavarovalnica Sava also assumed the subordinated loans of both companies.
No securities have been pledged as security.

7) Reinsurers' share of technical provisions

(€)	31/12/2016	31/12/2015
From unearned premiums	2,704,461	2,354,396
From provisions for claims outstanding	15,499,451	13,671,962
Total	**18,203,912**	**16,026,358**

The reinsures' share of unearned premiums mostly moved in line with retroceded premiums. In 2016 it rose by 14.9 %, mainly due to the growth of facultative business retroceded on a proportional basis. The reinsurers' share, by contrast, declined, mainly due to the payment of a reinstatement premium in 2015, which was not necessary in 2016 and relating to which no unearned premiums are accounted for. The reinsurers' share of claims provisions depends on the movement of large incurred claims, covered by the reinsurance programme, and the schedule of their related claim payments. In 2016, the reinsurers' share of the claims provision increased by 13.4 %, chiefly as a result of a hail event in Slovenia and a large fire loss in the Group portfolio.

8) Receivables

The majority of not-past-due receivables were receivables arising out of reinsurance contracts, invoiced in the fourth quarter of 2016 but to fall due only in 2017.
Receivables arising out of reinsurance contracts are not specifically secured. As explained in section 24.5.2.3 "Credit risk", the Company is not exposed to significant risks as regards these receivables. Receivables were tested for impairment. In 2016, an allowance for impairment of € 155,960 was recognised relating to individual receivables arising out of reinsurance business (2015: € 64,369). The Company did

not recognise any impairment losses on other receivables in 2016 (2015: € 173,406).

Receivables by type

(€)	31/12/2016			31/12/2015		
	Gross amount	Allowance	Receivables	Gross amount	Allowance	Receivables
Receivables for premiums arising out of reinsurance and co-insurance	76,143,581	-427,794	75,715,787	78,048,361	-303,710	77,744,651
Receivables for shares in claims payments	3,527,116	-75,004	3,452,112	4,077,534	-75,004	4,002,530
Receivables for commission	435,652	0	435,652	705,825	0	705,825
Receivables arising out of co-insurance and reinsurance business	**80,106,348**	**-502,798**	**79,603,551**	**82,831,720**	**-378,714**	**82,453,006**
Current tax assets	**0**	**0**	**0**	**1,633,620**	**0**	**1,633,620**
Receivables arising out of investments	61,026	-88	60,938	55,606	-88	55,518
Other short-term receivables	681,473	-509,335	172,138	820,662	-537,057	283,605
Other receivables	**742,499**	**-509,424**	**233,076**	**876,268**	**-537,145**	**339,123**
Total	**80,848,847**	**-1,012,222**	**79,836,627**	**85,341,608**	**-915,859**	**84,425,749**

The table gives a receivables ageing analysis. Amounts are net of any allowances.

Receivables ageing analysis

(€) 31/12/2016	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	62,789,076	10,072,536	2,854,175	75,715,787
Receivables for reinsurers' shares in claims	2,283,318	605,855	562,939	3,452,112
Receivables for commission	415,197	20,454	0	435,652
Receivables arising out of co-insurance and reinsurance business	**65,487,591**	**10,698,845**	**3,417,114**	**79,603,551**
Short-term receivables arising out of financing	14,172	30,995	15,771	60,938
Other short-term receivables	147,163	2,646	22,329	172,138
Other receivables	**161,334**	**33,641**	**38,101**	**233,076**
Total	**65,648,925**	**10,732,486**	**3,455,214**	**79,836,627**

(€) 31/12/2015	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	64,379,115	9,807,918	3,557,618	77,744,651
Receivables for reinsurers' shares in claims	3,010,675	361,161	630,694	4,002,530
Receivables for commission	635,156	57,320	13,349	705,825
Receivables arising out of co-insurance and reinsurance business	**68,024,946**	**10,226,399**	**4,201,661**	**82,453,006**
Current tax assets	**1,633,620**	**0**	**0**	**1,633,620**
Short-term receivables arising out of financing	55,518	0	0	55,518
Other short-term receivables	283,605	0	0	283,605
Other receivables	**339,123**	**0**	**0**	**339,123**
Total	**69,997,689**	**10,226,399**	**4,201,661**	**84,425,749**

All receivables are current.

Movement in allowance for receivables

(€)	01/01/2016	Additions	Reversals	Exchange differences	31/12/2016
Receivables for premiums arising out of reinsurance assumed	-303,710	-155,960	34,291	-2,416	-427,794
Receivables for reinsurers' shares in claims	-75,004	0	0	0	-75,004
Receivables arising out of co-insurance and reinsurance business	**-378,714**	**-155,960**	**34,291**	**-2,416**	**-502,798**
Short-term receivables arising out of financing	-88	0	0	0	-88
Other short-term receivables	-537,057	0	27,722	0	-509,335
Other receivables	**-537,145**	**0**	**27,722**	**0**	**-509,423**
Total	**-915,859**	**-155,960**	**62,013**	**-2,416**	**-1,012,222**

(€)	01/01/2015	Additions	Reversals	Write-offs	31/12/2015
Receivables for premiums arising out of reinsurance assumed	-537,862	-64,369	198,198	100,323	-303,710
Receivables for reinsurers' shares in claims	-85,282	0	0	10,278	-75,004
Receivables arising out of co-insurance and reinsurance business	**-623,144**	**-64,369**	**198,198**	**110,601**	**-378,714**
Short-term receivables arising out of financing	-88	0	0	0	-88
Other short-term receivables	-436,284	-173,406	72,633	0	-537,057
Other receivables	**-436,372**	**-173,406**	**72,633**	**0**	**-537,145**
Total	**-1,059,516**	**-237,775**	**270,831**	**110,601**	**-915,859**

9) Deferred acquisition costs

(€)	31/12/2016	31/12/2015
Deferred commission from inwards reinsurance in Slovenia and abroad	6,897,710	10,496,041

This item comprises exclusively commission accounted for relating to the next financial year recognised taking into account straight-line amortisation. All deferred acquisition costs are current. The deferred commissions relating to the Group's cedants declined to € 2.7 million at the end of 2016 as a result of the reduction by the amount of the estimated sliding scale commission based on premiums written and expected incurred loss ratios of proportional treaties, which would be accounted for if such incurred loss ratios should realise. The deferred commissions relating to the extra-group portfolio decreased by € 0.9 million, moving in line with the decline in unearned premiums of the portfolio.

10) Other assets and other financial liabilities

Other assets mainly include prepaid licence fees and insurance premiums.

Other financial liabilities include short-term liabilities arising out of unpaid dividends of Sava Re for 2013, 2014 and 2015.

11) Cash and cash equivalents

As set out in section 24.3 "Changes in accounting policies and correction of errors", as of 1 January 2016 the Group classified demand deposits and deposits with an original maturity of up to three months as cash equivalents. At 31 December 2016, demand deposits totalled € 6.9 million. Had the reallocation been completed as at 31 December 2015, the balance of cash and cash equivalents as at 31 December 2015 would have been higher by € 0.9 million and would have totalled € 1.2 million.

(€)	31/12/2016	31/12/2015
Cash in bank accounts	899,168	209,658
Cash equivalents	7,090,651	76,292
Total	**7,989,819**	**285,950**

12) Share capital

As at 31 December 2016, the Company's share capital was divided into 17,219,662 shares (the same as at 31/12/2015). All shares are ordinary registered shares of the same class. Their holders are entitled to participate in the Company's control and profits (dividends). Each share carries one vote in general meeting and entitles the bearer to a proportionate share of the dividend payout.

Shares are recorded in the Central Securities Clearing Corporation (KDD) under the POSR ticker symbol.

As at year-end 2016, the Company's shareholders' register listed 4,308 shareholders (31/12/2015: 4,857 shareholders). The Company's shares are listed in the prime market of the Ljubljana Stock Exchange.

13) Capital reserves

After successfully completing the recapitalisation in July 2013, the Company increased capital reserves by € 22.2 million. Expenses directly attributable to the initial public offering of € 0.98 million were deducted from the added amount. As at 31 December 2016 capital reserves totalled € 54.2 million.

14) Profit reserves

Reserves provided for by the articles of association totalled € 11.5 million, having reached the statutory prescribed amount already in 2006, while legal reserves totalled € 3.5 million in 2016 and were also not strengthened in the year.

Profit reserves

(€)	31/12/2016	31/12/2015	Distributable/ non-distributable
Legal reserves and reserves provided for by the articles of association	14,986,525	14,986,525	non-distributable
Reserve for treasury shares	24,938,709	10,319,347	non-distributable
Credit risk equalisation reserve	0	917,885	non-distributable
Catastrophe equalisation reserve	10,000,000	10,000,000	non-distributable
Other profit reserves	97,078,785	87,951,558	distributable
Total	**147,004,019**	**124,175,314**	

Reserves provided for by the articles of association are used:

- to cover the net loss which cannot be covered (in full) out of retained earnings and other profit reserves (an instrument of additional protection of the Company's tied-up capital);
- to increase the share capital from the Company's own funds; and
- to regulate the Company's dividend policy.

In accordance with IFRSs, the catastrophe equalisation reserve is shown under profit reserves.

Pursuant to the Insurance Act (ZZavar), the Company established credit risk equalisation provisions, which were classified as profit reserves in accordance with IFRSs. After the Insurance Act was amended (ZZavar-1), these provisions or profit reserves were no longer required in 2016. When these provisions were dismantled, there was an increase in retained earnings in 2016.

In line with the Slovenian Companies Act, the Company's management board or the supervisory board may, when approving the annual report, allocate a part of net profit to other profit reserves, however, up to half of net profit for the period. Based on a management board decision approved by the supervisory board, profit reserves were strengthened by € 9.1 million in 2016.

15) Treasury shares

As at 31 December 2016, the Company held 1,721,966 POSR shares (or 10 % of all shares) worth € 24,938,709.

On 23 April 2014, the 28th general meeting was held, in which the Company was authorised to buy back own shares of up to 10 % of the share capital. The authorisation for acquiring up to a total of 1,721,966 shares was valid for three years. Based on this authorisation, the Company bought back 980,445 shares by year-end 2016.

16) Fair value reserve

The fair value reserve comprises the change in fair value of available-for-sale financial assets.

(€)	2016	2015
As at 1 January	**3,006,703**	**4,341,739**
Change in fair value	1,209,942	-2,723,740
Transfer from fair value reserve to the IS due to disposal	-158,952	1,096,154
Other net profits/losses	0	15,860
Deferred tax	-272,140	276,691
As at 31 December	**3,785,553**	**3,006,703**

* The figure for 2015 differs from the one published in the 2015 annual report because the reserve due to fair value revaluation of € -42,835 was excluded from the fair value reserve.

The table shows the net change in the fair value reserve, which is an equity component. The fair value reserve increased in 2016 compared to year-end 2015 due to a favourable movement of exchange rates relating to available-for-sale investments.

In line with the general meeting resolution dated 30 August 2016, the Company allocated € 12,398,157 to dividend pay-outs.

Statement of distributable profit/loss

(€)	2016	2015
Net profit/loss for the period	32,873,817	16,191,902
- profit/loss for the year under applicable standards	32,873,817	16,191,902
Release from profit reserve	917,885	0
Retained earnings/losses	8,365,278	12,769,646
Additions to profit reserve as per resolution of the management board	14,619,362	204,324
- Additions to reserves for own shares	14,619,362	204,324
Additions to other reserves as per resolution of the management and the supervisory boards	9,127,228	7,993,789
Distributable profit to be allocated by the general meeting	**18,410,391**	**20,763,435**
- to shareholders	0	12,398,157
- to be carried forward to the next year	0	8,365,278

17) Net profit/loss for the year and retained earnings

The weighted number of shares takes into account the annual average calculated on the basis of monthly averages of ordinary shares less the number of treasury shares. The weighted average number of shares outstanding in the financial period was 15,791,457. As the Company does not have potentially dilutive capital instruments, its net earnings per share equal diluted earnings per share.

Basic/diluted earnings/loss per share

(€)	2016	2015
Net profit/loss for the period	32,873,817	16,191,902
Weighted average number of shares outstanding	15,791,457	16,483,852
Net earnings/loss per share	**2.08**	**0.98**

Comprehensive income per share

(€)	2016	2015
Comprehensive income for the period	33,693,737	14,814,031
Weighted average number of shares outstanding	15,791,457	16,483,852
Comprehensive income per share	**2.13**	**0.90**

18) Subordinated liabilities

At the end of 2006 and at the beginning of 2007, Sava Re raised a subordinated loan in the amount of € 32 million, and drew down 97 % of the principal amount. The maturity of the loan is 20 years, with a prepayment option after 10 years. The principal is due at maturity. The applicable interest rate is a 3-month Euribor + 3.35 %, with interest payable on a quarterly basis. The loan is carried at amortised cost.

Subordinated liabilities

Outstanding debt at effective interest rate as at 31/12/2016	**23,570,771**
Debt currency	€
Maturity date	27/12/2026
Conversion into shareholders' equity option	not applicable
Conversion into other liabilities option	not applicable

Outstanding debt at effective interest rate as at 31/12/2015	**23,534,136**
Debt currency	€
Maturity date	27/12/2026
Conversion into shareholders' equity option	not applicable
Conversion into other liabilities option	not applicable

In 2016, the Company paid € 0.8 million in interest on subordinated debt (2015: € 0.85 million) and € 40,160 in withholding tax on interest paid (2015: € 43,085).

19) Technical provisions

Movements in gross technical provisions

(€)	01/01/2016	Additions	Uses	Exchange differences	31/12/2016
Gross unearned premiums	46,546,065	41,193,194	-44,647,862	254,017	43,345,415
Gross provision for outstanding claims	173,912,911	74,464,445	-67,565,108	1,355,532	182,167,780
Gross provision for bonuses, rebates and cancellations	320,994	483,539	-320,994	0	483,539
Other gross technical provisions	121,984	210,745	-121,984	0	210,745
Total	**220,901,954**	**116,351,922**	**-112,655,948**	**1,609,550**	**226,207,479**

(€)	01/01/2015	Additions	Uses	Exchange differences	31/12/2015
Gross unearned premiums	39,088,756	44,703,764	-37,094,132	-152,323	46,546,065
Gross provision for outstanding claims	177,331,493	61,755,218	-69,266,932	4,093,132	173,912,911
Gross provision for bonuses, rebates and cancellations	237,800	320,994	-237,800	0	320,994
Other gross technical provisions	0	121,984	0	0	121,984
Total	**216,658,049**	**106,901,960**	**-106,598,864**	**3,940,809**	**220,901,954**

Technical provisions, the second largest item on the liabilities side, increased by 2.4 % or € 5.3 million compared to 31 December 2015.
Gross unearned premiums decreased by 6.9 % or € 3.2 million, mainly due to the decrease in gross written premiums of non-Group cedants.
The gross provision for outstanding claims increased by 4.7 % in 2016. The increase in the claims provision (€ 2.0 million) in the Group's portfolio is mainly due to amounts set aside for a large hail loss in 2016 covered under a non-proportional treaty and for a large fire loss covered under a surplus treaty. The claims provision for non-Group business grew by € 6.3 million, mainly owing to significant growth of this portfolio in 2015, which is reflected in the claims provision with a lag. Mention should be made of the increase in the Company's provision for exchange rate risks managed through adequate diversification of the liability fund.

Structure of the provision for outstanding claims

(€)	31/12/2016	31/12/2015
Net provision for claims incurred but not reported (IBNR)	**62,765,077**	**56,439,566**
- gross provision	62,765,077	56,439,566
- reinsurers' share	0	0
Net provision for claims reported but not settled	**103,993,977**	**103,917,467**
- gross provision	119,493,428	117,589,429
- reinsurers' share	-15,499,451	-13,671,962
Net provision for expected subrogation recoveries	**-90,725**	**-116,084**
Gross provision for outstanding claims	-90,725	-116,084
Reinsurers' share		0
Net provision for outstanding claims	**166,668,329**	**160,240,949**
Total gross provision for outstanding claims	**182,167,780**	**173,912,911**
Total reinsurers' share (–)	**-15,499,451**	**-13,671,962**
IBNR as % of gross provision for outstanding claims	34.5 %	32.5 %
IBNR as % of net provision for outstanding claims	37.7 %	35.2 %

The movement in the gross and net claims provisions is aligned. The structure shows an increase in the share of the IBNR provision, which is chiefly due to the growth in the estimated part of the claims provision established by the controlling company due to the growth in the non-proportional reinsurance portfolio, for which the major part of the provision for new business is established on the portfolio level.
The increase in the provision for bonuses, rebates and cancellations is a result of the increased premium volume with major policyholders, who have negotiated conditions including bonuses and rebates, and in the business of which the Company participates through proportional reinsurance treaties with Group cedants.
Other technical provisions comprise the provision for unexpired risks. These are established if the expected combined ratio exceeds 100 %, which in 2016 was the case with health reinsurance, reinsurance of ships and suretyship reinsurance.

Calculation of the gross provision for unexpired risks by class of insurance

(€)	31/12/2016		31/12/2015	
	Expected combined ratio	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	91.7 %	0	89.8 %	0
Health	134.0 %	6,454	143.3 %	121,984
Land vehicles casco	94.3 %	0	88.5 %	0
Railway rolling stock	20.9 %	0	15.9 %	0
Aircraft hull	89.2 %	0	80.4 %	0
Ships hull	121.1 %	187,688	99.1 %	0
Goods in transit	79.6 %	0	86.5 %	0
Fire and natural forces	92.8 %	0	87.3 %	0
Other damage to property	67.9 %	0	78.2 %	0
Motor liability	93.4 %	0	90.2 %	0
Aircraft liability	77.0 %	0	77.0 %	0
Liability for ships	67.3 %	0	9.8 %	0
General liability	61.4 %	0	57.4 %	0
Credit	5.8 %	0	59.3 %	0
Suretyship	126.1 %	16,602	96.7 %	0
Miscellaneous financial loss	68.9 %	0	64.0 %	0
Legal expenses	62.3 %	0	42.8 %	0
Assistance	62.7 %	0	79.9 %	0
Life insurance	66.4 %	0	66.7 %	0
Unit-linked life	61.7 %	0	92.8 %	0
Total	**87.0 %**	**210,745**	**85.6 %**	**121,984**

20) Other provisions

Other provisions mainly comprise provisions for long-term employee benefits.
Provisions for severance pay upon retirement and jubilee benefits have been calculated in accordance with the requirements of the revised IAS 19. The Company does not defer the recognition of actuarial gains and losses (i.e. the corridor approach) for defined benefit plans. There is a separate presentation of changes in provisions for severance pay upon retirement arising from changes in actuarial assumptions that are recognised in comprehensive income.

Change in other provisions

(€)	Provision for severance pay upon retirement	Provision for jubilee benefits	Other provisions for costs	Total
01/01/2016	**292,168**	**54,610**	**499**	**347,277**
Interest costs	-465	-85	0	-550
Cost of service	35,083	7,980	0	43,064
Payments	-6,578	-2,734	0	-9,312
Actuarial gains/losses (SFP)	-44,864	-4,353	0	-49,217
Actuarial gains/losses (IS)	0	187	0	187
Other changes	0	0	353	353
31/12/2016	**275,344**	**55,605**	**852**	**331,802**

(€)	Provision for severance pay upon retirement	Provision for jubilee benefits	Other provisions for costs	Total
01/01/2015	**221,765**	**51,058**	**767**	**273,590**
Interest costs	4,679	1,130	0	5,809
Cost of service	38,018	7,786	0	45,804
Payments	0	-5,023	0	-5,023
Actuarial gains/losses (SFP)	27,705	0	0	27,705
Actuarial gains/losses (IS)	0	-341	0	-341
Other changes	0	0	-268	-268
31/12/2015	**292,168**	**54,610**	**499**	**347,277**

The standard requires the disclosure of quantitative information of the sensitivity of provisions for severance pay upon retirement (defined benefit plan) to a reasonably possible change in each significant actuarial assumption. The (principal) assumptions used were: the term structure of the risk-free interest rate for the euro, published by EIOPA, without adjustments for volatility, real wage growth of 1.13 % (2015: 1.46 %), inflation and growth in jubilee benefits 1.5 % (2015: 1.5 %), staff turnover up to age 35 1.7 % (2015: 1.7 %), in the age bracket 35–45 3.6 % (2015: 4.0 %), after age 45 1.9 % (2015: 1.6 %), mortality as per SLO 2007 (m/f) tables.

Impact on the amount of provision for severance pay upon retirement (€)	31/12/2016	31/12/2015
Decrease in discount rate of 1 %	41,023	42,934
Increase in discount rate of 1 %	-33,666	-35,425
Decrease in real income growth of 0.5 %	-18,362	-19,169
Increase in real income growth of 0.5 %	20,156	20,936
Decrease in staff turnover of 10 %	7,931	7,649
Increase in staff turnover of 10 %	-7,624	-7,372
Decrease in mortality rate of 10 %	2,473	2,802
Increase in mortality rate of 10 %	-2,445	-2,770

21) Liabilities from operating activities

Liabilities from reinsurance and co-insurance business comprise liabilities relating to premiums from outwards retrocession business and claims from inwards reinsurance business. Liabilities relate to amounts invoiced in the fourth quarter but falling due only in 2017. Compared to the previous year, liabilities from operating activities decreased by nearly 9 %.

Liabilities from reinsurance and co-insurance business

(€)	31/12/2016	31/12/2015
Liabilities for reinsurance premiums	3,421,684	4,771,408
Liabilities for shares in reinsurance claims	22,055,430	27,347,245
Other liabilities due from co-insurance and reinsurance	18,246,730	15,753,257
Total	**43,723,843**	**47,871,910**

All liabilities are current.

The Company does not have liabilities arising out of co-insurance. The item "other liabilities due from co-insurance and reinsurance" comprises liabilities for reinsurance commission.

As at 31 December 2016, the Company recognised current tax liabilities of € 74,127 (31/12/2015: € 0).

22) Other liabilities

There was a significant decrease in other liabilities compared to 2015. In 2016 the Company completed the liquidation of its subsidiary Velebit usluge – in liquidation, netting its liabilities to this entity in the amount of € 12.3 million.

The bulk of other current liabilities relates to the consideration for the property intended for own use at Baragova 5 in Ljubljana in the amount of € 1.5 million. The consideration will be settled when the contract condition is met relating to the cancellation of a mortgage.

Accrued expenses and deferred income include accruals/deferrals relating to retained deposits from international inwards reinsurance business, provisions for unexpended annual leave of employees, labour costs, commission of retroceded business and other accrued expenses and deferred income.

Other liabilities

(€)		Maturity
2016	**Up to 1 year**	**Total**
Short-term liabilities relating to securities	4,010	4,010
Short-term liabilities due to employees	409,108	409,108
Other short-term liabilities	2,172,532	2,172,532
Accruals and deferrals	1,194,190	1,194,190
Total	**3,779,840**	**3,779,840**

(€)		Maturity
2015	**Up to 1 year**	**Total**
Short-term liabilities relating to securities	12,327,909	12,327,909
Short-term liabilities due to employees	391,613	391,613
Other short-term liabilities	551,571	551,571
Accruals and deferrals	1,189,040	1,189,040
Total	**14,460,133**	**14,460,133**

Movements in accrued expenses and deferred income

(€)	01/01/2016	Additions - reclassification	Uses	31/12/2016
Short-term accrued expenses	**553,715**	**2,140,794**	**-1,721,499**	**973,010**
- auditing costs	33,551	42,029	-33,551	42,029
- accrued labour cost	137,852	365,207	-137,852	365,207
- deferred reinsurance commission	325,537	1,587,111	-1,499,768	412,879
- deferred interest income	6,251	5,118	0	11,369
- other short-term accrued expenses	50,525	141,329	-50,328	141,526
Other accrued expenses and deferred income	**635,325**	**62,072**	**-476,217**	**221,180**
- liabilities for retained deposits	373,817	37,445	-373,817	37,446
- liabilities for tax on profit	102,400	0	-102,400	0
- provision for unexpended employee leave	159,108	24,626	0	183,734
Total	**1,189,040**	**2,202,866**	**-2,197,716**	**1,194,190**

(€)	01/01/2015	Additions - reclassification	Uses	31/12/2015
Short-term accrued expenses	**805,876**	**257,267**	**-509,427**	**553,715**
- auditing costs	33,551	61,000	-61,000	33,551
- accrued labour cost	288,511	137,852	-288,511	137,852
- deferred reinsurance commission	478,412	0	-152,875	325,537
- deferred interest income	2,882	7,877	-4,508	6,251
- other short-term accrued expenses	2,520	50,538	-2,533	50,525
Other accrued expenses and deferred income	**1,083,422**	**2,816,081**	**-3,264,179**	**635,325**
- liabilities for retained deposits	823,745	2,814,250	-3,264,179	373,817
- liabilities for tax on profit	102,400	0	0	102,400
- provision for unexpended employee leave	157,277	1,831	0	159,108
Total	**1,889,298**	**3,073,348**	**-3,773,606**	**1,189,040**

23) Fair values of assets and liabilities

Methodology for the measurement of financial investments

Asset class / principal market	Level 1	Level 2	Level 3
Debt securities			
OTC market	Debt securities measured based on the CBBT price in an active market.	Debt securities measured based on the CBBT price in an inactive market.	Debt securities measured using an internal model that does not consider level 2 inputs.
		Debt securities measured at the BVAL price if the CBBT price is unavailable.	
		Debt securities measured using an internal model based on level 2 inputs.	
Stock Exchange	Debt securities measured based on stock exchange prices in an active market.	Debt securities measured based on stock exchange prices in an inactive market.	Debt securities are measured using an internal model that does not consider level 2 inputs.
		Debt securities measured at the BVAL price when the stock exchange price is unavailable.	
		Debt securities measured using an internal model based on level 2 inputs.	
Shares			
Stock Exchange	Shares measured based on stock exchange prices in an active market.	Shares measured based on stock exchange prices in an inactive market.	Shares are measured using an internal model that does not consider level 2 inputs.
		Shares for which there is no stock exchange price and that are measured using an internal model based on level 2 inputs.	
Unquoted shares and participating interests			
			Unquoted shares measured at cost. fair value for the purposes of disclosures calculated based on an internal model used for impairment testing mainly using unobserved inputs.
Mutual funds			
	Mutual funds measured at the quoted unit value on the measurement date.		
Deposits and loans			
-with maturity		Measured at amortised cost; for the purposes of disclosure fair value calculated using an internal model using level 2 inputs.	Measured at amortised cost; for the purposes of disclosure fair value calculated using an internal model not using level 2 inputs.

Financial assets by level of the fair value hierarchy

31/12/2016	Carrying amount (CA)	Level 1	Level 2	Level 3	Fair value Total fair value	Difference between FV and CA
Investments measured at fair value	**234,804,547**	**176,328,728**	**54,591,335**	**3,899,007**	**234,819,070**	**14,523**
At fair value through P/L	**1,287,411**	**910,604**	**376,807**	**0**	**1,287,411**	**0**
Designated to this category	1,287,411	910,604	376,807	0	1,287,411	0
Equity instruments	1,287,411	910,604	376,807	0	1,287,411	0
Available-for-sale	**233,517,137**	**175,418,124**	**54,214,529**	**3,899,007**	**233,531,659**	**14,523**
Debt instruments	222,617,735	173,940,230	48,677,504	0	222,617,735	0
Equity instruments	10,899,402	1,477,893	5,537,024	3,899,007	10,913,925	14,523
Investments not measured at fair value	**15,144,227**	**2,835,298**	**3,017,462**	**10,670,812**	**16,523,572**	**1,379,345**
Held-to-maturity assets	**2,074,813**	**2,835,298**	**0**	**0**	**2,835,298**	**760,485**
Debt instruments	2,074,813	2,835,298	0	0	2,835,298	760,485
Loans and receivables	**13,069,414**	**0**	**3,017,462**	**10,670,812**	**13,688,274**	**618,859**
Deposits	2,398,602	0	3,017,462	0	3,017,462	618,859
Loans granted	2,834,953	0	0	2,834,953	2,834,953	0
Deposits with cedants	7,835,859	0	0	7,835,859	7,835,859	0

31/12/2015	Carrying amount (CA)	Level 1	Level 2	Level 3	Fair value Total fair value	Difference between FV and CA
Investments measured at fair value	**227,101,945**	**177,075,987**	**46,126,951**	**3,899,007**	**227,101,945**	**3,128,241**
At fair value through P/L	**3,128,241**	**2,663,821**	**464,420**	**0**	**3,128,241**	**3,128,241**
Designated to this category	3,128,241	2,663,821	464,420	0	3,128,241	0
Debt instruments	1,732,055	1,732,055	0	0	1,732,055	0
Equity instruments	1,396,186	931,766	464,420	0	1,396,186	0
Available-for-sale	**223,973,704**	**174,412,166**	**45,662,531**	**3,899,007**	**223,973,704**	**0**
Debt instruments	210,401,706	171,268,240	39,133,466	0	210,401,706	0
Equity instruments	13,571,998	3,143,926	6,529,065	3,899,007	13,571,998	0
Investments not measured at fair value	**15,531,258**	**9,326,418**	**4,611,971**	**2,834,953**	**16,773,342**	**1,242,085**
Held-to-maturity assets	**2,074,258**	**2,719,536**	**0**	**0**	**2,719,536**	**645,278**
Debt instruments	2,074,258	2,719,536	0	0	2,719,536	645,278
Loans and receivables	**13,457,000**	**6,606,883**	**4,611,971**	**2,834,953**	**14,053,807**	**596,807**
Deposits	4,923,273	908,109	4,611,971	0	5,520,080	596,807
Loans granted	2,834,953	0	0	2,834,953	2,834,953	0
Deposits with cedants	5,698,774	5,698,774	0	0	5,698,774	0

Gains and losses on level 3 financial assets

(€)	Equity instruments 31/12/2016	31/12/2015
Income	124,749	72,874
Expenses	0	686,472

Movements in level 3 financial assets

(€)	Equity instruments 31/12/2016	31/12/2015
Opening balance	**3,899,007**	**4,588,249**
Impairment losses	0	-686,472
Reclassification into other levels	0	-2,770
Closing balance	**3,899,008**	**3,899,007**

Disclosure of the fair value of non-financial assets measured in the statement of financial position at amortised cost or at cost

Property as at 31/12/2016	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Owner-occupied property	31/12/2016	7,128,732	8,015,572	market approach and the income approach (weighted 50 : 50), new purchases by sales price
Investment property	31/12/2016	3,122,076	3,236,030	
Total		**10,250,807**	**11,251,602**	

Property as at 31/12/2015	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Owner-occupied property	31/12/2015	1,859,254	1,968,712	market approach and the income approach (weighted 50 : 50), new purchases by sales price
Investment property	31/12/2015	2,999,742	3,010,178	
Total		**4,858,996**	**4,978,890**	

Movements in the fair value of land and buildings

(€)	01/01/2016	Acquisitions	Carry-over	Change in fair value	31/12/2016
Owner-occupied property	1,968,712	5,269,225	39,582	737,096	8,014,615
Investment property	3,010,178	213,000	-39,582	53,391	3,276,569
Total	**4,978,890**	**5,482,225**	**0**	**5,482,225**	**11,291,184**

(€)	01/01/2015	Acquisitions	31/12/2015
Owner-occupied property	1,968,712	0	1,968,712
Investment property	124,138	2,886,040	3,010,178
Total	**2,092,850**	**2,886,040**	**4,978,890**

Reclassification of financial assets between levels

31/12/2016	Level 1	Level 2	Level 3
Available-for-sale	**637,880**	**-637,880**	**0**
Debt instruments	637,880	-637,880	0
Total	**637,880**	**-637,880**	**0**

31/12/2015	Level 1	Level 2	Level 3
Available-for-sale	**47,135,122**	**-47,132,352**	**-2,770**
Debt instruments	53,907,865	-53,907,865	0
Equity instruments	-6,772,744	6,775,514	-2,770
Total	**47,135,122**	**-47,132,352**	**-2,770**

In 2016, the Company primarily measured its OTC assets based on BID CBBT prices representing unadjusted quoted prices, thus meeting the criteria for classification into level 1. In 2016, the proportion of OTC assets measured based on closing BID CBBT prices remained broadly flat compared to the end of 2015. As at 31 December 2016, level 1 investments represented 77 % (31/12/2015: 78 %) of financial investments measured at fair value.

Quoted financial instruments that did not meet the active market criterion as at 31 December 2016, were valued based on an internal model. The valuation model applied used directly and indirectly observable market inputs such as: the risk free interest rate curve, yield of similar financial instruments, and credit and liquidity risk premiums. Since inputs used by the model meet level 2 criteria, investments valued using the internal model were classified into level 2.

Valuation methods for the above-mentioned items are described at the beginning of these notes under accounting policies. For investment property, the method is set out in section 24.2.11 "Investment property", for financial investments in subsidiaries and associates in section 24.2.12 "Financial investments in subsidiaries and associates", and for financial investments in section 24.2.13 "Financial investments".

24.7. Notes to the financial statements – income statement

24) Net earned premiums

Net earned premiums

(€) 2016	Gross premiums written	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)	Net premiums earned
Personal accident	5,459,215	-42,693	900,568	-12,137	6,304,954
Health	439,435	0	273,011	0	712,446
Land vehicles casco	16,046,517	-1,124,032	-407,706	-40,660	14,474,119
Railway rolling stock	111,896	0	-21,164	0	90,732
Aircraft hull	847,304	0	-17,280	0	830,025
Ships hull	3,400,041	-158,812	209,085	42,063	3,492,377
Goods in transit	5,217,065	-272,372	88,835	51,200	5,084,728
Fire and natural forces	71,576,193	-10,387,280	-487,996	177,939	60,878,856
Other damage to property	21,299,464	-3,251,628	1,084,979	140,440	19,273,254
Motor liability	12,460,725	-527,060	57,723	0	11,991,388
Aircraft liability	56,730	-56,307	141,390	4,102	145,914
Liability for ships	515,436	-6,138	20,572	0	529,870
General liability	6,302,548	-477,119	-172,280	-34,833	5,618,316
Credit	918,053	0	-333,384	0	584,669
Suretyship	209,725	0	-29,830	0	179,896
Miscellaneous financial loss	2,135,991	-466,072	1,552,435	34,703	3,257,056
Legal expenses	10,532	0	-546	0	9,986
Assistance	15,573	0	-1,477	0	14,096
Life insurance	145,900	-629,620	343,715	-12,752	-152,757
Unit-linked life	258,549	-149,599	0	0	108,950
Total non-life	**147,022,444**	**-16,769,513**	**2,856,934**	**362,817**	**133,472,682**
Total life	**404,449**	**-779,219**	**343,715**	**-12,752**	**-43,807**
Total	**147,426,893**	**-17,548,733**	**3,200,650**	**350,065**	**133,428,875**

2015 (€)	Gross premiums written	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)	Net premiums earned
Personal accident	9,411,698	-59,382	-478,162	10,505	8,884,659
Health	2,150,843	0	-296,415	0	1,854,428
Land vehicles casco	16,432,253	-966,043	532,204	-35,145	15,963,270
Railway rolling stock	102,650	0	-13,885	0	88,765
Aircraft hull	616,442	0	-36,846	0	579,596
Ships hull	3,772,148	-72,227	-235,696	-902	3,463,323
Goods in transit	4,975,663	-215,542	-200,921	-1,878	4,557,322
Fire and natural forces	67,676,509	-10,745,759	-4,003,701	-573,354	52,353,695
Other damage to property	21,362,766	-2,812,014	-440,424	-58,109	18,052,219
Motor liability	12,536,166	-457,642	15,245	0	12,093,769
Aircraft liability	174,181	-50,840	-150,835	-5,940	-33,434
Liability for ships	334,736	-5,441	-88,852	-1,646	238,797
General liability	4,783,141	-537,634	-110,547	-8,030	4,126,930
Credit	603,027	0	-156,594	0	446,433
Suretyship	142,740	0	24,890	0	167,629
Miscellaneous financial loss	4,930,798	-379,837	-2,069,319	65	2,481,708
Legal expenses	6,228	0	-2,648	0	3,580
Assistance	-2,469	0	121	0	-2,348
Life insurance	1,674,409	-1,894,200	255,079	-2,439	32,848
Unit-linked life	298,491	-172,366	0	-18	126,107
Total non-life	**150,009,522**	**-16,302,360**	**-7,712,387**	**-674,434**	**125,320,341**
Total life	**1,972,899**	**-2,066,566**	**255,079**	**-2,457**	**158,956**
Total	**151,982,421**	**-18,368,925**	**-7,457,308**	**-676,891**	**125,479,297**

The above table shows the movement in gross premiums written. Gross premiums written in Slovenia rose by 2.1 % or € 1.1 million (increase in insurance premiums written by the insurer), while gross premiums written abroad decreased by 5.6 % or € 5.6 million. The drop in premiums from abroad is chiefly owing to the decline in premiums written in South Korea and in the USA, which is partly due to the soft market prevailing in international reinsurance markets and the resulting more selective underwriting.

Despite the drop in gross premiums written, net premiums earned for the period were higher than year on year. Net unearned premiums as at 31 December 2016 were lower than at year-end 2015, while the 2015 year-end figure was an increase from end of 2014. The reasons for this trend are the decline in premiums from abroad and a relatively larger share of non-proportional business. Gross unearned premiums relating to international business rose by € 3.5 million, while those relating to reinsurance business dropped by € 0.2 million.

25) Income and expenses relating to investments in subsidiaries and associates

In 2016 the Company received dividends from its subsidiaries amounting to € 26.3 million (2015: € 13 million). In 2016 impairment losses of investments in subsidiaries were € 4.3 million (2015: € 4.9 million). Impairment losses were recognised based on a model for testing the recoverable amount of investments in subsidiaries.

26) Investment income and expenses

Investment income, expenses and net investment income by IFRS categories

Income relating to financial assets and liabilities from 1 January to 31 December 2016

(€)	Interest income	Change in fair value and gains on disposal of FVPL assets	Gains on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Exchange gains	Other income	Total
Held to maturity	**103,055**	**0**	**0**	**0**	**0**	**0**	**103,055**
Debt instruments	103,055	0	0	0	0	0	103,055
At fair value through P/L	**0**	**100,222**	**0**	**18,876**	**0**	**0**	**119,098**
Designated to this category	0	100,222	0	18,876	0	0	119,098
Debt instruments	0	6,293	0	0	0	0	6,293
Equity instruments	0	93,929	0	18,876	0	0	112,805
Available-for-sale	**3,945,431**	**0**	**676,088**	**724,096**	**6,456,653**	**6,785**	**11,809,053**
Debt instruments	3,945,431	0	516,331	0	6,456,653	3,631	10,922,046
Equity instruments	0	0	159,758	724,096	0	3,154	887,007
Loans and receivables	**344,672**	**0**	**0**	**0**	**469,370**	**0**	**814,042**
Debt instruments	344,672	0	0	0	469,370	0	814,042
Deposits with cedants	**34,817**	**0**	**0**	**0**	**0**	**0**	**34,817**
Total	**4,427,975**	**100,222**	**676,088**	**742,972**	**6,926,023**	**6,785**	**12,880,066**

Expenses relating to financial assets and liabilities from 1 January to 31 December 2016

(€)	Interest expenses	Change in fair value and losses on disposal of FVPL assets	Losses on disposal of other IFRS asset categories	Impairment losses on investments	Exchange losses	Other	Total
At fair value through P/L	**0**	**205,693**	**0**	**0**	**0**	**0**	**205,693**
Designated to this category	0	205,693	0	0	0	0	205,693
Debt instruments	0	2,989	0	0	0	0	2,989
Equity instruments	0	202,703	0	0	0	0	202,703
Available-for-sale	**0**	**0**	**185,008**	**330,740**	**5,352,635**	**4,299**	**5,872,683**
Debt instruments	0	0	14,801	330,740	5,352,635	270	5,698,447
Equity instruments	0	0	170,207	0	0	4,029	174,236
Loans and receivables	**2,000**	**0**	**0**	**0**	**212,514**	**155**	**214,668**
Debt instruments	0	0	0	0	212,514	155	212,668
Other investments	2,000	0	0	0	0	0	2,000
Subordinated liabilities	**839,834**	**0**	**0**	**0**	**0**	**0**	**839,834**
Total	**841,834**	**205,693**	**185,008**	**330,740**	**5,565,150**	**4,454**	**7,132,879**

Net inv. income of financial assets and liabilities from 1 January to 31 December 2016

(€)	Interest income/ expenses	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Foreign exchange gains/ losses	Other income/ expenses	Total
Held to maturity	**103,055**	**0**	**0**	**0**	**0**	**0**	**0**	**103,055**
Debt instruments	103,055	0	0	0	0	0	0	103,055
At fair value through P/L	**0**	**-105,471**	**0**	**18,876**	**0**	**0**	**0**	**-86,595**
Designated to this category	0	-105,471	0	18,876	0	0	0	-86,595
Debt instruments	0	3,303	0	0	0	0	0	3,303
Equity instruments	0	-108,774	0	18,876	0	0	0	-89,898
Available-for-sale	**3,945,431**	**0**	**491,080**	**724,096**	**-330,740**	**1,104,018**	**2,486**	**5,936,370**
Debt instruments	3,945,431	0	501,529	0	-330,740	1,104,018	3,361	5,223,598
Equity instruments	0	0	-10,449	724,096	0	0	-875	712,771
Loans and receivables	**342,672**	**0**	**0**	**0**	**0**	**256,857**	**-155**	**599,374**
Debt instruments	344,672	0	0	0	0	256,857	-155	601,374
Other investments	-2,000	0	0	0	0	0	0	-2,000
Deposits with cedants	**34,817**	**0**	**0**	**0**	**0**	**0**	**0**	**34,817**
Subordinated liabilities	**-839,834**	**0**	**0**	**0**	**0**	**0**	**0**	**-839,834**
Total	**3,586,142**	**-105,471**	**491,080**	**742,972**	**-330,740**	**1,360,875**	**2,331**	**5,747,187**

Income relating to financial assets and liabilities from 1 January to 31 December 2015

(€)	Interest income	Change in fair value and gains on disposal of FVPL assets	Gains on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Exchange gains	Other income	Total
Held to maturity	**102,756**	**0**	**0**	**0**	**0**	**0**	**102,756**
Debt instruments	102,756	0	0	0	0	0	102,756
At fair value through P/L	**0**	**365,320**	**0**	**17,808**	**6,464**	**0**	**389,592**
Designated to this category	0	365,320	0	17,808	6,464	0	389,592
Debt instruments	0	32,304	0	0	0	0	32,304
Equity instruments	0	333,016	0	17,808	6,464	0	357,288
Available-for-sale	**4,157,817**	**0**	**603,182**	**708,005**	**11,873,527**	**5,291**	**17,347,822**
Debt instruments	4,157,817	0	425,003		11,865,117	1,725	16,449,662
Equity instruments	0	0	178,179	708,005	8,410	3,566	898,160
Loans and receivables	**377,499**	**0**	**0**	**0**	**384,866**	**0**	**762,365**
Debt instruments	377,499	0	0	0	384,866	0	762,365
Deposits with cedants	**72,874**	**0**	**0**	**0**	**0**	**0**	**72,874**
Subordinated liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**4,710,946**	**365,320**	**603,182**	**725,813**	**12,264,857**	**5,291**	**18,675,409**

Expenses relating to financial assets and liabilities from 1 January to 31 December 2015

(€)	Interest expenses	Change in fair value and losses on disposal of FVPL assets	Losses on disposal of other IFRS asset categories	Impairment losses on investments	Exchange losses	Other	Total
At fair value through P/L	**0**	**218,498**	**0**	**0**	**0**	**659**	**219,157**
Designated to this category	0	218,498	0	0	0	659	219,157
Debt instruments	0	1,629	0	0	0	0	1,629
Equity instruments	0	216,869	0	0	0	659	217,528
Available-for-sale	**0**	**0**	**313,525**	**713,284**	**8,825,471**	**7,898**	**9,860,178**
Debt instruments	0	0	288,094		8,825,109	1,959	9,115,162
Equity instruments	0	0	25,431	713,284	362	5,939	745,016
Loans and receivables	**0**	**0**	**0**	**0**	**211,884**	**101**	**211,985**
Debt instruments	0	0	0	0	211,884	101	211,985
Subordinated liabilities	**896,145**	**0**	**0**	**0**	**0**	**0**	**896,145**
Total	**896,145**	**218,498**	**313,525**	**713,284**	**9,037,355**	**8,658**	**11,187,465**

Net inv. income of financial assets and liabilities from 1 January to 31 December 2015

(€)	Income/ expense for interest	Change in fair value and gains/losses on disposal of FVPL assets	Profit/ losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Exchange gains/ exchange losses	Other income/ expenses	Total
Held to maturity	**102,756**	**0**	**0**	**0**	**0**	**0**	**0**	**102,756**
Debt instruments	102,756	0	0	0	0	0	0	102,756
At fair value through P/L	**0**	**146,822**	**0**	**17,808**	**0**	**6,464**	**-659**	**170,435**
Designated to this category	0	146,822	0	17,808	0	6,464	-659	170,435
Debt instruments	0	30,675	0	0	0	0	0	30,675
Equity instruments	0	116,147	0	17,808	0	6,464	-659	139,760
Available-for-sale	**4,157,817**	**0**	**289,657**	**708,005**	**-713,284**	**3,048,056**	**-2,607**	**7,487,644**
Debt instruments	4,157,817	0	136,909	0	0	3,040,008	-234	7,334,500
Equity instruments	0	0	152,748	708,005	-713,284	8,048	-2,373	153,144
Loans and receivables	**377,499**	**0**	**0**	**0**	**0**	**172,982**	**-101**	**550,380**
Debt instruments	377,499	0	0	0	0	172,982	-101	550,380
Deposits with cedants	**72,874**	**0**	**0**	**0**	**0**	**0**	**0**	**72,874**
Subordinated liabilities	**-896,145**	**0**	**0**	**0**	**0**	**0**	**0**	**-896,145**
Total	**3,814,801**	**146,822**	**289,657**	**725,813**	**-713,284**	**3,227,502**	**-3,367**	**7,487,944**

Income relating to financial assets and liabilities in 2016 amounted to € 12.9 million (2015: € 18.7 million).
Expenses relating to financial assets and liabilities in 2016 amounted to € 7.2 million (2015: € 11.2 million).
The net investment income relating to financial assets and liabilities (excluding subsidiaries) was € 5.7 million (2015: € 7.5 million). This decline in the net investment income in 2016 was mainly the result of lower net exchange differences. The net amount of exchange differences is still a gain of € 1.4 million (2015: € 3.2 million).
In 2015, the Company earned no interest income on impaired investments; in 2016 it totalled € 1,429.

Investment income and expenses by source of funds

The Company records investment income and expenses separately depending on whether they relate to the capital fund or the liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions.

Investment income – non-life business

(€)	Liability fund 2016	Liability fund 2015
Interest income	3,697,928	3,971,993
Change in fair value and gains on disposal of FVPL assets	100,222	358,380
Gains on disposal of other IFRS asset categories	396,657	524,616
Income from dividends and shares – other investments	495,341	423,847
Exchange gains	6,925,109	12,264,857
Other income	6,785	5,291
Total investment income – liability fund	**11,622,041**	**17,548,984**
	Capital fund 2016	**Capital fund 2015**
Interest income	730,047	738,953
Change in fair value and gains on disposal of FVPL assets	0	6,940
Gains on disposal of other IFRS asset categories	279,432	78,566
Income from dividends and shares – other investments	247,631	301,966
Exchange gains	914	0
Total investment income - capital fund	**1,258,024**	**1,126,425**
Total investment income	**12,880,066**	**18,675,409**

Investment expenses – non-life business

(€)	Liability fund 2016	Liability fund 2015
Change in fair value and losses on disposal of FVPL assets	205,693	217,968
Losses on disposal of other IFRS asset categories	185,008	312,805
Impairment losses on investments	330,740	495,574
Exchange losses	5,557,177	9,037,355
Other	155	760
Total investment expenses – liability fund	**6,278,774**	**10,064,462**
	Capital fund 2016	**Capital fund 2015**
Interest expenses	841,834	896,145
Change in fair value and losses on disposal of FVPL assets	0	530
Losses on disposal of other IFRS asset categories	0	720
Impairment losses on investments	0	217,710
Exchange losses	7,972	0
Other	4,299	7,898
Total investment expenses – capital fund	**854,106**	**1,123,003**
Total investment expenses	**7,132,879**	**11,187,465**
Net investment income	**5,747,187**	**7,487,944**

Impairment losses on investments

(€)	31/12/2016	31/12/2015
Bonds	330,740	0
Shares	0	713,284
Total	**330,740**	**713,284**

27) Other technical income

(€)	2016	2015
Commission income	2,813,943	2,605,901
Exchange gains from reinsurance business	5,343,322	6,974,459
Miscellaneous technical income	1,105,929	229,185
Total	**9,263,194**	**9,809,545**

In 2016, the Company again had high exchange gains arising out of reinsurance business, but again also high exchange losses arising out of reinsurance business, as set out in note 32. Pursuant to our investment policy, we use currency hedging; therefore, the Company's net exposure to currency fluctuations is minimal.

Commission income, net of change in deferred acquisition costs attributable to reinsurers

(€)	2016	2015
Personal accident	17,218	16,597
Land vehicles casco	223	2,918
Ships hull	936	1,308
Goods in transit	30,762	29,563
Fire and natural forces	1,835,134	1,445,794
Other damage to property	609,981	491,232
Motor liability	169	143
Aircraft liability	9,407	10,810
Liability for ships	0	600
General liability	31,677	50,357
Miscellaneous financial loss	91,056	56,550
Life insurance	165,544	473,105
Unit-linked life	21,836	26,923
Total non-life	**2,626,562**	**2,105,873**
Total life	**187,381**	**500,028**
Total	**2,813,943**	**2,605,901**

28) Other income and expenses

Other income and expenses mainly include collected bad debt relating to other receivables that had been written-off, gains on the disposal of fixed assets and income from the use of holiday facilities.

The other expenses item mainly comprises expenses incurred by the Company on investment property before it was leased.

29) Net claims incurred

(€) 2016	Gross amounts: Claims	Gross amounts: Recourse receivables	Reinsurers' share of claims (–)	Change in the gross claims provision (+/–)	Change in the reinsurers' and co-insurers' share of the claims provision (+/–)	Net claims incurred
Personal accident	4,442,624	-33	-1,442	-488,427	-151	3,952,572
Health	310,753	0	0	307,670	0	618,423
Land vehicles casco	10,035,528	-168,630	-33,595	1,378,389	-645,260	10,566,432
Railway rolling stock	13,970	0	0	606	0	14,576
Aircraft hull	251,644	0	0	628,314	0	879,958
Ships hull	2,183,806	0	-2,786	3,198,533	334	5,379,887
Goods in transit	3,299,890	-140	-1,154	-983,235	27	2,315,389
Fire and natural forces	40,582,105	-12,397	-6,323,312	7,551,164	-1,423,322	40,374,237
Other damage to property	9,816,966	-11,144	-721,500	-3,890,407	89,817	5,283,732
Motor liability	9,724,987	-401,413	-2,124,577	340,755	174,088	7,713,840
Aircraft liability	43,436	0	0	-112,121	0	-68,685
Liability for ships	112,462	0	0	289,465	0	401,928
General liability	1,522,255	-761	-4,405	1,379,781	438	2,897,308
Credit	294,354	-553,618	0	22,133	0	-237,131
Suretyship	174,696	-84,196	0	115,409	0	205,909
Miscellaneous financial loss	2,910,701	0	-275,121	-872,016	-92,540	1,671,024
Legal expenses	649	0	0	1,731	0	2,380
Assistance	70	0	0	-1,784	0	-1,714
Life insurance	550,715	0	-244,118	-600,754	61,846	-232,311
Unit-linked life	126,311	0	-79,399	-10,337	7,236	43,811
Total non-life	**85,720,897**	**-1,232,331**	**-9,487,891**	**8,865,960**	**-1,896,570**	**81,970,065**
Total life	**677,026**	**0**	**-323,517**	**-611,091**	**69,082**	**-188,500**
Total	**86,397,922**	**-1,232,331**	**-9,811,408**	**8,254,869**	**-1,827,488**	**81,781,565**

(€)	Gross amounts				Change in the reinsurers' and co-insurers' share of	
2015	Claims	Recourse receivables	Reinsurers' share of claims (–)	Change in the gross claims provision (+/–)	the claims provision (+/–)	Net claims incurred
Personal accident	5,279,619	0	-4,366	1,005,692	5,469	6,286,414
Health	1,476,957	0	0	28,529	0	1,505,486
Land vehicles casco	12,020,056	-209,260	-58,455	-604,265	163,691	11,311,767
Railway rolling stock	2,529	0	0	0	0	2,529
Aircraft hull	339,744	0	0	112,789	0	452,533
Ships hull	2,068,869	-400	-410	634,858	4,402	2,707,318
Goods in transit	1,337,188	-102	-50	2,005,817	532	3,343,385
Fire and natural forces	43,204,975	-4,425	-11,551,614	-3,985,082	13,854,095	41,517,950
Other damage to property	12,652,126	-17,923	-515,400	-1,745,483	-159,760	10,213,560
Motor liability	8,015,094	-389,340	-558,610	-945,495	213,071	6,334,719
Aircraft liability	4,718	0	0	108,692	0	113,410
Liability for ships	132,125	-120	0	-101,780	1,371	31,596
General liability	2,025,543	-1,963	-2,048	-564,892	750	1,457,390
Credit	458,915	-609,095	0	960	0	-149,221
Suretyship	368,324	-30,275	0	194,825	0	532,874
Miscellaneous financial loss	223,207	0	-2,007	1,026,341	18,705	1,266,246
Legal expenses	821	0	0	789	0	1,610
Assistance	728	0	0	-4,119	0	-3,391
Life insurance	1,211,842	0	-967,468	-569,511	46,000	-279,137
Unit-linked life	129,060	0	-90,342	-17,243	12,070	33,545
Total non-life	**89,611,538**	**-1,262,903**	**-12,692,961**	**-2,831,827**	**14,102,327**	**86,926,174**
Total life	**1,340,902**	**0**	**-1,057,810**	**-586,754**	**58,070**	**-245,592**
Total	**90,952,440**	**-1,262,903**	**-13,750,771**	**-3,418,581**	**14,160,397**	**86,680,582**

The above tables show (columns from left to right) gross claims paid net of recourse receivables. This column is followed by claims recovered from retrocessionaires. In addition, net claims incurred include the change in the claims provision (both retained and retroceded).
In 2016, gross claims paid were 5 % below the 2015 figure. The effect of the change in the claims provision is described in disclosure 19.

30) Change in other technical provisions and expenses for bonuses and rebates

In 2016 other net technical provisions increased by € 88,760 (2015: up € 121,984). The figures for both years relate to changes in the net provision for unexpired risks.
The change in the provision for bonuses and rebates was an increase of € 162,545 in 2016 (2015: rise in expenses due to an increase in the provision of € 83,193).

31) Operating expenses

The Company classifies operating expenses by nature. Compared to 2015, operating expenses increased by 17.7 %, mainly due to the change in deferred acquisition costs. There was also an increase in personnel costs and other operating costs, of which the largest increase in expenses related to IT services (Solvency II software licences).

Breakdown of operating expenses

(€)	2016	2015
Acquisition costs (commissions)	33,061,396	32,445,281
Change in deferred acquisition costs	3,598,331	-1,492,043
Depreciation of operating assets	340,371	289,196
Personnel costs	6,693,833	6,073,065
Salaries and wages	5,259,890	4,816,551
Social and pension insurance costs	892,850	797,704
Other labour costs	541,093	458,810
Costs of services by natural persons not performing business, incl. of contributions	179,111	168,909
Other operating expenses	3,415,933	2,744,818
Total	**47,288,975**	**40,229,226**

In 2016 other operating expenses, net of acquisition costs (commissions) and changes in deferred acquisition costs (commissions), increased in relation to gross premiums written and represented 7.2 % of gross premiums written (2015: 6.1 %).

Audit fees

(€)	2016	2015
Audit of annual report	59,780	61,000
Other assurance services	6,100	0
Other audit services	29,880	63,827
Total	**95,760**	**124,827**

The cost of auditing the annual report includes audit costs for both Sava Re and the consolidated annual report of the Sava Re Group. Other audit services in 2016 relate to assurance services for reports that the Company prepared as part of Solvency II requirements.

Acquisition costs

(€)	2016	2015
Personal accident	1,261,274	2,285,071
Health	124,444	748,594
Land vehicles casco	3,330,359	3,348,947
Railway rolling stock	11,263	9,153
Aircraft hull	135,197	78,732
Ships hull	783,954	869,642
Goods in transit	1,024,381	691,852
Fire and natural forces	16,854,563	14,081,712
Other damage to property	4,733,872	5,383,181
Motor liability	2,741,399	2,777,957
Aircraft liability	-22,464	47,304
Liability for ships	118,517	88,419
General liability	1,280,329	1,031,734
Credit	230,257	139,149
Suretyship	48,646	42,697
Miscellaneous financial loss	311,651	319,820
Legal expenses	4,932	1,747
Assistance	1,534	-624
Life insurance	50,767	455,653
Unit-linked life	36,522	44,540
Total non-life	**32,974,108**	**31,945,088**
Total life	**87,289**	**500,193**
Total	**33,061,396**	**32,445,281**

Change in deferred acquisition costs

(€)	2016	2015
Personal accident	569,391	-134,179
Health	10,413	-14,821
Land vehicles casco	704,623	175,123
Railway rolling stock	-1,281	-1,025
Aircraft hull	3,464	-26,236
Ships hull	125,092	-28,614
Goods in transit	89,189	1,443
Fire and natural forces	289,076	-1,202,005
Other damage to property	673,517	-142,976
Motor liability	888,466	-665
Aircraft liability	9,479	-11,166
Liability for ships	14,668	-15,971
General liability	162,514	-31,272
Credit	-75,711	-44,561
Suretyship	198	10,009
Miscellaneous financial loss	67,193	-84,778
Legal expenses	54	-718
Life insurance	67,985	60,369
Total non-life	**3,530,346**	**-1,552,413**
Total life	**67,985**	**60,369**
Total	**3,598,331**	**-1,492,043**

32) Other technical expenses

(€)	2016	2015
Expenses for exchange losses	5,603,447	6,743,669
Value adjustments	184,511	225,155
Regulator fees	186,301	164,136
Other technical expenses	59,436	6,156
Total	**6,033,695**	**7,139,116**

33) Income tax expense

Tax rate reconciliation

(€)	2016	2015
Profit/loss before tax	34,977,140	16,739,349
Income tax expenses at statutory tax rate	5,946,114	2,845,689
Tax effect of income that is deducted for tax purposes	-4,379,357	-2,263,441
Tax effect of expenses not deducted for tax purposes	892,542	971,494
Income or expenses relating to tax relief	-36,652	-38,859
Changes in temporary differences	-319,323	-967,436
Total income tax expense in the income statement	**2,103,323**	**547,447**
Effective tax rate	6.01 %	3.27 %

24.8. Notes to the financial statements – cash flow statement

34) Notes to the cash flow statement, which has been prepared using the indirect method.

The cash flow statement shown in section 23.4 “Cash flow statement” has been prepared in compliance with statutory regulations. This note gives a reconciliation of net profit and cash flows from operating activities.

The table below presents income statement items not included in cash flow nor presented in other parts of the cash flow statement (other than in cash flow from operating activities).

(€)	2016	2015
Net profit/loss for the period	**32,873,817**	**16,191,902**
Non-monetary income statement items not included in cash flow	**9,819,167**	**19,714,504**
- change in unearned premiums	-3,550,715	8,134,199
- change in the provision for outstanding claims	6,427,381	10,741,816
- change in other technical provisions	88,760	121,984
- operating expenses – amortisation/depreciation and change in deferred acquisition cost	3,938,702	-1,202,847
- impairment losses on financial assets	2,915,039	1,919,352
Eliminated investment income items	**-31,479,463**	**-18,440,978**
- interest received disclosed under B. a) 1.	-4,427,975	-4,710,946
- receipts from dividends and shares in profit of others disclosed under B. a) 2.	-27,051,488	-13,730,032
Eliminated investment expense items	**841,834**	**896,145**
- interest paid disclosed under C. b) 1.	841,834	896,145
Cash flows from operating activities – income statement items	**12,055,355**	**18,361,573**

24.9. Contingent receivables and liabilities

The Company discloses contingent liabilities relating to a labour action and a guarantee. The estimated contingent liabilities in this regard total € 0.4 million.
Off-balance sheet items are shown in the appendix hereto.

24.10. Related party disclosures

The Company separately discloses its relationships with the following groups of related parties:

- owners and related enterprises;
- management and supervisory board members and employees not subject to the tariff section of the collective agreement;
- subsidiary companies;
- associates.

The Company is a party to a contract with the Moja naložba pension company on the participation in a supplementary pension scheme.

Owners and related enterprises

The Group's largest shareholder is Slovenian Sovereign Holding, holding 25 % plus one share.

Business relationship with the largest shareholder

In 2016 the Company had no business transactions with its largest shareholder.

Management board, supervisory board incl. its committees, and employees not subject to the tariff section of the collective agreement

Remuneration of management and supervisory board members, and of employees not subject to the tariff section of the collective agreement

(€)	2016	2015
Management board	655,175	746,643
Payments to employees not subject to the tariff section of the collective agreement	2,632,810	2,558,363
Supervisory board	128,283	119,963
Supervisory board committees	28,246	26,473
Total	**3,444,515**	**3,451,442**

Remuneration of management board members in 2016

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premiums	Fringe benefits – use of company car	Total
Zvonko Ivanušič (until 23/08/2016)	109,304	15,936	4,170	5,775	135,185
Srečko Čebron	152,592	14,340	5,338	3,620	175,890
Jošt Dolničar	146,866	14,340	5,554	3,874	170,635
Mateja Treven	144,600	14,340	5,186	9,339	173,465
Total	**553,362**	**58,956**	**20,248**	**22,608**	**655,175**

Remuneration of management board members in 2015

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premiums	Fringe benefits – use of company car	Total
Zvonko Ivanušič	168,143	31,872	6,203	10,272	216,490
Srečko Čebron	152,183	28,680	5,269	2,603	188,734
Jošt Dolničar	144,191	28,680	5,112	2,668	180,651
Mateja Treven	144,191	11,428	5,149	0	160,768
Total	**608,707**	**100,660**	**21,732**	**15,543**	**746,643**

Liabilities to members of the management board based on gross remuneration

(€)	31/12/2016	31/12/2015
Zvonko Ivanušič	0	13,946
Srečko Čebron	12,616	12,616
Jošt Dolničar	13,280	11,950
Mateja Treven	11,950	11,950
Total	**37,846**	**50,462**

As at 31 December 2016, the Company had no receivables due from its management board members. Management board members are not remunerated for their functions in subsidiary companies.

Remuneration of the supervisory board and its committees in 2016

(€)		Attendance fees	Remune-ration for performing the function	Expenses reimbursed	Perks	Total
Supervisory board members						
Branko Tomažič	SB chair (until 11 October 2016)	3,410	15,202	5,230	119	23,960
Mateja Lovšin Herič	SB chair (since 12/10/2016) / SB deputy chair (until 11/10/2016)	5,005	15,446	0	185	20,637
Slaven Mićković	deputy chairman (since 12/10/2016) / member (until 11/10/2016)	5,005	13,287	317	39	18,648
Gorazd Andrej Kunstek	member of the SB	5,005	13,000		175	18,180
Keith William Morris	member of the SB	4,235	13,000	13,254	200	30,690
Helena Dretnik	SB member (until 19/02/2016)	550	1,793	0	170	2,513
Mateja Živec	SB member (since 01/04/2016)	3,905	9,750	0	0	13,655
Total supervisory board members		**27,115**	**81,477**	**18,802**	**889**	**128,283**
Audit committee members						
Mateja Lovšin Herič	AC member (since 28/10/2016) / chair (until 27/10/2016)	2,376	4,591	0	0	6,967
Slaven Mićković	chair (since 28/10/2016) / member (until 27/10/2016)	2,376	3,534	7	0	5,917
Ignac Dolenšek	member of the AC		10,950	232	0	11,182
Total audit committee members		**4,752**	**19,075**	**239**		**24,066**
Nomination committee members						
Mateja Lovšin Herič	Chair of the committee	1,100	0	0	0	1,100
Branko Tomažič (until 11/10/2016)	member	660	0	0	0	660
Slaven Mićković	member	880	0	0	0	880
Keith William Morris	member	220	0	0	0	220
Total nomination committee members		**2,860**	**0**	**0**	**0**	**2,860**
Fit & proper committee members						
Mateja Lovšin Herič	Chair of the committee	660	0	0	0	660
Branko Tomažič	member (until 11/10/2016)	220	0	0	0	220
Nika Matjan	member	0	0	0	0	0
Mateja Živec	member	440	0	0	0	440
Total fit & proper committee members		**1,320**	**0**	**0**	**0**	**1,320**

Remuneration paid to members of the supervisory board and the audit committee for 2015

(€)		Attendance fees	Remuneration for performing the function	Expenses reimbursed	Total
Supervisory board members					
Branko Tomažič	chairman of the SB	2,750	19,500	2,747	24,997
Mateja Lovšin Herič	deputy chair of the SB	2,750	14,300	0	17,050
Slaven Mićković	member of the SB	2,750	13,000	0	15,750
Martin Albreht	member of the SB	1,375	5,778	0	7,153
Gorazd Andrej Kunstek	member of the SB	2,750	13,000	0	15,750
Keith William Morris	member of the SB	2,750	13,000	14,916	30,666
Helena Dretnik	member of the SB	1,375	7,222	0	8,597
Total supervisory board members		**16,500**	**85,800**	**17,664**	**119,963**
Audit committee members					
Mateja Lovšin Herič	chair of the AC	1,980	4,875	0	6,855
Slaven Mićković	member of the AC	1,980	3,250	0	5,230
Ignac Dolenšek	member of the AC	0	14,175	213	14,388
Total audit committee members		**3,960**	**22,300**	**213**	**26,473**

Liabilities to members of the supervisory board and audit committee of the supervisory board based on gross remuneration

(€)	31/12/2016	31/12/2015
Branko Tomažič	0	2,230
Mateja Lovšin Herič	3,381	2,093
Slaven Mićković	2,971	1,849
Gorazd Andrej Kunstek	1,908	1,358
Keith William Morris	7,145	13,621
Mateja Živec	2,128	0
Ignac Dolenšek	544	4,332
Helena Dretnik	0	1,358
Total	**18,078**	**26,841**

Employee remuneration not subject to the tariff section of the collective agreement for 2016

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	2,257,673	237,411	137,726	2,632,810

Employee remuneration not subject to the tariff section of the collective agreement for 2015

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	2,156,563	298,296	103,504	2,558,363

Subsidiaries

Investments in and amounts due from Group companies

(€)		31/12/2016	31/12/2015
Debt securities and loans granted to Group companies	gross	2,834,953	2,834,953
Receivables for premiums arising out of reinsurance assumed	gross	12,891,949	14,722,143
Short-term receivables arising out of financing	gross	28,091	28,091
Other short-term receivables	gross	56,598	204,223
Short-term deferred acquisition costs	gross	1,505,595	4,166,332
Total		**17,317,186**	**21,955,742**

Liabilities to Group companies

(€)	31/12/2016	31/12/2015
Liabilities for shares in reinsurance claims due to Group companies	7,434,318	7,892,615
Other liabilities from co-insurance and reinsurance	2,648,269	2,920,851
Other short-term liabilities	700	12,325,063
Total (excl. provisions)	**10,083,287**	**23,138,529**

Liabilities to Group companies by maturity

(€)		Maturity
31/12/2016	**Up to 1 year**	**Total**
Liabilities for shares in reinsurance claims due to Group companies	7,434,318	7,434,318
Other short-term liabilities to Group companies	2,648,269	2,648,269
Other short-term liabilities	700	700
Total (excl. provisions)	**10,083,287**	**10,083,287**

(€)		Maturity
31/12/2015	**Up to 1 year**	**Total**
Liabilities for shares in reinsurance claims due to Group companies	7,892,615	7,892,615
Other short-term liabilities to Group companies	2,920,851	2,920,851
Other short-term liabilities	12,325,063	12,325,063
Total (excl. provisions)	23,138,529	23,138,529

Income and expenses relating to Group companies

(€)	2016	2015
Gross premiums written	54,743,175	53,831,181
Change in gross unearned premiums	-374,374	338,577
Gross claims payments	-28,363,915	-35,186,171
Change in the gross claims provision	-2,004,124	15,023,978
Income from gross recourse receivables	1,208,540	1,240,505
Change in gross provision for bonuses, rebates and cancellations	-162,545	-83,546
Other operating expenses	-104,737	-95,964
Dividend income	26,308,516	13,004,219
Other investment income	11,152	14,233
Interest income	156,454	183,124
Acquisition costs	-11,142,168	-11,312,604
Change in deferred acquisition costs	-2,660,738	-82,038
Other non-life income	15,197	15,556
Total	**37,630,433**	**36,891,050**

Investments in governments and majority state-owned companies

(€)	31/12/2016	31/12/2015
Interests in companies	7,249,440	8,055,200
Debt securities and loans	41,892,177	45,005,799
Total	**49,141,617**	**53,060,999**

Income and expenses relating to majority state-owned companies

(€)	2016	2015
Dividend income	344,261	318,644
Interest income	1,113,677	1,476,119
Exchange gains	700,317	617,108
Other income	0	291,951
Total	**2,158,254**	**2,703,822**

Characteristics of loans granted to subsidiaries

Borrower	Principal	Type of loan	Maturity	Interest rate
Sava neživotno osiguranje (SRB)	500,000	ordinary	30/06/2017	3.60 %
Sava neživotno osiguranje (SRB)	800,000	ordinary	30/06/2018	2.90 %
Zavarovalnica Sava	734,953	subordinated	no maturity	7.00 %
Zavarovalnica Sava	800,000	subordinated	no maturity	7.50 %
Total	**2,834,953**			

25. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

- On 7 March 2017, the 32nd general meeting of Sava Re took place at the Horus Hall of the Austria Trend Hotel in Ljubljana. The general meeting elected the new supervisory board members for the next four-year term of office: Ivan Davor Gjivoje (term of office to start on 7 March 2017) and Mateja Lovšin Herič, Keith William Morris and Andrej Kren (term of office to start on 16 July 2017). As of 7 March 2017, the supervisory board of Sava Re operates with all of its six members.
- In 2006 and 2007, Sava Re raised a subordinated debt in the nominal amount of € 32 million maturing in 2027. Sava Re raised the subordinated debt to expand the Sava Re Group to the markets of the former Yugoslavia and to improve its capital adequacy position in accordance with the then applicable insurance laws and the Standard & Poor's model. In January 2014, Sava Re redeemed € 8 million of the nominal amount of its subordinated debt. Under the contractual provisions, the remaining nominal amount of € 24 million can be early repaid as of 2017. After receiving the approval of the Slovenian Insurance Supervision Agency, Sava Re repaid the first tranche of the subordinated debt in the nominal amount of € 12 million on 15 March 2017. The remaining part of the subordinated debt in a nominal amount of € 12 million is scheduled to be repaid in June 2017. After the repayment of the subordinated debt, Sava Re and the Sava Re Group will maintain a high solvency ratio under the applicable law. Furthermore, the simulations of models of rating agencies Standard & Poor's and A.M. Best have shown that the early repayment of the subordinated debt would not affect the capital position so that both the Company and the Sava Re Group will maintain a solid target level of capitalisation.

APPENDICES

Appendix A – Financial Statements of the Sava Re Group Pursuant to Requirements of the Insurance Supervision Agency

Consolidated statement of financial position – assets

(€)	31/12/2016	31/12/2015	Index
ASSETS	**1,671,189,179**	**1,607,281,060**	**104.0**
Intangible assets	**25,508,583**	**30,465,315**	**83.7**
Property and equipment	**51,887,127**	**47,217,311**	**109.9**
Non-current assets held for sale	**87,488**	**104,413**	**83.8**
Deferred tax assets	**2,326,063**	**2,371,857**	**98.1**
Investment property	**7,933,786**	**8,040,244**	**98.7**
Financial investments:	**1,030,235,239**	**1,015,056,805**	**101.5**
- in loans and deposits	31,605,347	57,721,961	54.8
- held to maturity	130,812,195	165,444,270	79.1
- available for sale	858,641,003	773,486,797	111.0
- measured at fair value	9,176,694	18,403,777	49.9
Funds for the benefit of policyholders who bear the investment risk	**224,175,076**	**214,189,117**	**104.7**
Reinsurers' and co-insurers' share of technical provisions	**28,444,628**	**23,877,277**	**119.1**
Assets under investment contracts	**121,366,122**	**111,418,244**	**108.9**
Receivables	**127,408,527**	**130,663,929**	**97.5**
Receivables arising out of primary insurance business	51,340,821	51,510,767	99.7
Receivables arising out of co-insurance and reinsurance business	68,005,582	68,757,586	98.9
Current tax assets	124,720	1,734,294	7.2
Other receivables	7,937,404	8,661,282	91.6
Other assets	**17,877,380**	**19,165,644**	**93.3**
Cash and cash equivalents	**33,939,160**	**4,710,904**	**720.4**
Off-balance sheet items	**74,326,907**	**75,196,608**	**98.8**

Consolidated statement of financial position – equity & liabilities

(€)	31/12/2016	31/12/2015	Index
EQUITY AND LIABILITIES	**1,671,189,179**	**1,607,281,060**	**104.0**
Equity	**297,038,327**	**286,401,678**	**103.7**
Share capital	71,856,376	71,856,376	100.0
Capital reserves	43,681,441	43,388,724	100.7
Profit reserves	120,954,903	112,635,082	107.4
Fair value reserve	17,458,948	12,721,705	137.2
Reserve due to fair value revaluation	351,655	-37,472	-938.4
Retained earnings	36,778,941	23,490,926	156.6
Net profit/loss for the period	9,049,238	24,849,678	36.4
Translation reserve	-3,854,182	-3,467,155	111.2
Equity attributable to owners of the controlling company	**296,277,319**	**285,437,863**	**103.8**
Non-controlling interest in equity	**761,008**	**963,815**	**79.0**
Subordinated liabilities	**23,570,771**	**23,534,136**	**100.2**
Technical provisions	**911,221,323**	**887,068,500**	**102.7**
Unearned premiums	157,678,496	156,039,680	101.1
Technical provisions for life insurance business	269,762,815	262,052,426	102.9
Provision for outstanding claims	475,157,985	459,012,655	103.5
Other technical provisions	8,622,027	9,963,739	86.5
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**226,994,200**	**207,590,086**	**109.3**
Other provisions	**8,080,877**	**7,389,695**	**109.4**
Deferred tax liabilities	**6,038,631**	**4,598,731**	**131.3**
Liabilities under investment contracts	**121,229,675**	**111,304,383**	**108.9**
Other financial liabilities	**393,996**	**206,047**	**191.2**
Liabilities from operating activities	**48,790,646**	**54,467,303**	**89.6**
Liabilities from primary insurance business	11,910,253	10,968,865	108.6
Liabilities from reinsurance and co-insurance business	36,292,698	39,739,412	91.3
Current income tax liabilities	587,695	3,759,026	15.6
Other liabilities	**27,830,733**	**24,720,501**	**112.6**
Off-balance sheet items	**74,326,907**	**75,196,608**	**98.8**

Disclosure of off-balance sheet items

(€)	2016	2015
Outstanding recourse receivables;	30,992,363	32,488,927
Receivables from the cancellation of subordinated financial instruments	37,960,300	37,960,300
Other potential reinsurance receivables	1,950,000	1,950,000
Contingent assets	**70,902,663**	**72,399,227**

(€)	2016	2015
Sureties issued	3,121,682	2,729,105
Civil claims	302,561	68,276
Contingent liabilities	**3,424,244**	**2,797,381**
Contingent assets and contingent liabilities	**67,478,419**	**69,601,846**

In its off-balance sheet items for 2016 and 2015 (where we made a correction relating to the data disclosed in the 2015 annual report), the Group disclosed contingent assets in the amount of the cancelled subordinated instruments regarding which the Group is continuing activities for the protection of its interests. Thus, in December 2016, claims were filed against the issuing banks of the cancelled subordinated financial instruments held by the Group.

Consolidated income statement

(€)	2016	2015	Index
Net earned premiums	**458,101,526**	**447,559,605**	**102.4**
- gross premiums written	490,205,154	486,264,557	100.8
- written premiums ceded to reinsurers and co-insurers	-31,242,514	-30,314,747	103.1
- change in unearned premiums	-861,114	-8,390,205	10.3
Income from investments in associated companies, of this	**0**	**942,560**	**-**
- Profit from investments in equity-accounted associate companies	0	165,067	-
Investment income	**51,094,920**	**66,209,643**	**77.2**
Other technical income, of this	**18,237,409**	**19,318,601**	**94.4**
- commission income	3,732,607	3,656,904	102.1
Other income	**6,489,633**	**4,647,977**	**139.6**
Net claims incurred	**-268,393,776**	**-273,129,823**	**98.3**
- gross claims payments	-269,445,796	-271,503,134	99.2
- reinsurers' and co-insurers' shares	14,819,654	17,718,201	83.6
- change in the provision for outstanding claims	-13,767,634	-19,344,890	71.2
Change in other technical provisions	**-5,254,856**	**-1,282,026**	**409.9**
Change in technical provisions for policyholders who bear the investment risk	**-17,442,161**	**-11,036,450**	**158.0**
Expenses for bonuses and rebates	**-1,263,545**	**-580,091**	**217.8**
Operating expenses, of this	**-159,563,486**	**-148,918,373**	**107.1**
- Acquisition costs	-53,357,004	-48,402,292	110.2
Expenses for investments in associates and impairment losses on goodwill	**-1,693,699**	**-2,936,678**	**57.7**
Investment expenses, of this	**-19,812,763**	**-38,936,688**	**50.9**
Impairment losses on financial assets not at fair value through profit or loss	-594,025	-726,066	81.8
Interest expense	-842,126	-1,161,059	72.5
Other investment expenses	-18,376,612	-37,049,563	49.6
Other technical expenses	**-17,310,937**	**-20,113,718**	**86.1**
Other expenses	**-2,518,278**	**-1,646,568**	**152.9**
Profit/loss before tax	**40,669,987**	**40,097,971**	**101.4**
Income tax expense	**-7,751,774**	**-6,732,520**	**115.1**
Net profit/loss for the period	**32,918,213**	**33,365,451**	**98.7**
Net profit/loss attributable to owners of the controlling company	**32,824,911**	**33,377,857**	**98.3**
Net profit/loss attributable to non-controlling interests	**93,302**	**-12,406**	**-752.1**
Basic earnings/loss per share	**2.08**	**2.02**	**102.7**
Diluted earnings/losses per share	**2.08**	**2.02**	**102.7**

Consolidated statement of comprehensive income

(€)			2016	2015	Index
A	**Technical account – non-life business other than health business**				
I.	**Net earned premiums**		**371,657,357**	**361,625,905**	**102.8**
	1.	Gross premiums written	400,787,049	398,103,784	100.7
	2.	Premiums written for assumed co-insurance (+)	2,834,342	2,076,556	136.5
	3.	Assumed co-insurance premiums written	-1,903,366	-1,741,826	109.3
	4.	Gross reinsurance premiums written (-)	-29,226,036	-28,606,573	102.2
	5.	Change in gross unearned premiums (+/-)	-1,803,241	-7,788,284	23.2
	6.	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)	968,609	-417,752	-231.9
II.	**Allocated investment return transferred from the non-technical account (item D VIII)**		**0**	**10,189,248**	**-**
III.	**Other net technical income**		**2,571,430**	**1,807,096**	**142.3**
IV.	**Net claims incurred**		**220,773,136**	**219,631,377**	**100.5**
	1.	Gross claims payments	230,503,067	226,978,687	101.6
	2.	Income from realised gross recourse receivables (-)	-6,341,601	-6,863,512	92.4
	3.	Co-insurers' shares paid (+/-)	885,969	130,140	680.8
	4.	Reinsurers' shares paid (-)	-15,705,069	-17,847,385	88.0
	5.	Change in the gross claims provision (+/–)	13,465,376	3,260,808	412.9
	6.	Change in the reinsurers' and co-insurers' share of the claims provision (+/–)	-2,034,606	13,972,639	-14.6
V.	**Change in other net technical provisions (+/-)**		**-2,713,050**	**-745,489**	**363.9**
VI.	**Net expenses for bonuses and rebates**		**1,263,545**	**580,091**	**217.8**
VII.	**Net operating expenses**		**134,041,594**	**125,057,378**	**107.2**
	1.	Acquisition costs	46,010,527	44,220,191	104.0
	2.	Change in deferred acquisition costs (+/-)	1,280,904	-1,488,119	-86.1
	3.	Other operating expenses	90,481,893	85,981,346	105.2
		3.1. Depreciation/amortisation of operating assets	7,324,832	7,300,706	100.3
		3.2. Personnel costs	54,851,953	50,458,699	108.7
		3.3. Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions	411,637	436,137	94.4
		3.4. Other operating expenses	27,893,471	27,785,804	100.4
	4.	Income from reinsurance commission and reinsurance contract profit participation (-)	-3,731,730	-3,656,040	102.1
VIII.	**Other net technical expenses**		**6,880,989**	**6,881,825**	**100.0**
	1.	Expenses for loss prevention activities	3,077,261	2,948,168	104.4
	2.	Contributions for covering claims of uninsured and unidentified vehicles	1,697,697	2,051,831	82.7
	3.	Other net technical expenses	2,106,031	1,881,826	111.9
IX.	**Balance on the technical account - non-life business other than health business (I+II+III-IV-V-VI-VII-VIII)**		**13,982,573**	**22,217,067**	**62.9**
B	**Technical account – life business**				
I.	**Net earned premiums**		**86,444,169**	**85,933,700**	**100.6**
	1.	Gross premiums written	86,583,690	86,084,202	100.6
	2.	Premiums written for assumed co-insurance (+)	73	15	486.7
	3.	Assumed co-insurance premiums written	-7,272	-1,516	479.7
	4.	Gross reinsurance premiums written (-)	-105,840	-152,728	69.3
	5.	Change in gross unearned premiums (+/-)	-26,136	3,362	-777.4
	6.	Change in unearned premiums for the reinsurance part (+/-)	-346	365	-94.8

II.	**Investment income**		**11,164,364**	**10,781,353**	**103.6**
	1.	Income from participating interests	281,365	307,330	91.6
	2.	Income from other investments	9,900,899	9,782,530	101.2
	2.1.	Income from land and buildings	666	261	255.2
	2.2.	Interest income	9,464,357	9,538,039	99.2
	2.3.	Other investment income	435,876	244,230	178.5
		2.3.1 Financial income from revaluation	287,532	133,522	215.3
		2.3.2 Other financial income	148,344	110,708	134.0
	4.	Gains on disposal of investments	982,100	691,493	142.0
III.	**Net unrealised gains on investments of life insurance policyholders who bear the investment risk**		**17,958,678**	**26,631,788**	**67.4**
IV.	**Other net technical income**		**2,315,479**	**1,064,289**	**0.0**
V.	**Net claims incurred**		**47,620,640**	**53,498,446**	**89.0**
	1.	Gross claims payments	45,284,330	51,387,959	88.1
	3.	Reinsurers' shares paid (-)	-554	-956	58.0
	3.3	Reinsurers' share for other companies	-554	-956	58.0
	4.	Change in the gross claims provision (+/–)	2,367,518	2,112,212	112.1
	5.	Change in the provision for outstanding claims for reinsurance (+/-)	-30,654	-769	3986.2
VI.	**Change in diverse other net technical provisions (+/-)**		**25,410,067**	**13,063,965**	**194.5**
	1.	Change in the mathematical provision	25,410,067	13,063,391	194.5
	1.1.	Change in the gross mathematical provision (+/-)	25,410,067	13,063,354	194.5
	1.2.	Change in the reinsurers' share (+/-)	0	37	-
	2.	Change in other net technical provisions (+/-)	0	574	-
	2.1.	Change in gross other technical provisions (+/-)	0	574	-
VIII.	**Net operating expenses**		**21,789,285**	**20,204,091**	**107.9**
	1.	Acquisition costs	5,872,023	5,633,492	104.2
	2.	Change in deferred acquisition costs (+/-)	193,550	36,728	527.0
	3.	Other operating expenses	15,724,589	14,534,735	108.2
	3.1.	Depreciation/amortisation of operating assets	292,352	285,036	102.6
	3.2.	Personnel costs	9,535,510	9,098,584	104.8
	3.3.	Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions	79,794	57,352	139.1
	3.4.	Other operating expenses	5,816,933	5,093,763	114.2
	3.4.1	Other operating expenses for other companies	5,816,933	5,093,763	114.2
	4.	Income from reinsurance commission and reinsurance contract profit participation (-)	-877	-864	101.5
	4.3	Income from reinsurance commission for other companies	-877	-864	101.5
IX.	**Investment expenses**		**957,108**	**844,509**	**113.3**
	1.	Depreciation of investments not necessary for operations	1,342	1,824	73.6
	2.	Asset management expenses, interest expenses and other financial expenses	120,607	16,314	739.3
	3.	Financial expenses from revaluation	380,165	98,347	386.6
	4.	Losses on disposal of investments	454,994	728,024	62.5
X.	**Net unrealised losses on investments of life insurance policyholders who bear the investment risk**		**11,256,348**	**25,930,786**	**43.4**
XI.	**Other net technical expenses**		**238,526**	**155,741**	**153.2**
	2.	Other net technical expenses	238,526	155,741	153.2
XII.	**Allocated investment return transferred to the non-technical account (item D V) (-)**		**0**	**63,123**	**-**
XIII.	**Balance on the technical account - life business (I+II+III+IV-V+VI-VII-VIII-IX-X-XI-XII)**		**10,610,716**	**10,650,469**	**99.6**
C.	**Non-technical account**				
I.	**Balance on the technical account – non-life business (A X)**		**13,982,573**	**22,217,067**	**62.9**

II.	**Balance on the technical account – life business (B XIII)**		**10,610,716**	**10,650,469**	**99.6**
III.	**Investment income**		**22,262,118**	**29,930,828**	**74.4**
	1.	Income from participating interests	1,003,035	1,863,504	53.8
		1.3. Income from participating interests in other companies	1,003,035	920,944	108.9
	2.	Income from other investments	19,188,352	25,730,673	74.6
		2.1. Income from land and buildings	289,574	191,505	151.2
		- in other companies	289,574	191,505	151.2
		2.2. Interest income	11,769,299	13,099,133	89.9
		- in other companies	11,759,160	13,099,133	89.8
		2.3. Other investment income	7,129,479	12,440,035	57.3
		2.3.1 Financial income from revaluation	7,119,487	12,432,912	57.3
		- in other companies	7,119,487	12,432,912	57.3
		2.3.2 Other financial income	9,992	7,123	140.3
		- in other companies	9,992	7,123	140.3
	4.	Gains on disposal of investments	2,070,731	2,336,651	88.6
V.	**Allocated investment return transferred to the technical account – life business (B XII)**		**0**	**63,123**	**-**
VII.	**Investment expenses**		**9,413,871**	**15,181,037**	**62.0**
	1.	Depreciation of investments not necessary for operations	119,523	81,142	147.3
	2.	Asset management expenses, interest expenses and other financial expenses	854,588	1,173,588	72.8
	3.	Financial expenses from revaluation	7,764,546	12,819,853	60.6
	4.	Losses on disposal of investments	675,214	1,106,454	61.0
VIII.	**Allocated investment return transferred to the technical account for non-life business other than health business (A II)**		**0**	**10,189,248**	**-**
IX.	**Other technical income**		**9,327,653**	**12,598,546**	**74.0**
	1.	Other income from non-life business other than health business	9,284,674	12,418,208	74.8
	2.	Other income from life business	42,979	180,338	23.8
X.	**Other technical expenses**		**10,070,557**	**12,993,186**	**77.5**
	1.	Other expenses for non-life business other than health business	9,698,894	12,805,201	75.7
	2.	Other expenses for life business	371,663	187,985	197.7
XI.	**Other income**		**6,489,633**	**4,647,977**	**139.6**
	1.	Other non-life income	5,462,265	3,629,915	150.5
	2.	Other expenses for life business	1,027,368	1,018,062	100.9
XII.	**Other expenses**		**2,518,278**	**1,646,569**	**152.9**
	1.	Other non-life expenses	2,451,710	1,615,326	151.8
	2.	Other expenses for life business	66,568	31,243	213.1
XIII.	**Profit/loss for the year before tax (I+II+III+IV+V+VI-VII-VIII+IX-X+XI-XII)**		**40,669,987**	**40,097,971**	**101.4**
	1.	Profit/loss for the period for non-life business	29,427,155	28,405,207	103.6
	2.	Profit/loss for the period for life business	11,242,832	11,692,764	96.2
XIV.	**Tax on profit**		**7,749,007**	**7,879,068**	**98.4**
	1.1.	Tax on profit from non-life business	5,865,758	5,937,785	98.8
	1.2.	Tax on profit for life business	1,883,249	1,941,283	97.0
XV.	**Deferred tax**		**2,767**	**-1,146,548**	**-0.2**
	1.1.	Deferred tax for non-life business	59,846	-1,145,571	-5.2
	1.2.	Deferred tax for life business	-57,079	-977	5842.3
XVI.	**Net profit/loss for the period (XIII-XIV+XV)**		**32,918,213**	**33,365,451**	**98.7**
	Breakdown of profit/loss				
	- From non-life insurance business		23,501,551	23,612,993	99.5
	- From life business		9,416,662	9,752,458	96.6

D.	**Calculation of comprehensive income**			
I.	**Profit/loss for the year, net of tax**	**32,918,213**	**33,365,451**	**98.7**
II.	**Other comprehensive gain, net of tax (1+2+3+4+5+6+7+8+9+10)**	**4,742,032**	**-5,747,397**	**-82.5**
a)	**Items that will not be reclassified subsequently to profit or loss**	**389,853**	**108,540**	**359.2**
	5. Other items that will not be reclassified subsequently to profit or loss	393,647	105,795	372.1
	6. Tax on items that will not be reclassified subsequently to profit or loss	-3,794	2,745	-138.2
b)	**Items that may be reclassified subsequently to profit or loss**	**4,352,179**	**-5,855,937**	**-74.3**
	1. Net gains/losses on remeasuring available-for-sale financial assets	6,220,370	-7,018,209	-88.6
	3. Net gains/losses attributable to the Group relating to investments in equity-accounted associate companies and jointly-controlled companies	0	-33,187	-
	4. Tax on items that may be reclassified subsequently to profit or loss	-1,479,133	1,170,632	-126.4
	5. Exchange differences on translating foreign operations	-389,058	24,827	-1567.1
III.	**Total comprehensive income (I + II)**	**37,660,245**	**27,618,054**	**136.4**

Appendix B – Financial Statements of Sava Re Pursuant to Requirements of the Insurance Supervision Agency

Statement of financial position

(€)		31/12/2016	31/12/2015	Index
ASSETS (A–F)		568,147,764	570,886,710	99.5
A.	**Intangible assets**	**832,567**	**666,490**	**124.9**
B.	**Property and equipment**	**7,753,202**	**2,455,343**	**315.8**
D.	**Deferred tax assets**	**1,373,436**	**2,285,448**	**60.1**
E.	**Investment property**	**3,122,076**	**2,999,742**	**104.1**
F.	**Financial investments in Group companies and associates**	**191,640,382**	**208,231,721**	**92.0**
G.	**Financial investments**	**249,948,775**	**242,633,203**	**103.0**
	- in loans and deposits	13,069,414	13,457,000	97.1
	- Held to maturity	2,074,813	2,074,258	100.0
	- Available for sale	233,517,137	223,973,704	104.3
	- measured at fair value	1,287,411	3,128,241	41.2
I.	**Amount of technical provisions transferred to reinsurers and co-insurers**	**18,203,912**	**16,026,358**	**113.6**
K.	**Receivables**	**79,836,627**	**84,425,749**	**94.6**
	2. Receivables arising out of co-insurance and reinsurance business	79,603,551	82,453,006	96.5
	3. Current tax assets	0	1,633,620	-
	4. Other receivables	233,076	339,123	68.7
L.	**Other assets**	**7,446,968**	**10,876,706**	**68.5**
M.	**Cash and cash equivalents**	**7,989,819**	**285,950**	**2794.1**
N.	**Off-balance sheet items**	**12,356,000**	**12,119,172**	**102.0**
EQUITY AND LIABILITIES (A–H)		568,147,764	570,886,710	99.5
A.	**Equity**	**270,355,622**	**263,679,403**	**102.5**
1.	Share capital	71,856,376	71,856,376	100.0
2.	Capital reserves	54,239,757	54,239,757	100.0
3.	Profit reserves	122,065,310	113,855,967	107.2
4.	Fair value reserve	3,785,553	3,006,703	125.9
5.	Reserve due to fair value revaluation	-1,765	-42,835	4.1
6.	Retained earnings	9,283,163	12,769,646	72.7
7.	Net profit/loss for the period	9,127,228	7,993,789	114.2
B.	**Subordinated liabilities**	**23,570,771**	**23,534,136**	**100.2**
C.	**Technical provisions**	**226,207,479**	**220,901,954**	**102.4**
1.	Unearned premiums	43,345,415	46,546,065	93.1
3.	Provision for outstanding claims	182,167,780	173,912,911	104.8
4.	Other technical provisions	694,284	442,978	156.7
E.	**Other provisions**	**331,802**	**347,277**	**95.5**
I.	**Other financial liabilities**	**104,280**	**91,897**	**113.5**
J.	**Liabilities from operating activities**	**43,797,970**	**47,871,910**	**91.5**
2.	Liabilities from reinsurance and co-insurance business	43,723,843	47,871,910	91.3
3.	Current income tax liabilities	74,127	0	-
K.	**Other liabilities**	**3,779,840**	**14,460,133**	**26.1**
L.	**Off-balance sheet items**	**12,356,000**	**12,119,172**	**102.0**

Disclosure of off-balance sheet items

(€)	2016	2015
Receivables from the cancellation of subordinated financial instruments	10,038,000	10,038,000
Other potential reinsurance receivables	1,950,000	1,950,000
Contingent assets	**11,988,000**	**11,988,000**

(€)	2016	2015
Sureties issued	158,000	131,172
Civil claims	210,000	0
Contingent liabilities	**368,000**	**131,172**
Contingent assets and contingent liabilities	**11,620,000**	**11,856,828**

In its off-balance sheet items for 2016 and 2015 (where we made a correction relating to the data disclosed in the 2015 annual report), the Company disclosed contingent assets in the amount of the cancelled subordinated instruments regarding which the Company is continuing activities for the protection of its interests. Thus, in December 2016, claims were filed against the issuing banks of the cancelled subordinated financial instruments held by the Company.

Income statement

(€)	2016	2015	Index
Net earned premiums	**133,428,875**	**125,479,297**	**106.3**
- gross premiums written	147,426,893	151,982,421	97.0
- written premiums ceded to reinsurers and co-insurers	-17,548,733	-18,368,925	95.5
- change in unearned premiums	3,550,715	-8,134,199	-43.7
Income from investments in subsidiaries and associates	**26,308,516**	**13,004,219**	**202.3**
Investment income	**12,880,066**	**18,675,409**	**69.0**
Other technical income, of this	**9,263,194**	**9,809,545**	**94.4**
- commission income	2,813,943	2,605,901	108.0
Other income	**33,974**	**82,496**	**41.2**
Net claims incurred	**-81,781,565**	**-86,680,582**	**94.3**
- gross claims payments	-85,165,592	-89,689,537	95.0
- reinsurers' and co-insurers' shares	9,811,408	13,750,771	71.4
- change in the provision for outstanding claims	-6,427,381	-10,741,816	59.8
Change in other technical provisions	**-88,760**	**-121,984**	**72.8**
Expenses for bonuses and rebates	**-162,545**	**-83,193**	**195.4**
Operating expenses, of this	**-47,288,975**	**-40,229,226**	**117.5**
- Acquisition costs	-36,659,727	-30,953,238	118.4
Expenses for investments in subsidiaries and associates	**-4,330,782**	**-4,870,049**	**88.9**
Investment expenses, of this	**-7,132,879**	**-11,187,465**	**63.8**
- impairment loss on financial assets not measured at fair value through profit or loss	-330,740	-713,284	46.4
Other technical expenses	**-6,033,695**	**-7,139,116**	**84.5**
Other expenses	**-118,284**	**-2**	**5,914,200.0**
Profit/loss before tax	**34,977,140**	**16,739,349**	**209.0**
Income tax expense	**-2,103,323**	**-547,447**	**384.2**
Net profit/loss for the period	**32,873,817**	**16,191,902**	**203.0**
Basic earnings/loss per share	**2.08**	**0.98**	**211.9**
Diluted earnings/losses per share	**2.08**	**0.98**	**211.9**

Statement of comprehensive income

(€)				2016	2015	Index
A	**Technical account – non-life business other than health business**					
I.	**Net earned premiums**			**133,428,875**	**125,479,297**	**106.3**
	1.	Gross premiums written		147,426,893	151,982,421	97.0
	4.	Gross reinsurance premiums written (-)		-17,548,733	-18,368,925	95.5
	5.	Change in gross unearned premiums (+/-)		3,200,650	-7,457,308	-42.9
	6.	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)		350,065	-676,891	-51.7
II.	**Allocated investment return transferred from the non-technical account (item D VIII)**			**0**	**7,484,521**	**-**
IV.	**Net claims incurred**			**81,781,565**	**86,680,582**	**94.4**
	1.	Gross claims payments		86,397,922	90,952,440	95.0
	2.	Income from realised gross recourse receivables (-)		-1,232,330	-1,262,903	97.6
	4.	Reinsurers' shares paid (-)		-9,811,408	-13,750,771	71.4
	5.	Change in the gross claims provision (+/–)		8,254,869	-3,418,581	-241.5
	6.	Change in the reinsurers' and co-insurers' share of the claims provision (+/–)		-1,827,488	14,160,397	-12.9
V.	**Change in other net technical provisions (+/-)**			**88,760**	**121,984**	**72.8**
VI.	**Net expenses for bonuses and rebates**			**162,545**	**83,193**	**195.4**
VII.	**Net operating expenses**			**44,475,032**	**37,623,325**	**118.2**
	1.	Acquisition costs		33,061,396	32,445,281	101.9
	2.	Change in deferred acquisition costs (+/-)		3,598,331	-1,492,043	-241.2
	3.	Other operating expenses		10,629,248	9,275,988	114.6
		3.1.	Depreciation/amortisation of operating assets	340,371	289,196	117.7
		3.2.	Personnel costs	6,693,833	6,073,065	110.2
		3.3.	Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions	179,111	168,909	106.0
		3.4.	Other operating expenses	3,415,933	2,744,818	124.5
	4.	Income from reinsurance commission and reinsurance contract profit participation (-)		-2,813,943	-2,605,901	108.0
VIII.	**Other net technical expenses**			**186,327**	**164,145**	**113.5**
	1.	Expenses for loss prevention activities		26	9	288.9
	3.	Other net technical expenses		186,301	164,136	113.5
IX.	**Balance on the technical account – non-life business other than health business (I+II+III-IV+V-VI-VII-VIII)**			**6,734,646**	**8,290,590**	**81.2**

Statement of comprehensive income – continued

(€)				2016	2015	Index
C.	**Non-technical account**					
I.	**Balance on the technical account – non-life business other than health business (A X)**			**6,734,646**	**8,290,590**	**81.2**
III.	**Investment income**			**39,319,827**	**31,693,861**	**124.1**
	1.	Income from participating interests		27,051,488	13,730,032	197.0
		1.1.	Income from participating interests in Group companies	26,308,516	13,004,219	0.0
		1.3.	Income from participating interests in other companies	742,972	725,813	102.4
	2.	Income from other investments		11,492,029	16,995,327	67.6
		2.1.	Income from land and buildings	131,245	14,233	922.1
			- in Group companies	11,152	14,233	78.4
			- in other companies	120,093	0	-
		2.2.	Interest income	4,427,975	4,710,946	94.0
			- in Group companies	191,271	255,998	74.7
			- in other companies	4,236,704	4,454,948	95.1
		2.3.	Other investment income	6,932,809	12,270,148	56.5
			2.3.1 Financial income from revaluation	6,926,024	12,264,857	56.5
			- in other companies	6,926,024	12,264,857	56.5
			2.3.2 Other financial income	6,785	5,291	128.2
			- in other companies	6,785	5,291	128.2
	4.	Gains on disposal of investments		776,310	968,502	80.2
V.	**Investment expenses**			**11,522,976**	**16,059,304**	**71.8**
	1.	Depreciation of investments not necessary for operations		59,315	1,790	3313.7
	2.	Asset management expenses, interest expenses and other financial expenses		846,288	904,803	93.5
	3.	Financial expenses from revaluation		10,226,671	14,620,688	70.0
	4.	Losses on disposal of investments		390,702	532,023	73.4
VI.	**Allocated investment return transferred to the technical account for non-life business other than health business (A II)**			**0**	**7,484,521**	**-**
VII.	**Other technical income**			**6,318,006**	**7,189,411**	**87.9**
	1.	Other income from non-life business other than health business		6,318,006	7,189,411	87.9
VIII.	**Other technical expenses**			**5,788,053**	**6,973,181**	**83.0**
	1.	Other expenses for non-life business other than health business		5,788,053	6,973,181	83.0
IX.	**Other income**			**33,974**	**82,496**	**41.2**
	1.	Other non-life income		33,974	82,496	41.2
X.	**Other expenses**			**118,284**	**2**	**5914200.0**
	1.	Other non-life expenses		118,284	2	5914200.0
XI.	**Profit/loss for the year before tax (I+II+III+IV-V-VI+VII-VIII+IX-X)**			**34,977,140**	**16,739,350**	**209.0**
	1.	Profit/loss for the period for non-life business		34,977,140	16,739,350	209.0
XIV.	**Tax on profit**			**1,467,243**	**1,514,883**	**96.9**
	1.1.	Tax on profit from non-life business		1,467,243	1,514,883	96.9
XV.	**Deferred tax**			**636,080**	**-967,436**	**-65.8**
	1.1.	Deferred tax for non-life business		636,080	-967,436	-65.8
XVI.	Net profit/loss for the period (XIII-XIV+XV)			32,873,817	16,191,902	203.0
	Breakdown of profit/loss					
	- From non-life insurance business			32,873,817	16,191,902	203.0

Statement of comprehensive income – continued

(€)			2016	2015	Index
D.	**Calculation of comprehensive income**				
I.	**Net profit/loss for the year**		**32,873,817**	**16,191,902**	**203.0**
II.	**Other comprehensive gain, net of tax (1+2+3+4+5+6+7+8+9+)**		**819,920**	**-1,377,871**	**-59.5**
	a)	Items that will not be reclassified subsequently to profit or loss	41,070	-26,975	-152.3
		5. Other items that will not be reclassified subsequently to profit or loss	44,864	-27,705	-161.9
		6. Tax on items that will not be reclassified subsequently to profit or loss	-3,794	730	-519.7
	b)	Items that may be reclassified subsequently to profit or loss	778,850	-1,350,896	-57.7
		1. Net gains/losses on remeasuring available-for-sale financial assets	1,050,990	-1,627,587	-64.6
		5. Tax on items that may be reclassified subsequently to profit or loss	-272,140	276,691	-98.4
III.	**Comprehensive income for the year, net of tax (I + II)**		**33,693,737**	**14,814,031**	**227.4**

Appendix C – Glossary of Selected Terms and Calculation Methods for Indicators

Accounting currency. A local currency used in the accounting documentation. Reinsurance contracts may be accounted for using various accounting currencies. Generally, this is the currency in which are denominated liabilities and receivables in relation to the cedant, and hence also the reinsurer.

Administrative expense ratio. The ratio of operating expenses net of acquisition costs and change in deferred acquisition costs as a percentage of gross premiums written.

Associate. An entity over which the investor has significant influence (the power to participate in the financial and operating policy decisions) and that is neither a subsidiary nor an interest in a joint venture.

Book value per share. Ratio of total equity to weighted average number of shares outstanding.

Business continuity plan. Document comrising procedures for ensuring continuity of key business processes and systems. The contingency plan is an integral part of the business continuity plan, setting out technical and organisational measures to return to normal operation and minimise the consequences of severe business disruptions.

BVAL price. Engl. Bloomberg valuation price. The price obtained from the Bloomberg information system.

Capital fund. Assets representing the capital of the Company.

CBBT price. Engl. Composite Bloomberg Bond Trader price. Closing price available in the Bloomberg information system based on binding bids.

Cedant, cede, cession. A cedant is the client of a reinsurance company. To cede is to transfer part of any risk an insurer has underwritten to a reinsurer. The part thus transferred to any reinsurer is called a cession.

Chief Operating Decision Maker (CODM). CODM may refer to a person responsible for monitoring an operating segment or to a group of persons responsible for allocating resources, and monitoring and assessing performance. CODM is a function and not a title.

Claims payments. Claims and benefits booked during a given period for claims resolved either fully or in part, including loss adjustment expenses. Gross/net – before/after deduction of reinsurance. **Gross claims paid are gross claims payments less subrogation receivables. Net claims paid is short for net claims payments.**

Claims risk. The risk that the number of claims or the average claim amount will be higher than expected.

Composite insurer. Insurer that writes both life and non-life business.

Comprehensive income. The sum of net profit for the period and other comprehensive income for the period, net of tax. The latter comprises the effects of other gains and losses not recognised in the income statement that affect equity, mainly through the fair value reserve.

Concentration risk. The risk that due to excessive concentration of investments in a geographic area, economic sector or issuer, unfavourable movements could result in a concurrent decrease in the value of investments.

Consolidated book value per share. Ratio of consolidated total equity to weighted average number of shares outstanding.

Consolidated earnings per share. Ratio of net profit/loss attributable to equity holders of the controlling company as a percentage of the weighted average number of shares outstanding.

Credit risk. The risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations.

Currency risk. The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

Dividend yield. Ratio of dividend per share to the price per share two days after the general meeting.

Earnings per share. Ratio of net profit/loss as a percentage of the weighted average number of shares outstanding.

EIOPA. European Insurance and Occupational Pensions Authority.

Eligible own funds. The value of own funds eligible to cover the solvency capital requirement.

Equity risk. The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.

Excess of loss reinsurance. A type of reinsurance in which the insurer agrees to pay a specified portion of a claim and the reinsurer agrees to pay all or a part of the claim above the specified currency amount or "retention".

Facultative reinsurance. A type of reinsurance under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks of the underlying policy. Typically used to reinsure large individual risks or for amounts in excess of limits on risks already reinsured elsewhere.

FATCA. Foreign Account Tax Compliance Act; for details see http://www.sava-re.si/en/o-druzbi/FATCA/

Financial investments. Financial investments do not include financial investments in associates, investment property nor cash and cash equivalents.

Gross claims paid. Claims and benefits booked during a given period for claims resolved either fully or in part, including loss adjustment expenses, and net of recourse receivables. Gross claims paid are claims before deduction of reinsurance.

Gross expense ratio. The ratio of operating expenses as a percentage of gross premiums written.

Gross incurred loss ratio. Gross claims paid, including the change in the gross provision for outstanding claims, as a percentage of gross premiums written gross of the change in gross unearned premiums.

Gross operating expenses. Operating expenses, excluding commission income.

Gross premiums written. The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Gross premiums written are premiums before deduction of reinsurance.

Gross/net. In insurance terminology, the terms gross and net usually denote figures before and after deduction of reinsurance.

IBNER. Provision for claims that are **Incurred But Not Enough Reported.**

IBNR. Provision for claims that are **Incurred But Not Reported.**

Insurance density. The ratio of gross premiums written as a percentage of the number of inhabitants.

Insurance penetration. The ratio of gross premiums written as a percentage of gross domestic product.

Interest rate risk. The sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

Investment portfolio. The investment portfolio includes financial investments in associates, investment property, and cash and cash equivalents.

Liability fund. Assets covering technical provisions.

Life insurance liability fund. Assets covering mathematical provisions.

Liquidity risk. The risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.

Market risks. Include interest rate risk, equity risk and currency risk.

Minimum capital requirement (MCR). The minimum capital requirement must be equal to the amount of eligible own funds under which policyholders, insured persons and other beneficiaries under insurance contracts would be exposed to an unacceptable risk level if the undertaking were allowed to continue operations.

Net claims incurred. Net claims payments (short: net claims paid) in the period gross of the change in the net provision for outstanding claims.

Net claims paid. Claims and benefits booked during a given period for claims resolved either fully or in part, including loss adjustment expenses, and net of recourse receivables and reinsurers' and co-insurers' share of claims paid. **Gross claims paid are gross claims payments less subrogation receivables.**

Net combined ratio. Ratio of total expenses net of investment expenses as a percentage of total income net of investment income.

Net expense ratio. The ratio of operating expenses, net of commission income, as a percentage of net earned premiums.

Net incurred loss ratio. Net claims incurred gross of the change in other technical provisions as a percentage of net premiums earned.

Net investment income of the investment portfolio. Calculated from income statements items: income from investments in subsidiaries and associates + investment income + income from investment property – expenses for investments in subsidiaries and associates – expenses for financial assets and liabilities – expenses for investment property. Income from and expenses for investment property are included in the other income / other expenses item. Net investment income of the investment portfolio does not include net unrealised gains/losses on investments of life insurance policyholders who bear the investment risk as these do not affect the income statement. These items move in line with the mathematical provision of policyholders who bear the investment risk.

Net operating expenses. Operating expenses net of commission income.

Net premiums earned. Net premiums written for a given period adjusted for the change in net unearned premiums.

Net premiums written. The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Net premiums written are premiums after deduction of reinsurance.

Net retention risk. The risk that higher retention of insurance loss exposures results in large losses due to catastrophic or concentrated claims experience.

Net/gross. In insurance terminology, the terms gross and net usually denote figures before and after deduction of reinsurance.

Non-proportional reinsurance (excess reinsurance). A reinsurance arrangement whereby the reinsurer indemnifies a ceding company above a specified level (usually a monetary amount) of losses that the ceding company has underwritten. A deductible amount is set and any loss exceeding that amount is paid by the reinsurer.

Operational limit. Operational limits for particular areas are determined on the basis of expressed risk tolerance limits. In absolute terms, this is the maximum amount acceptable for a particular risk so that the Company remains within its risk appetite framework.

Operational risk. The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

ORSA. Own risk and solvency assessment: an own assessment of the risks associated with an insurer's business and strategic plan, and the sufficiency of own funds to support those risks

OTC market. Engl. Over-The-Counter market. OTC market transactions are transactions outside the regulated market.

Paid loss ratio. The ratio of gross claims paid as a percentage of gross premiums written.

Premiums written. The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Gross/net – before/after deduction of reinsurance.

Pricing risk. The risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re) insurance contracts.

Primary insurer. Insurance company that has a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

Proportional reinsurance. A reinsurance arrangement whereby the reinsurer indemnifies a ceding company for a pre-agreed proportion of premiums and losses of each policy that the ceding company has underwritten. It can be subdivided into two main types: quota-share reinsurance and surplus reinsurance.

RBNS. Provision for claims that are **Reported But Not Settled.**

Recourse receivables. Amount of recourse claims which were recognised in the period as recourse receivables based on (i) any agreement with any third parties under recourse issues, (ii) court decisions, or (iii) for credit business – settlement of insurance claim.

Reputation risk. Risk of loss due to the Company's negative image as perceived by its policyholders, business partners, owners and investors, supervisors or other stakeholders.

Required solvency margin. The minimum solvency margin capital requirement calculated in accordance with the rules based on Solvency I. The capital level representing the first threshold that triggers measures related to the Insurance Supervision Agency in the event that it is breached.

Reserving risk. The risk that technical provisions will be inadequate.

Retention ratio. Ratio of net premiums written as a percentage of gross premiums written.

Retention. The amount or portion of risk (loss) that a ceding company retains for its own account, and does not reinsure. Losses and loss expenses in excess of the retention level are then paid by the reinsurer to the ceding company up to the limit of indemnity, if any, set out in the reinsurance contract. In proportional reinsurance, the retention may be a percentage of the original policy's limit. In non-proportional insurance, the retention is usually a monetary amount of loss, a percentage of loss or a loss-to-premium ratio.

Retrocession. The reinsurance bought by reinsurers; a transaction by which a reinsurer cedes risks to another reinsurer.

Return on equity (ROE). The ratio of net profit for the period as a percentage of average equity in the period.

Return on the investment portfolio. The ratio of net investment income of the investment portfolio to average invested assets. It includes the following statement of financial position items: investment property, financial investments in subsidiaries and associates, financial investments and cash and cash equivalents. The average amount is calculated based on figures at the financial statement date and at the end of the prior year.

Risk appetite. The level of risk that a company is willing to take in pursuit of its strategic objectives. It is determined based on the acceptable solvency ratio, ratio of high-quality liquid assets as a percentage of the investment portfolio, profitability of insurance products and reputation risk.

Risk register. Catalogue of all identified risks maintained regularly updated by the Company.

Solvency capital requirement (SCR). Level of capital calculated as prescribed by law based on all measurable risks, including life and non-life insurance risk, health insurance risk, market risk, counterparty default risk and operational risk.

Solvency ratio. The ratio of eligible own funds as a percentage of the SCR. A solvency ratio in excess of 100 per cent indicates that the firm has sufficient resources to meet the SCR.

Solvency ratio. The ratio of the available solvency margin as a percentage of the required solvency margin.

Standard formula. Formulas laid down by Solvency II regulations for the calculation of the Solvency Capital Requirement.

Strategic risk. Risk of unexpected decline in the company's value due to adverse impact of wrong business decisions, changes to the business or legal environment and market development.

Subsidiary entity. An entity that is controlled by another entity.

Transaction currency. The currency in which reinsurance contract transactions are processed.

Underwriting result. Profit or loss realised from insurance operations as opposed to that realised from investments or other items.

Underwriting risk. The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

Unearned premiums. The portion of premiums written that applies to the unexpired portion of the policy period and is attributable to and recognised as income in future years.

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