21 Auditor's report

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 2018, 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 2018 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) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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.

<u>Estimations concerning premium recognition, technical provisions, reinsurance assets and liabilities</u>

The 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 technical provisions for business outside and inside Sava Re Group, taking into account estimated premium income (EPI) and estimated combined ratios (CR).

Those estimates also influence other significant areas within the financial statements, such as gross premium income and its related reinsurance receivables, commission and its related reinsurance liabilities and technical provisions. Premium estimates are made based on estimated premium income (EPI) for reinsurance contracts which, according to due dates, are already in force, although the Company has yet to receive reinsurance accounts on December 31.

The Company prepares back testing analyses to assess the correctness of previous period assumption and builds projections on experience. Estimates are made depending on differences between annually estimated CR and actual CR on a contract level. Additionally, incurred but not reported claims (IBNR) are calculated independently by the Company to confirm reasonability of ceded amounts, using development triangles of cumulative claim payments by underwriting year.

Due to the significant level of assumptions involved in the estimations made by the underwriters and the actuary we consider this matter to be significant for our audit and a key audit matter.
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 performed detailed analytical procedures on estimations related to premiums, commissions and technical provisions and assessed the experience (back testing) analysis 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 reviewed the methodology and assumptions used by the Company to establish its IBNR losses and performed recalculation of Company's IBNR losses for a sample of the most significant lines of business. We reviewed the methodology used by the Company to calculate claim provisions established by estimation using actuarial methods. Furthermore, we performed a comparison between changes in IBNR losses in 2018 and actually liquidated claims in 2018 on a contract level. For any unexpected deviations in changes between IBNR losses and liquidated claims, we inquired with the management and obtained explanations. We performed additional testing procedures on a sample of reported but not settled losses (RBNS) to assess their adequacy. We verified the appropriateness of the valuation of unearned premium reserves (UPR) by detailed analytical procedures on estimations related to premiums, where we assessed the experience (back testing) analysis performed by the Company in their assumption setting processes. We also 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 23.2.21 Technical provisions and 23.6.18 Technical provisions of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

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.

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.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Company on 30 August 2016, our appointment was confirmed upon signing of engagement letter for audit of statutory financial statements on 28 October 2016. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 27 March 2019.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services were provided by us to the Company and its controlled undertakings.

Ljubljana, 28 March 2019

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

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

22 Financial statements

22.1 Statement of financial position

(EUR)	Notes	31/12/2018	31/12/2017
ASSETS		**606,331,055**	**580,886,180**
Intangible assets	**1**	**892,724**	**807,011**
Property, plant and equipment	**2**	**2,654,540**	**2,485,645**
Deferred tax assets	**3**	**1,867,370**	**1,238,826**
Investment property	**4**	**8,285,733**	**8,230,878**
Financial investments in subsidiaries and associates	**5**	**220,219,086**	**193,409,578**
Financial investments:	**6**	**244,291,434**	**250,781,685**
- loans and deposits		10,107,498	12,840,885
- held to maturity		2,075,425	2,075,111
- available for sale		228,151,616	235,456,116
- at fair value through profit or loss		3,956,895	409,573
Reinsurers' share of technical provisions	**7**	**21,437,221**	**20,073,571**
Receivables	**8**	**87,830,299**	**88,602,395**
Receivables arising out of primary insurance business		82,518,635	85,167,822
Receivables arising out of co-insurance and reinsurance business		4,842,279	3,202,926
Other receivables		469,385	231,647
Deferred acquisition costs	**9**	**7,821,932**	**7,778,499**
Other assets	**10**	**379,264**	**799,634**
Cash and cash equivalents	**11**	**10,651,452**	**6,678,458**

(EUR)	Notes	31/12/2018	31/12/2017
EQUITY AND LIABILITIES		**606,331,055**	**580,886,180**
Equity		**319,355,361**	**290,966,155**
Share capital	12	71,856,376	71,856,376
Capital reserves	13	54,239,757	54,239,757
Profit reserves	14	184,424,862	163,491,114
Own shares	15	-24,938,709	-24,938,709
Fair value reserve	16	2,697,381	3,804,764
Reserve due to fair value revaluation		40,772	13,524
Retained earnings	17	10,101,172	6,012,233
Net profit or loss for the period	17	20,933,749	16,487,096
Technical provisions	**18**	**234,173,078**	**232,639,163**
Unearned premiums		47,147,505	47,602,457
Provision for outstanding claims		185,988,628	184,269,492
Other technical provisions		1,036,945	767,214
Other provisions	**19**	**376,521**	**351,250**
Other financial liabilities	**10**	**87,504**	**91,182**
Liabilities from operating activities	**20**	**49,185,680**	**54,404,921**
Liabilities from primary insurance business		44,039,129	51,160,114
Liabilities from reinsurance and co-insurance business		3,149,394	3,090,008
Current income tax liabilities		1,997,157	154,799
Other liabilities	**21**	**3,152,911**	**2,433,509**

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

22.2 Income statement

(EUR)	Notes	2018	2017
Net earned premiums	**23**	**133,740,178**	**130,864,620**
Gross premiums written		151,636,216	153,219,752
Written premiums ceded to reinsurers and co-insurers		-18,407,793	-18,907,314
Change in gross unearned premiums		454,952	-4,257,043
Change in unearned premiums, reinsurers' and co-insurers' shares		56,803	809,225
Income from investments in subsidiaries and associates	**24**	**33,558,455**	**26,136,830**
Investment income	**25**	**10,953,196**	**9,652,630**
Interest income		3,589,693	3,895,944
Other investment income		7,363,502	5,756,686
Other technical income	**26**	**8,964,961**	**6,098,385**
Commission income		2,530,359	1,934,678
Other income		6,434,602	4,163,707
Other income	**27**	**701,331**	**444,136**
Net claims incurred	**28**	**-76,604,633**	**-78,583,967**
Gross claims payments, net of income from recourse receivables		-82,687,678	-83,525,449
Reinsurers' and co-insurers' shares		6,495,334	5,982,760
Change in the gross claims provision		-1,719,136	-2,101,712
Change in the provision for outstanding claims, reinsurers' and co-insurers' shares		1,306,847	1,060,434
Change in other technical provisions	**29**	**-268,920**	**-158,608**
Expenses for bonuses and rebates	**29**	**-811**	**85,678**
Operating expenses	**30**	**-47,563,317**	**-43,113,125**
Acquisition costs		-34,848,052	-33,185,632
Change in deferred acquisition costs		43,433	880,778
Other operating expenses		-12,758,699	-10,808,271
Expenses for investments in subsidiaries and associates	**24**	**-4,020,539**	**0**
Expenses for financial assets and liabilities	**25**	**-8,496,351**	**-10,551,329**
Impairment loss on financial assets not measured at fair value through profit or loss		-1,943,974	-320,000
Interest expenses		0	-718,338
Other expenses		-6,552,377	-9,512,991
Other technical expenses	**31**	**-5,662,287**	**-5,876,562**
Other expenses	**27**	**-279,399**	**-234,824**
Profit or loss before tax		**45,021,864**	**34,763,864**
Income tax expense	**32**	**-3,154,368**	**-1,789,672**
Net profit or loss for the period		**41,867,497**	**32,974,192**
Earnings/loss per share (basic and diluted)	**17**	**2.70**	**2.13**

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

22.3 Statement of other comprehensive income

(EUR)	2018	2017
PROFIT OR LOSS FOR THE PERIOD, NET OF TAX	**41,867,497**	**32,974,192**
OTHER COMPREHENSIVE INCOME, NET OF TAX	**-1,080,134**	**34,501**
a) Items that will not be reclassified subsequently to profit or loss	**27,248**	**15,289**
Other items that will not be reclassified subsequently to profit or loss	29,779	16,894
Tax on items that will not be reclassified subsequently to profit or loss	-2,531	-1,605
b) Items that may be reclassified subsequently to profit or loss	**-1,107,383**	**19,213**
Net gains/losses on remeasuring available-for-sale financial assets	**-1,367,140**	**23,719**
Net change recognised in the fair value reserve	-1,165,440	692,156
Net change transferred from fair value reserve to profit or loss	-201,700	-668,437
Tax on items that may be reclassified subsequently to profit or loss	259,758	-4,506
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**40,787,363**	**33,008,694**

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

22.4 Cash flow statement

(EUR)	Notes	2018	2017
A. Cash flows from operating activities			
a.) Items of the income statement	**34**	**10,485,469**	**12,020,532**
1. Net premiums written in the period	23	133,228,423	134,312,438
2. Investment income (other than financial income)	25	5,677	10,175
3. Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	26.27	9,666,292	6,542,519
4. Net claims payments in the period	28	-76,192,344	-77,542,688
5. Expenses for bonuses and rebates	29	-811	85,678
6. Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	30	-47,125,714	-43,573,077
7. Investment expenses (excluding amortisation and financial expenses)	25	0	-422
8. Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	32	-5,941,686	-6,024,419
9. Tax on profit and other taxes not included in operating expenses	33	-3,154,368	-1,789,671
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		**-4,866,086**	**3,625,406**
1. Change in receivables from primary insurance	8	2,649,187	-85,167,822
2. Change in receivables from reinsurance	8	-1,639,353	76,400,625
4. Change in other receivables and other assets	8	182,632	-248,958
5. Change in deferred tax assets	3	-628,544	134,610
7. Change in liabilities arising out of primary insurance	20	-7,120,985	51,160,115
6. Change in liabilities arising out of reinsurance business	20	59,386	-40,633,836
7. Change in other operating liabilities	21	882,308	2,168,441
8. Change in other liabilities (except unearned premiums)	21	749,283	-187,768
c.) Net cash from/used in operating activities (a + b)		**5,619,383**	**15,645,938**

(EUR)	Notes	2018	2017
B. Cash flows from investing activities			
a.) Cash receipts from investing activities		**998,709,965**	**762,460,219**
1. Interest received from investing activities	26	3,589,693	3,895,945
2. Cash receipts from dividends and participation in the profit of others	26	34,234,600	26,755,664
4. Proceeds from sale of property, plant and equipment		12,319	9,879
5. Proceeds from sale of financial investments		960,873,353	731,798,731
b.) Cash disbursements in investing activities		**-987,958,197**	**-740,531,828**
1. Purchase of intangible assets		-326,455	-269,153
2. Purchase of property, plant and equipment		-396,476	-208,526
3. Purchase of financial investments		-987,235,267	-740,054,149
c.) Net cash from/used in investing activities (a + b)		**10,751,768**	**21,928,391**
C. Cash flows from financing activities			
b.) Cash disbursements in financing activities		**-12,398,157**	**-38,885,691**
1. Interest paid		0	-718,338
3. Repayment of long-term financial liabilities		0	-24,000,000
4. Repayment of short-term financial liabilities		0	-1,769,196
5. Dividends and other profit participations paid		-12,398,157	-12,398,157
c.) Net cash from/used in financing activities (a + b)		**-12,398,157**	**-38,885,691**
C2. Closing balance of cash and cash equivalents		**10,651,452**	**6,678,458**
x) Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)		**3,972,994**	**-1,311,361**
y) Opening balance of cash and cash equivalents		**6,678,458**	**7,989,819**

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

22.5 Statement of changes in equity for the year ended 31 December 2018

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves				IV. Fair value reserve	Reserve due to fair value revaluation	V. Retained earnings	VI. Net profit or loss for the period	VII. Own shares (contra account)	Total (1–13)
			Legal reserves and reserves provided for in the articles of association	Reserve for own shares	Catastrophe equalisation reserve	Other						
	1.	2.	4.	5.	7.	8.	9.	10.	11.	12.	13.	14.
Closing balance in previous financial year	**71,856,376**	**54,239,757**	**14,986,525**	**24,938,709**	**10,000,000**	**113,565,881**	**3,804,764**	**13,524**	**6,012,233**	**16,487,096**	**-24,938,709**	**290,966,155**
Opening balance in the financial period	**71,856,376**	**54,239,757**	**14,986,525**	**24,938,709**	**10,000,000**	**113,565,881**	**3,804,764**	**13,524**	**6,012,233**	**16,487,096**	**-24,938,709**	**290,966,155**
Comprehensive income for the period, net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**-1,107,383**	**27,248**	**0**	**41,867,497**	**0**	**40,787,363**
a) Net profit or loss for the period	0	0	0	0	0	0	0	0	0	41,867,497	0	41,867,497
b) Other comprehensive income	0	0	0	0	0	0	-1,107,383	27,248	0	0	0	-1,080,134
Dividend payouts	0	0	0	0	0	0	0	0	-12,398,157	0	0	-12,398,157
Allocation of net profit to profit reserve	0	0	0	0	0	20,933,748	0	0	0	-20,933,748	0	0
Transfer of profit	0	0	0	0	0	0	0	0	16,487,096	-16,487,096	0	0
Closing balance in the financial period	**71,856,376**	**54,239,757**	**14,986,525**	**24,938,709**	**10,000,000**	**134,499,629**	**2,697,381**	**40,772**	**10,101,172**	**20,933,748**	**-24,938,709**	**319,355,361**

22.6 Statement of changes in equity for the year ended 31 December 2017

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves				IV. Fair value reserve	Reserve due to fair value revaluation	V. Retained earnings	VI. Net profit or loss for the period	VII. Own shares (contra account)	Total (1–13)
			Legal reserves and reserves provided for in the articles of association	Reserve for own shares	Catastrophe equalisation reserve	Other						
	1.	2.	4.	5.	7.	8.	9.	10.	11.	12.	13.	14.
Closing balance in previous financial year	**71,856,376**	**54,239,757**	**14,986,525**	**24,938,709**	**10,000,000**	**97,078,786**	**3,785,553**	**-1,765**	**9,283,163**	**9,127,228**	**-24,938,709**	**270,355,622**
Opening balance in the financial period	**71,856,376**	**54,239,757**	**14,986,525**	**24,938,709**	**10,000,000**	**97,078,786**	**3,785,553**	**-1,765**	**9,283,163**	**9,127,228**	**-24,938,709**	**270,355,622**
Comprehensive income for the period, net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**19,213**	**15,289**	**0**	**32,974,192**	**0**	**33,008,693**
a) Net profit or loss for the period	0	0	0	0	0	0	0	0	0	32,974,192	0	32,974,192
b) Other comprehensive income	0	0	0	0	0	0	19,213	15,289	0	0	0	34,502
Dividend payouts	0	0	0	0	0	0	0	0	-12,398,157	0	0	-12,398,157
Allocation of net profit to profit reserve	0	0	0	0	0	16,487,096	0	0	0	-16,487,096	0	0
Transfer of profit	0	0	0	0	0	0	0	0	9,127,228	-9,127,228	0	0
Closing balance in the financial period	**71,856,376**	**54,239,757**	**14,986,525**	**24,938,709**	**10,000,000**	**113,565,880**	**3,804,764**	**13,524**	**6,012,233**	**16,487,096**	**-24,938,709**	**290,966,155**

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

23 Notes to the financial statements

23.1 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"), it is classified as a large company.

The business address of Sava Re d.d. is Dunajska cesta 56, Ljubljana, Slovenia.

In the 2018 financial year, the Company had on average 103.3 (2017: 95.5) full-time equivalent employees. As at 31 December 2018, it had 110 (31/12/2017: 97) full-time equivalent employees. Data on employees in regular employment by various criteria are given in section 20.3 "Human resources management".

Qualification profile of employees (full-time equivalent basis)

	2018	2017
Secondary education	13	13
Higher education	5	4
University education	73	61
Master's degree and doctorate	19	19
Total	**110**	**97**

The bodies of the Company are the general meeting, the supervisory board and the management board.

As at 31 December 2018, the largest shareholder of the Company was Slovenian Sovereign Holding (former Slovenian Restitution Fund) with a 17.7% stake. The second largest shareholder is Zagrebačka Banka (custodial account) with a 14.2% stake, and the third largest the Republic of Slovenia with a 10.1% stake. Below the table "Ten largest shareholders at 31 December 2018" 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 its approval.

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.

Sava Re is the controlling company of the Sava Re Group, which comprises also the following companies:

Subsidiaries as at 31 December 2018

(EUR)	Activity	Registered office	Assets	Liabilities	Equity as at 31 December 2018	Profit or loss for 2018	Total income	Share of voting rights (%)
Zavarovalnica Sava	insurance	Slovenia	1,116,725,121	965,579,104	151,146,017	29,540,622	369,578,351	100.00%
Sava Neživotno Osiguranje (SRB)	insurance	Serbia	37,424,870	23,539,092	13,885,778	1,049,526	19,382,373	100.00%
Illyria	insurance	Kosovo	16,282,240	12,497,895	3,784,345	-390,799	9,275,173	100.00%
Sava Osiguruvanje (MKD)	insurance	North Macedonia	21,605,383	15,711,159	5,894,224	391,284	12,279,274	92.57%
Sava Osiguranje (MNE)	insurance	Montenegro	24,107,226	17,795,094	6,312,132	1,943,280	12,967,612	100.00%
Illyria Life	insurance	Kosovo	10,951,393	6,274,659	4,676,734	305,169	2,373,425	100.00%
Sava Životno Osiguranje (SRB)	insurance	Serbia	7,556,316	4,051,087	3,505,229	-168,562	2,551,457	100.00%
Illyria Hospital	currently none	Kosovo	1,800,736	4,495	1,796,241	-6	0	100.00%
Sava Car	technical research and analysis	Montenegro	739,077	169,564	569,513	-2,476	729,633	100.00%
ZM Svetovanje	consulting and marketing of insurances of the person	Slovenia	159,874	81,844	78,030	16,513	958,813	100.00%
Ornatus KC	ZS call centre	Slovenia	40,797	19,260	21,537	-5,316	216,000	100.00%
Sava Agent	insurance agency	Montenegro	1,970,854	1,853,597	117,257	80,911	701,752	100.00%
Sava Station	motor research and analysis	North Macedonia	343,772	24,715	319,057	29,778	160,281	92.57%
Sava Pokojninska Družba	pension fund	Slovenia	151,140,812	144,024,695	7,116,117	258,571	4,181,039	100.00%
TBS Team 24	assistance service provider and customer care	Slovenia	2,370,342	1,577,490	792,852	759,757	10,219,623	75.00%
Sava Penzisko Društvo	pension fund management	North Macedonia	8,842,761	352,077	8,490,684	1,133,199	2,935,355	100.00%
Sava Terra	leasing and operation of own and leased property	Slovenia	3,801,526	1,953,108	1,848,418	-147,863	160,196	100.00%

Subsidiaries as at 31 December 2017

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31/12/2017	Profit/loss for 2017	Total income	Share of voting rights (%)
Zavarovalnica Sava	insurance	Slovenia	1,151,811,161	993,756,083	158,055,078	25,080,999	344,712,649	100.00%
Sava Neživotno Osiguranje (SRB)	insurance	Serbia	28,216,687	22,507,562	5,709,125	435,559	16,463,580	100.00%
Illyria	insurance	Kosovo	15,577,678	11,538,509	4,039,169	223,576	7,689,674	100.00%
Sava Osiguruvanje (MKD)	insurance	North Macedonia	22,867,851	17,374,464	5,493,387	358,257	12,277,755	92.57%
Sava Osiguranje (MNE)	insurance	Montenegro	23,036,708	17,241,924	5,794,784	1,232,772	12,124,229	100.00%
Illyria Life	insurance	Kosovo	12,699,600	8,502,872	4,196,728	230,850	2,038,449	100.00%
Sava Životno Osiguranje (SRB)	insurance	Serbia	6,645,739	3,162,191	3,483,548	-818,333	2,058,571	100.00%
Illyria Hospital	currently none	Kosovo	1,800,742	4,579	1,796,163	-114	0	100.00%
Sava Car	technical research and analysis	Montenegro	634,723	42,188	592,535	-3,991	724,473	100.00%
ZM Svetovanje	consulting and marketing of insurances of the person	Slovenia	126,917	203,900	-76,983	-194,224	737,056	100.00%
Ornatus KC	ZS call centre	Slovenia	48,314	21,461	26,853	15,853	216,000	100.00%
Sava Agent	insurance agency	Montenegro	2,100,120	1,798,730	301,390	112,971	651,469	100.00%
Sava Station	motor research and analysis	North Macedonia	316,750	25,614	291,136	39,731	175,454	92.57%
Sava Pokojninska	pension fund	Slovenia	144,935,935	136,508,976	8,426,959	420,256	4,269,651	100.00%

Associates as at 31 December 2018

(EUR)	31/12/2018
ZTSR	
Assets	220,564
Liabilities	15,444
Equity	205,120
Income	0
Profit or loss for the period	-44,880
Portion of profit or loss belonging to the Group	-22,440
G2I	
Assets	813,069
Liabilities	5,266
Equity	807,803
Income	121
Profit/loss for the period	-193,050
Portion of profit or loss belonging to the Group	-33,784

23.2 Significant accounting policies

Below is a presentation of significant accounting policies applied in the preparation of the financial statements. In 2018, the Company applied the same accounting policies as in 2017.

23.2.1 Statement of compliance

Sava Re has prepared both separate and consolidated financial statements for the year ended 31 December 2018. 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 audited financial statements on 28 March 2019.

23.2.2 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.

23.2.3 Functional and presentation currency

The financial statements are presented in euros (EUR), 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 2018 denominated in foreign currencies have been translated into euros using the mid-rates of the European Central Bank (hereinafter: "ECB") as at 31 December 2018. Amounts in the income statement have been translated using the exchange rate on the day of the transaction. As at 31 December 2018 and 31 December 2017, 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.

23.2.4 Use of major accounting estimates and sources of uncertainty

Assumptions and other sources of uncertainty of estimates 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 23.2.13 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 23.2.16. 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 23.2.14. Movements in investments and their classification are shown in note 6, while the associated income and expenses, and impairment, are shown in note 25.

Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are shown in section 23.2.19. Movements in these provisions are shown in note 18.

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 contractual due dates, have already accrued, although the Company has yet to receive reinsurance accounts. These items include: premiums, claims, commissions, unearned premiums, claims provisions and deferred acquisition costs.

23.2.5 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 2018, which is EUR 6.4 million. The disclosures and notes required to meet regulatory or statutory requirements are presented, despite their being below the materiality threshold.

23.2.6 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 2018 statement of financial position and income statement, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities are shown based on actual disbursements. Items relating to changes in net operating assets are shown in net amounts.

23.2.7 Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the period. Profit reserves also include technical provisions that are inherently provisions for future risks and not liabilities according to IFRSs, i.e. the catastrophe equalisation reserve.

23.2.8 Intangible assets

Intangible assets are stated at cost, plus any costs 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 5 years.

23.2.9 Property, plant and equipment

Property, plant and equipment assets are initially recognised at cost, plus any 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, plant 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, plant and equipment assets to be allocated over their estimated useful lives.

Depreciation rates of property, plant 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, plant and equipment, calculated as the difference between sales proceeds and carrying amounts, are included in profit or loss. The costs of property, plant and equipment maintenance and repairs are recognised in profit or loss as incurred. Investments in property, plant and equipment assets that increase future economic benefits are recognised in their carrying amount.

23.2.10 Right to use underlying assets during lease terms

As of 1 January 2019, the Company will include under assets the right to use lease assets as the present value of future lease payments due to the implementation of the new standard IFRS 16. The carrying amounts of the right-of-use assets will be reduced by means of adjustments equalling the remaining lease payments or amortisation calculated in view of the lease term. The Company will recognise lease payments relating to short-term and low-value leases as an expense.

23.2.11 Deferred tax assets and liabilities

Based on medium-term business projections, the Company expects to make a profit and it therefore meets the requirement for recognising deferred tax assets.

The Company recognises deferred tax assets for temporary non-deductible impairments of portfolio securities, allowances for receivables, any unused tax losses and provisions for employees. Deferred tax liabilities were recognised for 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 arising on the calculation of provisions for severance payments. Actuarial gains/losses and the related deferred tax assets and liabilities affect comprehensive income.

The rate of corporate income tax is 19% (2017: 19%).

23.2.12 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.

23.2.13 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 voting rights and which the Company controls, i.e. has the power to control their 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 are based on the business plans approved by the management for the period until and including 2023, as well as on extrapolations of growth rates for an additional five-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 insurance company-specific risks. The recoverable amount of each cash-generating unit so calculated has been compared against its carrying amount.

Key assumptions used in cash flow projections with calculations of the value in use

Discounted cash flow projections are based on the Group's business plans covering a 10-year period (strategic business plans for individual companies for the period 2019–2023 with a further five-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 rise, 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 (COE), using the capital asset pricing model (CAPM). It is based on the interest rate applying to risk-free securities and equity premium, as well as insurance industry prospects. Added is a country risk premium and a smallness factor.

Discount rates used in 2018 ranged from 12.7% to 14.2%.

Subsidiaries have been valued using a long-term growth rate ranging from 2.5% to 3.0% to calculate the residual value. This rate is based on long-term inflation expected for the market in which a subsidiary operates, and on the long-term growth expected for the industry. In this, the long-term growth rate is compared against the risk-free rate of return (of a subsidiary), and may never exceed such risk-free rate of return as adjusted for inflation.

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 17.4.9 of the consolidated financial statements with notes.

23.2.14 Financial investments

23.2.14.1 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.

23.2.14.2 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 other 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.

23.2.14.3 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 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).

23.2.14.3.1 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.

23.2.14.3.2 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;
- 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.

23.2.14.4 Measurement of fair value

The Company measures all financial instruments at fair value, except for deposits, shares not quoted in a regulated market, loans and subordinated debt (assuming that their carrying amount is a reasonable approximation of their fair value), as well as 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 is set out in note 22. 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 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 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 the IFRS 13 fair value hierarchy especially based on the availability of market information, which is determined by the relative levels of trading in 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 IFRS 13 fair value hierarchy, which categorises the inputs to the fair value measurement into the following three levels:

- Level 1: financial investments 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 whose fair value is determined using data that are directly or indirectly observable other than the prices quoted within level 1.
- Level 3: financial investments for which observed market data are unavailable. Their 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 of 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) the end of the reporting period.

23.2.15 Reinsurers' share of technical provisions

Reinsurers' share of technical provisions comprises the reinsurers' share of unearned premiums and of technical provisions. Their 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 such contracts, and is determined 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 23.5.2.6 "Retrocession programme".

23.2.16 Receivables

Receivables include receivables for gross premiums written and receivables for claims and commissions relating to retrocession business.

23.2.16.1 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 23.2.23 "Net premiums earned" and 23.2.24 "Net claims incurred".

23.2.16.2 Impairment of receivables arising out of reinsurance business

The Company transacts its core reinsurance business exclusively with legal entities. Before entering a business relationship with a prospective client, especially if foreign, the Company carefully reviews its credit standing with regard to predefined criteria. If these are not met, the case is referred to the Company's credit rating committee, which issues an opinion on whether the credit standing is adequate. 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.

23.2.17 Deferred acquisition costs

The Company discloses deferred commissions under deferred acquisition costs. These are invoiced 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.

23.2.18 Other assets

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

23.2.19 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.

23.2.20 Equity

Composition:

- share capital, i.e. the par value of paid-up ordinary shares expressed in euro;
- capital reserves, i.e. amounts paid up in excess of the par value of shares;
- profit reserves, i.e. reserves provided for by the articles of association, legal reserves, reserves for own shares, credit risk and catastrophe equalisation reserves and other profit reserves;
- own 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 when 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 the calculation of technical provisions for financial reporting purposes. 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.

23.2.21 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: mostly on 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. They comprise provisions for incurred claims, both reported and unreported (IBNR). They are set aside 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, observing the terms of relevant reinsurance contracts. 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. 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 calculates these provisions on the basis of reinsurance accounts for quota share reinsurance treaties with Group cedants.

Other technical provisions include 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 is based on the weighted average of the combined ratios realised in the last three to five years, which are also trend-adjusted. The calculation of the realised combined ratios is 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.

23.2.22 Other provisions

Other provisions comprise the net present value of employee benefits including severance payments 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).

They are calculated based on personal data of employees: date of birth, date of commencement of employment, anticipated retirement and salary. Entitlement to severance payments upon retirement and to jubilee benefits is based on the provisions of the collective bargaining agreement or individual employment contracts. 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 (based on 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, the Company concluded a contract in 2001 setting up a pension insurance scheme as part of the voluntary pension system, and has been making monthly contributions to it since then.

23.2.23 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 from inwards reinsurance contracts, liabilities for retained deposits, amounts due to employees, amounts due to clients and other short-term liabilities.

Lease liabilities are recognised by the Company in the same amount as the right to use the underlying assets. Liabilities are increased to reflect interest expense from discounting of lease payments, and reduced to reflect lease payments.

Provisions for unexpended annual leave are recognised under accruals and deferrals. Unexpended leave may be used by no later than 30 June of the succeeding year.

23.2.24 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 investment 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. All its reinsurance contracts are accordingly designated 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.

23.2.25 Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of inflows or increase 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 contractual due dates, have already accrued, although the Company has yet to receive reinsurance accounts, or which are recognised on the basis of received estimates of final premiums that are yet to fall due according to contractual due dates. These items are used to calculate earned premiums in the income statement.

23.2.26 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 outflows or decrease 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 also into account estimated claims and provisions for outstanding claims. Estimates are made on the basis of amounts in reinsurance contracts, which, according to contractual 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.

23.2.27 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 payout is authorised in accordance with the relevant general meeting resolution of any subsidiary or associate.

23.2.28 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 fair value and gains on disposal of investments designated at fair value through profit or loss,
- gains on 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 above income and expenses are shown 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.

23.2.29 Operating expenses

Operating expenses comprise:

- acquisition costs: these are reinsurance commissions recognised based on reinsurance accounts and estimates obtained from estimated premiums and contractually agreed commission rates;
- change in deferred acquisition costs: deferred costs comprise deferred reinsurance commission expenses. These are invoiced commissions relating to the next financial year. They are recognised based on reinsurance accounts and estimates obtained from estimated commissions taking into account straight-line amortisation;
- other operating expenses classified by nature, as follows:
  i. depreciation/amortisation of operating assets,
  ii. personnel costs including employee salaries, social and pension insurance costs and other personnel costs,
  iii. remuneration of the supervisory board and audit committee; and payments under contracts for services,
  iv. other operating expenses relating to services and materials.

23.2.30 Other technical income

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

23.2.31 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 deferred tax for these items is also shown in equity. 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 19% (2017: 19%).

23.3 Changes in accounting policies and presentation

In 2018, the Company did not change its accounting policies.

23.4 Standards and interpretations issued but not yet effective, and new standards and interpretations

The accounting policies applied by the Company in preparing its financial statements are consistent with those of the previous financial year, except for the following new or amended IFRSs adopted by the Company for annual periods beginning on or after 1 January 2018.

Amended standards that are already effective

IFRS 9 Financial Instruments

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard and considers postponing the application of IFRS 17 Insurance Contracts.

Due to the adoption of the new standard on insurance contracts, IFRS 17, insurance companies may apply the standard as of 1 January 2021. Late application is conditional upon the carrying amount of liabilities arising out of insurance business exceeding 90% of the total carrying amount of liabilities. The satisfaction of this condition was tested as at 31 December 2015. The calculation is shown in the table below. There have been no changes that would have any significantly effect on the satisfaction of the condition since 31 December 2015.

(EUR)	31/12/2015	As % of total liabilities
Technical provisions and liabilities from operating activities	268,773,864	94.7%
Technical provisions and liabilities from operating activities	268,773,864	94.7%
Liabilities under insurance contracts subject to IFRS 4	**268,773,864**	**94.7%**
Other liabilities	**14,899,307**	**5.3%**
Total liabilities*	**283,673,171**	**100.0%**

* Excluding equity, junior bonds and investment contract liabilities.

(EUR)	31/12/2018	As % of total liabilities	31/12/2017	As % of total liabilities
Technical provisions and liabilities from operating activities	281,361,601	98.0%	286,889,285	99.0%
Liabilities under contracts subject to IFRS 4	**281,361,601**	**98.0%**	**286,889,285**	**99.0%**
Other liabilities	**5,614,093**	**2.0%**	**3,030,740**	**1.0%**
Total liabilities*	**286,975,694**	**100%**	**289,920,025**	**100%**

* Excluding equity.

The following table shows SPPI test data on investment contracts.

(EUR)	SPPI financial assets			Other financial assets		
	Fair value as at 31/12/2017	Change in fair value	Fair value as at 31/12/2018	Fair value as at 31/12/2017	Change in fair value	Fair value as at 31/12/2018
Debt securities	223,409,332	-6,778,087	216,631,245	2,012,445	2,509,356	4,521,801
Equity securities	0	0	0	13,261,608	422,880	13,684,488
Derivatives	0	0	0	0	0	0
Loans and deposits	7,737,189	-3,754,586	3,982,602	0	0	0
Cash and cash equivalents	6,678,458	3,972,993	10,651,451	0	0	0
Total	**237,824,979**	**-6,559,681**	**231,265,298**	**15,274,053**	**2,932,236**	**18,206,289**

Credit rating of SPPI assets as at 31/12/2018						
(EUR)	Total	AAA	AA/A	BBB	BB/B	Not rated
Debt securities	215,977,646	77,950,080	98,067,601	37,292,717	2,579,301	87,948
Loans and deposits	3,832,188	0	0	0	0	3,832,188
Cash and cash equivalents	10,651,451	0	0	0	5,277,338	5,374,113
Total	**230,461,285**	**77,950,080**	**98,067,601**	**37,292,717**	**7,856,640**	**9,294,248**

(EUR)	SPPI assets that do not have a low credit risk	
	Fair value as at 31/12/2018	Carrying amount as at 31/12/2018
Debt securities	2,667,249	2,667,249
Loans and deposits	3,090,072	3,090,072
Cash and cash equivalents	5,277,338	5,277,338
Total	**11,034,660**	**11,034,660**

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Company's ordinary activities (e.g., sale of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The management has assessed that the Company is exempted from the application of the standard as it applies IFRS 4 Insurance Contracts, IAS 39 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements, and IAS 28 Investments in Associates and Joint Ventures.

IFRS 15 Revenue from Contracts with Customers (Clarifications)

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent, as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The management has assessed that the Company is exempted from the application of the standard.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — (Amendments)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations, and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The management has assessed the effect and believes that the Amendments will have no significant effect on the Company's financial statements.

IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)

The Amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard IFRS 17, which is currently being developed and covers insurance contracts. The new standard is 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, which would permit entities issuing contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. Regarding the implementation of IFRS 9, the management has opted to apply the temporary exemption from this standard until the coming into force of IFRS 17.

IAS 40 Transfers to Investment Property (Amendments)

The Amendments clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

IFRIC INTERPETATION 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration 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. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The management has assessed the effect and believes that the enforcement of the amendments will have no significant effect on the Company's financial statements.

Issued Annual Improvements

The IASB has issued the Annual Improvements to IFRSs 2014–2016 Cycle, which is a collection of amendments to IFRSs. The management has assessed the effect and believes that the enforcement of the amendments will have no significant effect on the Company's financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

IAS 28 Investments in Associates and Joint Ventures

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.

Standards issued but not yet effective and not early adopted by the Company

IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) or lessor. The new standard requires that most lease contracts are recognised in an entity's financial statements. Except for few exceptions, lessees will be able to use a uniform accounting model for all of the lease contracts. Lessor accounting is substantially unchanged. The management has assessed this impact on the financial statements.

As of 1 January 2019, the Company will recognise right-to-use assets on long-term leases (more than one year) in excess of USD 5,000 in accordance with IFRS 16, which applies as of 1 January 2019. The Company has reviewed all of its lease contracts, examining the right to control certain assets during a certain period. The lease term is set by the contract or determined as the non-cancellable period of lease together with the option to extend the lease. The Company calculates the right to use an underlying asset as the discounted future cash flows of the lease payments over the term of the lease. The discount rate applied takes into account the Company's credit rating and the lease term. The Company has entered into fixed payments leases only. Upon first application of the standard, it applied a simplified approach with recalculations for all lease contracts as at 1 January 2019.

(EUR)	01/01/2019
Operating lease liabilities recognised as at 01/01/2019	**176,102**
Operating lease liabilities – discounting of lessee's incremental borrowing rate as at 01/01/2019*	176,044
Interest liabilities relating to operating lease recognised as at 01/01/2019	**-58**
Value of right-to-use assets as at 01/01/2019 (relating to operating leases)	176,044
Finance lease liabilities recognised as at 01/01/2019	**0**
Interest liabilities relating to finance lease recognised as at 01/01/2019	**0**
Value of right-to-use assets as at 01/01/2019 (relating to finance leases)	0
Value of right-to-use assets as at 01/01/2019	**176,044**
Lease liabilities – depreciation as at 01/01/2019	**176,102**
Lease liabilities – interest as at 01/01/2019	**-58**
Relief option for:	
- short-term leases	1,320
- low value leases	794
Extension and cancellation of lease option	0.00
Variable lease payments that depend on an index or rate	0.00
Residual value guarantee	0.00
Total lease liabilities as at 01/01/2019	**178,158**

IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers, and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not yet been endorsed by the EU. The management has assessed the effect of the standard on the Company's financial statements and believes that the enforcement of the standard will have a significant effect on the Company's financial statements.

Amendment to IFRS 10 Consolidated Financial Statements, and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss must be recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The Amendments to the standard have not yet been endorsed by the EU. The management believes that they will have no impact on the financial statements.

IFRS 9 Prepayment features with negative compensation (Amendment)

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset, there may be "negative compensation"), to be measured at amortised cost or at fair value through other comprehensive income. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the "net investment" in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity must apply IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

IFRIC INTERPETATION 23 Uncertainty over Income Tax Treatments

The interpretation is effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty, and accounting for changes in facts and circumstances. The management has assessed the effect and believes that the enforcement of the interpretation will have no significant effect on the Company's financial statements.

IAS 19 Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020, and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of "material" (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. They clarify the definition of "material" and how it should be applied. The new definition states that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of "material" is consistent across all IFRS Standards. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

Issued annual improvements

The IASB has issued the Annual Improvements to IFRSs 2015–2017 Cycle, which is a collection of amendments to IFRSs. The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Improvements have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the amendments will have no significant effect on the Company's financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits have been recognised.

IAS 23 Borrowing Costs

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

23.5 Risk management[147]

The Company is exposed to various risks in its operations, which it identifies, measures, manages and monitors, and reports on them in accordance with the processes described in section B.3. The Company is exposed to the following risks:

- underwriting risk,
- market risk,
- credit risk,
- liquidity risk,
- operational risk and
- strategic risk.

23.5.1 Capital adequacy of Sava Re

For calculating its capital requirements under Solvency II, Sava Re uses the standard formula. The full solvency capital requirement is calculated annually, while eligible own funds supporting solvency requirements are calculated on a quarterly basis.

The following table shows the Company's capital adequacy calculation as at 31 December 2017[148].

Capital adequacy of Sava Re

(EUR)	31/12/2017
Eligible own funds	453,565,280
Minimum capital requirement (MCR)	40,018,150
Solvency capital requirement (SCR)	160,072,599
Solvency ratio	**283.3%**

Sava Re's unaudited eligible own funds as at 30 September 2018 totalled EUR 477.2 million and were slightly higher than as at 31 December 2017 (EUR 453.6 million). Please note that in quarterly calculations, eligible own funds were not reduced by foreseeable dividends for 2018, while they were reduced by foreseeable dividends as at 31 December 2017.

We estimate that the level of the Company's eligible own funds at the end of the year is slightly above the level as at 31 December 2017. Due to higher solvency capital requirement, we also expect the solvency ratio as at 31 December 2018 to be slightly lower than as at 31 December 2017, but still high.

Detailed results of Sava Re's capital adequacy calculation as at 31 December 2018 will be presented in the Solvency and financial condition report of Sava Re in April 2019.

[147] GRI 102-11
[148] During the preparation of the audited annual report, Sava Re is yet to obtain audited capital adequacy data for 2018. The capital adequacy calculation will be published in Sava Re's Solvency and financial condition report for 2018 to be released no later than 22 April 2019.

23.5.1 Sava Re risk profile

The following table shows the changes in the risk profile in 2018 compared to 2017. The risks have been assessed with regard to the potential volatility of business results and the resulting impact on the Company's financial statements. The potential impact of extreme internal or external risks on the Company's solvency position is set out in the Solvency and financial condition report of Sava Re d.d.

Change in the Sava Re risk profile compared to the previous year

	Risk rating	Risk described in section
Insolvency risk	**low**	**23.5.1**
Non-life underwriting risk		**23.5.2**
Underwriting process risk	medium	23.5.2.1
Pricing risk	medium	23.5.2.2
Claims risk	medium	23.5.2.3
Net retention risk	low	23.5.2.4
Reserve risk	low	23.5.2.5
Retrocession programme	low	23.5.2.6
Financial risks		**23.5.3**
Risk of financial investments in subsidiaries and associates	medium	23.5.3.1
Interest rate risk	medium	23.5.3.2.1
Equity risk	medium	23.5.3.2.2
Alternative investment risk	low	23.5.3.2.3
Currency risk	medium	23.5.3.2.4
Liquidity risk	low	23.5.3.3
Credit risk	medium	23.5.3.4
Operational risks	**medium**	**23.5.4**
Strategic risks	**medium**	**23.5.5**

23.5.2 Underwriting risk

Underwriting risks that are important for the Company comprise mainly underwriting process risk, pricing risk, claims risk, net retention risk and reserve 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. The risks relating to product design, economic environment or policyholder behaviour are therefore not be dealt with separately in this section.

Sava Re only assumes underwriting risk from its subsidiaries and other cedants. It retains part of the assumed risk and retrocedes any excess over its capacity. Sava Re classifies 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.

23.5.2.1 Underwriting process risk

In respect of proportional 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 in the relevant markets and in the relevant classes of insurance. Consequently, coverage may only be granted by taking into account internal underwriting guidelines. These define the requirements for partners, the minimum required level of information about the business, and the expected range of profitability. In addition, they also define the underwriting process 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 (and subsequently reinsured with the controlling company) by the Company's subsidiaries.

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)

(EUR)	U/W year 2018		U/W year 2017	
Form of contract	No. of contracts	Aggregate limit	No. of contracts	Aggregate limit
Treaty business	752	1,440,388,717	755	1,436,874,324
Facultative contracts	198	785,077,583	219	916,403,018
Total	**950**	**2,225,466,299**	**974**	**2,353,277,342**

Aggregate limits decreased slightly in 2018 compared to 2017 as a result of the fall in premium income both in treaty and facultative business.

We believe that the reinsurance underwriting process risk is well managed. Sava Re reduces underwriting risk through partial or full retrocession.

23.5.2.2 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 phase, but as reinsurance underwriting is adequately managed, pricing risk for Sava Re was assessed as moderate in 2018, the same as in 2017.

23.5.2.3 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 borne by ceding companies, which may arise due to incorrect assessments made in underwriting, changes in court practice, new types of losses, increased public awareness of the rights attached to insurance contracts, macroeconomic changes, etc. In non-proportional reinsurance business, the Company has greater control over the expected claims risk through direct control over 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 the loss exceeds the priority.

This risk is managed by appropriate underwriting, controlling risk concentration in a particular location or geographical area, and by adequate retrocession programmes.

Although we are altering the composition of the portfolio to maximise profitability, we assess that there was no material difference between the claims risk in 2018 and in 2017.

23.5.2.4 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 (based on model results and 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/or diversification by region.

Earthquake aggregates by region

(EUR)	31/12/2018	31/12/2017
EU Member States	542,882,004	715,311,374
Non-EU members	160,318,981	145,878,443
Russia and CIS	21,161,391	25,643,619
Africa	47,851,860	45,086,397
Middle East	37,033,685	41,093,991
Asia	248,828,480	266,641,834
Latin America	81,878,085	73,780,223
USA and Canada	13,180,370	22,615,761
Caribbean Islands	50,040,772	31,182,220
Oceania	29,960,121	25,526,052
Total	**1,233,135,749**	**1,392,759,913**

Flood aggregates by region

(EUR)	31/12/2018	31/12/2017
EU Member States	416,150,390	406,401,295
Non-EU members	124,947,259	94,430,451
Russia and CIS	21,153,891	25,636,119
Africa	47,851,860	45,086,397
Middle East	18,588,363	23,244,580
Asia	193,177,509	216,938,451
Latin America	81,878,085	73,780,223
USA and Canada	14,884,870	22,615,761
Caribbean Islands	47,866,859	31,182,220
Oceania	29,960,121	25,526,052
Total	**996,459,208**	**964,841,551**

Storm aggregates by region

(EUR)	31/12/2018	31/12/2017
EU Member States	405,443,008	401,286,042
Non-EU members	124,934,249	94,417,441
Russia and CIS	21,153,891	25,636,119
Africa	47,851,860	45,086,397
Middle East	18,588,363	23,244,580
Asia	194,532,854	218,463,679
Latin America	81,878,085	71,895,308
USA and Canada	16,514,704	22,615,761
Caribbean Islands	47,866,859	31,182,220
Oceania	29,960,121	25,526,052
Total	**988,723,994**	**959,353,601**

In 2018, the aggregate exposure to natural catastrophes by region declined slightly, and so did the absolute level of risk (the exposure to earthquakes declined and the exposure to floods and storms increased). We estimate that, in relative terms, retention risk was at the same level in 2018 and 2017. Sava Re was not seriously endangered due to its adequate retention limits and adequate retrocession programme, as shown in the section on estimated exposure to underwriting risks.

23.5.2.5 Reserve risk

Reserve risk is the risk of insufficiency of technical provisions and may occur because of inaccurate actuarial estimates or an unexpectedly 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 yet, which is common with liability insurance contracts but can also happen due to changed court practices. We consider that this risk does exist; however, it is minor.

Sava Re manages reserve risk by strict adherence to the internal procedures and rules on technical provisions, by applying recognised actuarial methods by critically using 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 year. 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, aggregate 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) and the settlement of which is covered by the claims provision, and claims that have not yet been incurred and the settlement of which is covered by unearned premiums, net of deferred commission.

Owing to this, 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 commissions, 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 technical provisions are calculated using consistent actuarial methods, we can conclude, based on past discrepancies between originally estimated liabilities and subsequently established actual liabilities at individual dates of the statement of financial position, that the provisions as at 31 December 2018 are adequate.

Adequacy analysis of gross technical provisions for past years

(EUR thousand)	Year ended 31 December					
Estimate of gross liabilities	2013	2014	2015	2016	2017	2018
As originally estimated	199,339	207,416	209,963	218,615	224,093	225,314
Reestimated as of 1 year later	170,890	183,590	191,260	191,207	196,533	
Reestimated as of 2 years later	160,099	174,579	175,447	177,623		
Reestimated as of 3 years later	156,865	164,654	165,546			
Reestimated as of 4 years later	147,772	157,337				
Reestimated as of 5 years later	142,401					
Cumulative gross redundancy (latest estimate – original estimate)	**56,938**	**50,079**	**44,417**	**40,993**	**27,561**	
Cumulative gross redundancy as % of original estimate	28.6%	24.1%	21.2%	18.8%	12.3%	

Adequacy analysis of net technical provisions for past years

(EUR thousand)	Year ended 31 December					
Estimate of net liabilities	2013	2014	2015	2016	2017	2018
As originally estimated	173,344	177,031	194,262	200,824	204,479	204,392
Reestimated as of 1 year later	153,577	161,973	175,595	175,066	178,102	
Reestimated as of 2 years later	142,529	151,267	159,178	158,850		
Reestimated as of 3 years later	137,887	140,291	147,913			
Reestimated as of 4 years later	127,700	131,429				
Reestimated as of 5 years later	120,791					
Cumulative gross redundancy (latest estimate – original estimate)	**52,554**	**45,602**	**46,349**	**41,975**	**26,377**	
Cumulative gross redundancy as % of original estimate	30.3%	25.8%	23.9%	20.9%	12.9%	

The cumulative gross redundancies for the underwriting years from 2013 to 2016 increased compared to amounts at the end of the preceding year, which were 25.9%, 20.6%, 16.4% and 12.5% of original estimates. The cumulative net redundancies for the underwriting years from 2013 to 2016 are also larger than the amounts at the end of the preceding year, which were 26.3%, 20.8%, 18.1% and 12.8% 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 commissions, 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 one 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 ratio 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 reserve risk at the end of 2018 is relatively small and similar to that at year-end 2017.

23.5.2.6 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 Group and other ceding companies) is further covered for potentially large losses through prudently selected non-proportional reinsurance. In 2018, this was slightly adjusted to portfolio growth and expanded with cover against an increased frequency of catastrophic events:

- The natural catastrophe excess of loss cover for Slovenia for all Group companies has two instead of one payable reinstatement in the first two layers.
- A sublayer was added to the catastrophe excess of loss cover for non-Group business with a priority of EUR 5 million to protect against a higher frequency of events in one year. If the Company, after the main cover, suffers a total loss of EUR 6 million, the sub-layer will provide a cover for the subsequent loss events of EUR 3 million above the priority of EUR 2 million.
- The motor liability excess of loss cover for the Group portfolio has a priority of EUR 1.5 million (previously EUR 1 million) and a capacity of EUR 4.5 million (previously EUR 5 million).
- The general liability excess of loss cover for the Group portfolio has a priority of EUR 2 million (previously EUR 1 million) and a capacity of EUR 3 million.
- The marine excess of loss cover for the Group and non-Group portfolio has been unified and now operates per risk and per event (previously only for the Group portfolio, while the non-Group portfolio had been covered per event only). The cover has a priority of EUR 2 million (previously EUR 1 million) and a capacity of EUR 4 million (previously EUR 2.5 million).

23.5.2.7 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 EUR 4 million for the majority of non-life classes of insurance and a combined limit of EUR 4 million is used for the classes fire and natural forces, other damage to property and miscellaneous financial loss; a net retention limit of EUR 2 million is set for motor liability and for marine; for life policies net retention limits are uniformly set at EUR 300,000. In principle, this caps any net claim arising out of any single loss event at a maximum of EUR 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 EUR 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 some international markets (India, USA, China), this retention may be exceeded, but cannot be larger than EUR 8 million.

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 EUR 1.4 million (2017: EUR 1.3 million). In 2018, an additional maximum net claim of EUR 5 million would have deteriorated the combined ratio by 3.6% (2017: 3.8%), 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 2018 and 2017.

23.5.3 Financial risks

In its financial operations, Sava Re is exposed to financial risks, including market, liquidity and credit risk.

23.5.3.1 Risk of financial investments in subsidiaries and associates

Regarding the risk related to its financial investments in subsidiaries and associates, Sava Re is especially exposed to the risk of a decline in these investments and to the concentration risk. Among its financial investments in subsidiaries and associates, Sava Re has one major exposure, i.e. the investment in Zavarovalnica Sava, the value of which accounts for 56.0% (2017: 63.8%) of the total value of its financial investments in subsidiaries and associates.

As at 31 December 2018, Sava Re's total exposure to the risk of financial investments in subsidiaries and associates was EUR 220.2 million (31/12/2017: EUR 193.4 million).

Sava Re manages the risk related to its financial investments in subsidiaries and associates through active governance, comprising:

- a governance system (management and supervision), and clear segregation of responsibilities at all levels;
- risk management policy;
- systematic risk management with a three-lines-of-defence framework (discussed in detail in section 11 "Risk management");
- the setting of business and risk management strategies from the top down, taking into account both the Group as a whole as well as its individual members;
- a comprehensive system of monitoring operations, reporting on business results and risks at all levels.

Assessed sensitivity of investments in subsidiaries and associates

(EUR)	31/12/2018			31/12/2017		
Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
of -10%	220,219,086	198,197,177	-22,021,909	193,409,578	174,068,620	-19,340,958
of -20%	220,219,086	176,175,269	-44,043,817	193,409,578	154,727,662	-38,681,916
largest individual subsidiary of -10%	123,364,959	111,028,463	-12,336,496	123,364,959	111,028,463	-12,336,496
largest individual subsidiary of -20%	123,364,959	98,691,967	-24,672,992	123,364,959	98,691,967	-24,672,992

Exposure to the risk related to financial investments in subsidiaries and associates in 2018 was at a slightly higher level than in 2017, as Group complexity increased with new acquisitions. This also explains a slight drop in the percentage of total financial investments represented by the largest exposure, to Zavarovalnica Sava, and the increase in diversification. Taking account of all the impacts we believe that the risk related to participations increased slightly, but still remained medium due to its active management.

23.5.3.2 Market risk

Financial investments exposed to market risk

(EUR) Type of investment	31/12/2018	31/12/2018 As % of total 31/12/2018	31/12/2017	As % of total 31/12/2017	Absolute difference 31/12/2018 / 31/12/2017	Change in structure 31/12/2018 / 31/12/2017
Deposits and CDs	2,331,604	0.9%	2,398,614	0.9%	-67,010	0.0%
Government bonds	120,829,371	45.9%	116,270,045	43.8%	4,559,326	2.1%
Corporate bonds	98,080,588	37.3%	108,409,148	40.8%	-10,328,560	-3.5%
Shares (excluding strategic shares)	8,720,953	3.3%	10,399,227	3.9%	-1,678,274	-0.6%
Mutual funds	3,102,927	1.2%	2,862,382	1.1%	240,546	0.1%
bonds funds	2,377,213	0.9%	2,564,660	1.0%	-187,448	-0.1%
equity funds	725,715	0.3%	297,721	0.1%	427,993	0.2%
Infrastructure	1,860,608	0.7%	0	0.0%	1,860,608	0.7%
Loans granted and other	3,090,072	1.2%	4,609,924	1.7%	-1,519,852	-0.6%
Deposits with cedants	6,275,310	2.4%	5,832,346	2.2%	442,964	0.2%
Financial investments	**244,291,434**	**92.8%**	**250,781,685**	**94.4%**	**-6,490,252**	**-1.6%**
Investment property	8,285,733	3.1%	8,230,878	3.1%	54,856	0.0%
Cash and cash equivalents	10,651,452	4.0%	6,678,458	2.5%	3,972,994	1.5%
Total financial investments	**263,228,618**	**100.0%**	**265,691,021**	**100.0%**	**-2,462,403**	**0.0%**

The value of financial investments exposed to market risk decreased by EUR 2.5 million in 2018 compared to year-end 2017, which is explained in section 20.2.1.1. of the business report part.

23.5.3.2.1 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 interest-rate sensitive bond portfolio includes government and corporate bonds, and bond and convertible mutual funds with a weight of 1. The analysed investments do not include held-to-maturity bonds, deposits or loans granted as these are measured at amortised cost and are, therefore, not sensitive to changes in market interest rates.

Results of the sensitivity analysis

(EUR)	31/12/2018					
	+100 bp			-100 bp		
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	118,753,946	114,948,893	-3,805,053	118,753,946	122,835,989	4,082,042
Corporate bonds	98,080,587	95,662,599	-2,417,988	98,080,587	100,730,911	2,650,324
Bond and convertible mutual funds	2,377,213	2,308,988	-68,225	2,377,213	2,451,021	73,809
Total	**219,211,746**	**212,920,480**	**-6,291,266**	**219,211,746**	**226,017,921**	**6,806,175**
Effect on equity	-6,154,728			6,806,175		
Effect on the income statement	-136,538			149,652		

(EUR)	31/12/2017					
	+100 bp			-100 bp		
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	114,194,924	110,921,251	-3,273,674	114,194,924	117,706,635	3,511,710
Corporate bonds	108,409,151	105,413,387	-2,995,765	108,409,151	111,643,308	3,234,157
Bond mutual funds	2,564,660	2,492,429	-72,231	2,564,660	2,642,381	77,720
Total	**225,168,736**	**218,827,066**	**-6,341,670**	**225,168,736**	**231,992,324**	**6,823,587**
Effect on equity	-6,341,670			6,823,587		
Effect on the income statement	0			0		

The sensitivity analysis showed that in case of an increase in interest rates, the value of bonds included in the analysis would decrease by EUR 6.3 million (31/12/2017: EUR 6.3 million) or 2.9% (31/12/2017: 2.8%).

Based on the results of the sensitivity analysis, the interest rate risk did not change significantly compared to 2017.

23.5.3.2.2 Equity risk

The Company measures equity risk through a stress test scenario assuming a 10- or 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 23.2.12 "Financial investments in subsidiaries and associates". As at the year-end 2018, investments in subsidiaries totalled EUR 220.2 million (31/12/2017: EUR 193.4 million). Sava Re maintains and increases the value of its investments in subsidiaries through active management.

As at 31 December 2018, equity securities accounted for 3.6% of the investment portfolio, 0.4 p.p. less than in 2017.

Sensitivity assessment of investments to equity risk

(EUR)	31/12/2018			31/12/2017		
Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
of -10%	9,446,668	8,502,001	-944,667	10,696,948	9,627,253	-1,069,695
of -20%	9,446,668	7,557,334	-1,889,334	10,696,948	8,557,558	-2,139,390

To assess the 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 EUR 0.9 million (31/12/2017: EUR 1.1 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 EUR 1.9 million (31/12/2017: EUR 2.1 million).

The exposure to equity risk declined slightly in 2018.

23.5.3.2.3 Alternative investment risk

As at 31 December 2018, the Company had EUR 10.9 million of alternative investments, comprising infrastructure funds and investment property. The alternative investment risk was assessed by shocking their values as required by Solvency II in the calculation of capital requirements. For infrastructure funds and investment property, we assumed a fall in their values of 49% (because we did not use the look-through approach) and 25% respectively, resulting in an absolute decrease of EUR 3.2 million in total.

(EUR)	31/12/2018			31/12/2017		
	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Infrastructure funds	1,860,608	948,910	-911,698	0	0	0
Investment property	9,033,564	6,775,173	-2,258,391	8,230,878	6,173,158	-2,057,719
- directly owned	8,285,733	6,214,300	-2,071,433	8,230,878	6,173,158	-2,057,719
- owned through an associate	747,831	560,873	-186,958	0	0	0
Total	**10,894,172**	**7,724,083**	**-3,170,089**	**8,230,878**	**6,173,158**	**-2,057,719**

23.5.3.2.4 Currency risk

Currency risk is the risk that changes in exchange rates will decrease foreign-denominated assets or increase liabilities denominated in foreign currencies.

As at 31 December 2018, the Company's liabilities denominated in foreign currencies accounted for 16.4% 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 a currency matching policy. 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[149] are to start as soon as the currency mismatch with that currency exceeds EUR 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[150] 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.

[149] 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.

[150] The transaction currency is the currency in which reinsurance contract transactions are processed.

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 five years and the corresponding euro equivalent surpluses of assets and liabilities as at 31 December 2018, 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 EUR 0.07 million (31/12/2017: EUR 0.04 million), but with a 5-percent probability that the deficit of assets would exceed EUR 1.6 million (31/12/2017: EUR 0.3 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.

Currency (mis)match as at 31 December 2018 (all amounts translated to euro)

Currency 2018	Assets	Liabilities	Mismatch	Matched liabilities (%)
Euro (EUR)	**505,758,074**	**506,663,752**		
Foreign currencies	**100,572,979**	**99,667,304**	**19,693,990**	**100.9**
US dollar (USD)	42,333,181	32,803,314	9,529,867	129.1
Korean won (KRW)	9,229,219	9,085,947	143,271	101.6
Indian rupee (INR)	6,725,371	6,098,675	626,695	110.3
Taka (BDT)	2,117,973	6,415,488	4,297,515	33.0
Chinese yuan (CNY)	6,890,205	7,696,453	806,248	89.5
Other	33,277,032	37,567,425	4,290,394	88.6
Total	**606,331,055**	**606,331,055**		
Currency-matched liabilities (%)			96.8%	

Currency (mis)match as at 31 December 2017 (all amounts translated to euro)

Currency 2017	Assets	Liabilities	Mismatch	Matched liabilities (%)
Euro (EUR)	**480,204,998**	**478,013,928**		
Foreign currencies	**100,681,182**	**102,872,252**	**20,178,121**	**97.9**
US dollar (USD)	40,244,329	33,645,619	6,598,709	119.6
Korean won (KRW)	13,659,418	12,268,776	1,390,642	111.3
Chinese yuan (CNY)	8,680,101	8,296,593	383,508	104.6
Indian rupee (INR)	7,250,186	6,629,520	620,666	109.4
Taka (BDT)	2,100,842	6,286,135	4,185,294	33.4
Other	28,746,307	35,745,609	6,999,302	80.4
Total	**580,886,180**	**580,886,180**		
Currency-matched liabilities (%)			96.5%	

Transaction currency (mis)match as at 31 December 2018 (all amounts translated to euro)

Currency 2018	Assets	Liabilities	Mismatch	Matched liabilities (%)
Euro (EUR)	**505,978,443**	**507,934,480**		
Foreign currencies	**100,352,612**	**98,396,576**	**7,516,117**	**102.0**
US dollar (USD)	45,360,745	42,471,025	2,889,720	106.8
Korean won (KRW)	9,229,219	9,085,947	143,271	101.6
Chinese yuan (CNY)	6,890,205	7,696,453	806,248	89.5
Indian rupee (INR)	8,025,495	7,818,596	206,899	102.6
Russian rouble (RUB)	4,965,997	3,469,810	1,496,186	143.1
Other	25,880,952	27,854,744	1,973,792	92.9
Total	**606,331,055**	**606,331,055**		
Currency-matched liabilities (%)			98.8%	

Transaction currency (mis)match as at 31 December 2017 (all amounts translated to euro)

Currency 2017	Assets	Liabilities	Mismatch	Matched liabilities (%)
Euro (EUR)	**480,490,171**	**479,884,843**		
Foreign currencies	**100,396,009**	**101,001,336**	**6,685,636**	**99.4**
US dollar (USD)	43,252,126	43,255,862	3,736	100.0
Korean won (KRW)	13,659,418	12,268,776	1,390,642	111.3
Chinese yuan (CNY)	8,680,101	8,296,593	383,508	104.6
Indian rupee (INR)	8,026,369	7,931,790	94,579	101.2
Russian rouble (RUB)	10,381,528	9,210,102	1,171,426	112.7
Other	16,396,467	20,038,213	3,641,746	81.8
Total	**580,886,180**	**580,886,180**		
Currency-matched liabilities (%)			98.8%	

The Company has set itself a target of matching assets and liabilities at least 90%. In 2018 assets and liabilities were matched 96.8% (2017: 96.5%), which demonstrates the high quality of currency risk management.

In the management of currency risk (ALM aspect), the Company managed to directly match all substantially liquid currencies. Other currencies were matched based on their correlation with the euro or the US dollar. Since many accounting currencies are at least 90% correlated to the US dollar, the surplus of assets over liabilities in US dollars has been reduced to EUR 2.9 million (from EUR 9.5 million). This would further increase the currency matching percentage to 98.8% (2017: 98.8%).

List of currencies matched based on the transaction currency

Transaction currency	Accounting currency
Euro (EUR)	Bulgarian lev
	Convertible mark (BAM), BiH
	West African CFA franc (XOF)
	Danish krone (DKK)
	Central African CFA franc (XAF)
	EUR
U.S. dollar (USD)	Dirham (AED)
	Netherlands Antillean guilder (ANG)
	Barbados dollar (BBD)
	Bangladeshi taka (BDT)
	Bahamian dollar (BSD)
	U.S. dollar (USD)
	Dominican peso (DOP)
	Guatemalan quetzal (GTQ)
	Hong Kong dollar (HKD)
	Kuwaiti dinar (KWD)
	Lao kip (LAK)
	Sri Lankan rupee (LKR)
	Maldivian rufiyaa (MVR)
	Omani rial (OMR)
	Qatari riyal (QAR)
	Saudi riyal (SAR)
	East Caribbean dollar (XCD)
	Trinidad and Tobago dollar(TTD)
	Vietnamese dong (VND)
Indian rupee (INR)	Bhutanese ngultrum (BTN)
	Nepalese rupee (NPR)
	Indian rupee (INR)

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 (EUR)	**31/12/2018**	**31/12/2017**
Investments	-96,521	-5,483,541
Technical provisions and deferred commissions	239,949	6,427,290
Receivables and liabilities	41,886	-1,739,316
Total effect on the income statement	**185,314**	**-795,566**

We believe that currency risk did not change significantly in 2018 compared to 2017, while the impacts of changes in exchange rates were significantly smaller mainly due to their smaller fluctuation. In 2018 the Company continued active currency matching of assets and liabilities both directly based on accounting currencies and indirectly based on transaction currencies.

23.5.3.3 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 debt securities classified in line with the ECB methodology. The investment portfolio must include as a minimum 15% of securities of the L1A liquidity class of highly-liquid assets. As at 31 December 2018, L1A assets represented 25% of the investment portfolio (31/12/2017: 28.2%), which points to its high liquidity.

Exposure to liquidity risk is also measured by maturity-matching of assets and liabilities. The following table 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

(EUR)	Carrying amount as at 31/12/2018	Callable	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total 31/12/2018
Financial investments	**244,291,434**	**0**	**59,595,548**	**126,529,405**	**53,495,382**	**13,684,488**	**253,304,823**
- at fair value through profit or loss	3,956,895	0	178,875	2,266,500	2,301,214	439,304	5,185,894
- held to maturity	2,075,425	0	102,500	410,000	2,307,500	0	2,820,000
- loans and deposits	10,107,498	0	6,911,275	3,039,428	559,911	0	10,510,614
- available-for-sale	228,151,616	0	52,402,897	120,813,477	48,326,757	13,245,184	234,788,315
Reinsurers' share of technical provisions	21,437,221	0	10,183,242	6,612,470	4,641,509	0	21,437,221
Cash and cash equivalents	10,651,452	5,623,541	5,027,912	0	0	0	10,651,452
TOTAL ASSETS	**276,380,105**	**5,623,541**	**74,806,701**	**133,141,875**	**58,136,890**	**13,684,488**	**285,393,495**
Technical provisions	234,173,078	0	111,782,724	71,912,571	50,477,783	0	234,173,078
TOTAL LIABILITIES	**234,173,078**	**0**	**111,782,724**	**71,912,571**	**50,477,783**	**0**	**234,173,078**
Difference	**42,207,027**	**5,623,541**	**-36,976,023**	**61,229,303**	**7,659,107**	**13,684,488**	**51,220,417**

(EUR)	Carrying amount as at 31/12/2017	Callable	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total 31/12/2017
Financial investments	**250,781,685**	**0**	**50,259,319**	**142,313,870**	**46,636,862**	**13,261,608**	**252,471,660**
- at fair value through profit or loss	409,573	0	0	0	0	409,573	409,573
- held to maturity	2,075,111	0	102,500	410,000	2,410,000	0	2,922,500
- loans and deposits	12,840,885	0	4,373,892	2,717,308	1,512,740	0	8,603,940
- available-for-sale	235,456,116	0	45,782,927	139,186,563	42,714,123	12,852,036	240,535,648
Reinsurers' share of technical provisions	20,073,571	0	8,072,407	5,947,618	6,053,545	0	20,073,571
Cash and cash equivalents	6,678,458	2,128,333	4,550,126			0	6,678,458
TOTAL ASSETS	**277,533,715**	**2,128,333**	**62,881,852**	**148,261,488**	**52,690,408**	**13,261,608**	**279,223,689**
Technical provisions	232,639,163	0	94,012,446	68,701,572	69,925,145	0	232,639,163
TOTAL LIABILITIES	**232,639,163**	**0**	**94,012,446**	**68,701,572**	**69,925,145**	**0**	**232,639,163**
Difference	**44,894,551**	**2,128,333**	**-31,130,594**	**79,559,917**	**-17,234,738**	**13,261,608**	**46,584,525**

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.

The Company has in its books 71.0 million (31/12/2017: EUR 72.7 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 funds of the non-life insurance register.

The Company's liquidity also depends on the average maturity of assets and liabilities. The average maturity of bonds and deposits of the non-life insurance register was 3.03 years at year-end 2017 (31/12/2017: 3.01 years), while the expected maturity of liabilities was 4.1 years (31/12/2017: 4.1 years).

Based on the proportion of liquid assets and the level of asset and liability matching, we assess that liquidity risk is well managed.

23.5.3.4 Credit risk

Credit risk is the risk of default on the obligations of a securities issuer or other counterparty towards the Company.

Assets exposed to credit risk include financial investments (deposit investments, bonds, deposits with cedants, cash and cash equivalents, and loans granted), receivables due from reinsurers and other receivables.

Exposure to credit risk

(EUR)	31/12/2018	31/12/2017
Type of asset	Amount	Amount
Fixed-income investments	**241,258,397**	**244,198,536**
Debt instruments	224,331,635	231,687,731
Deposits with cedants	6,275,310	5,832,347
Cash and cash equivalents	10,651,452	6,678,458
Receivables due from reinsurers	**25,812,956**	**22,947,154**
Reinsurers' share of technical provisions	21,437,221	20,073,571
Receivables for shares in claims payments	4,375,735	2,873,583
Receivables, excluding receivables arising out of reinsurance business	**83,454,566**	**85,728,812**
Receivables arising out of primary insurance business	82,518,635	85,167,822
Receivables arising out of co-insurance and reinsurance business (excluding receivables for shares in claims)	466,544	329,343
Current tax assets	39,935	41,064
Other receivables	429,450	190,582
Total exposure	**350,525,919**	**352,874,501**

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[151] and cash assets[152];
- 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, deposits with cedants and loans granted).

[151] Included are bonds, corporate bonds, deposits, deposits with cedants and loans granted.
[152] This includes cash and demand deposits.

Fixed-income investments by issuer credit rating

(EUR)	31/12/2018		31/12/2017	
Rated by S&P/Moody's	Amount	Composition	Amount	Composition
AAA/Aaa	77,950,080	32.3%	88,858,731	36.4%
AA/Aa	39,938,848	16.6%	37,636,383	15.4%
A/A	60,026,889	24.9%	64,854,168	26.6%
BBB/Baa	39,284,693	16.3%	27,552,436	11.3%
Less than BBB/Baa	7,900,146	3.3%	3,942,855	1.6%
Not rated	16,157,741	6.7%	21,353,963	8.7%
Total	**241,258,397**	**100.0%**	**244,198,536**	**100.0%**

As regards management of credit risk, the objective of the Company is to have in its investment portfolio at least 40% of investments rated "A-" or better. As at 31 December 2018, investments rated A or better represented 73.7% of total investments exposed to credit risk (31/12/2017: 78.4%). The Company regularly monitors exposure to individual issuers and any changes in credit standing in order to be able to prepare for a timely response to any adverse developments in financial markets or increase in risk relating to any issuer.

Sava Re mitigates credit risk with other investments through a high degree of diversification and by investing in liquid securities.

The credit risk due to issuer default also 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 investments, of counterparties or economic sectors or other potential forms of concentration.

Diversification of financial investments by region

(EUR)	31/12/2018		31/12/2017	
Region	Amount	Composition	Amount	Composition
Slovenia	48,942,112	18.6%	54,593,796	20.5%
EU Member States	141,271,311	53.7%	141,696,173	53.3%
Non-EU members	9,131,951	3.5%	9,176,812	3.5%
Russia and Asia	16,076,965	6.1%	16,384,509	6.2%
Africa and the Middle East	2,249,205	0.9%	2,134,198	0.8%
America and Australia	45,557,075	17.3%	41,705,533	15.7%
Total	**263,228,619**	**100.0%**	**265,691,021**	**100.0%**

The largest exposure of the Company is to EU Member States (31/12/2018: 53.7%, 31/12/2017: 53.3%), with the exposure spread among 22 countries. This is followed by the exposure to Slovenian-based issuers (31/12/2018: 18.6%; 31/12/2017: 20.5%) and issuers based in the Americas and Australia (31/12/2018: 17.3%; 31/12/2018: 15.7%). The exposure to other regions remained more or less the same compared to year-end 2017.

The exposure to Slovenia decreased by 1.9 percentage points in 2018 due to securities maturing and due to the adopted limit system.

Exposure to Slovenia by asset type

(EUR)	31/12/2018		31/12/2017	
Type of investment	Amount	Composition	Amount	Composition
Deposits	742,115	0.3%	742,100	0.3%
Government bonds	18,537,101	7.0%	24,004,876	9.0%
Corporate bonds	6,597,544	2.5%	7,089,706	2.7%
Shares	8,601,860	3.3%	10,304,445	3.9%
Loans granted	900,210	0.3%	0	0.0%
Cash and cash equivalents	5,277,548	2.0%	4,221,792	1.6%
Investment property	8,285,733	3.1%	8,230,878	3.1%
Sum total	**48,942,112**	**18.6%**	**54,593,796**	**20.5%**

Diversification of financial investments by industry

(EUR)	31/12/2018		31/12/2017	
Industry	Amount	Composition	Amount	Composition
Banking	46,861,912	17.8%	51,972,379	19.6%
Government	120,829,371	45.9%	116,270,045	43.8%
Finance & insurance	27,646,258	10.5%	30,542,879	11.5%
Industry	17,858,226	6.8%	17,422,633	6.6%
Consumables	17,975,879	6.8%	19,516,081	7.3%
Utilities	20,775,863	7.9%	21,736,127	8.2%
Property	8,862,613	3.4%	8,230,878	3.1%
Infrastructure	2,418,497	0.9%	0	0.0%
Total	**263,228,619**	**100.0%**	**265,691,021**	**100.0%**

* Data for the finance and insurance industry for 2017 differ from those published in the 2017 annual report, because investment property (EUR 38.8 million) is now included in the newly-added property industry.

The Company's largest exposure in terms of industry as at 31 December 2018 was to governments, albeit with a high degree of diversification by issuers.

As at 31 December 2018, exposure to the ten largest issuers was EUR 83.7 million, representing 31.8% of financial investments (31/12/2017: EUR 88.2 million; 33.2%). The largest single issuer of securities that Sava Re is exposed to is the United States. As at 31 December 2018, it totalled EUR 17.4 million or 6.6% of financial investments (31/12/2017: EUR 10.4 million; 4.0%). Compared to year-end 2017, the exposure to the Republic of Slovenia expressed in percentage terms decreased by 1.6 percentage points (31/12/2018: 6.3%; 31/12/2017: 6.6%). No other issuer exceeds the 2.5% of financial assets threshold.

Based on the above, we estimate that by reducing its exposure to Slovenia and additional diversification by issuer, region and industry, the Company managed its credit risk well in 2018, and reduced it compared to 2017.

Counterparty default risk

The total exposure to retrocessionaires as at 31 December 2018 was EUR 25.8 million (31/12/2017: EUR 22.9 million). Of this, EUR 21.4 million (31/12/2017: EUR 20.1 million) relate to retroceded gross technical provisions (EUR 3.6 million to unearned premiums and EUR 17.8 million to provisions for outstanding claims) and EUR 4.4 million (31/12/2017: EUR 2.9 million) to receivables for reinsurers' shares in claims.

The total credit risk exposure of the Company arising from retrocessionaires represented 4.3% of total assets in 2018 (31/12/2017: 4.0%). 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

(EUR)	31/12/2018		31/12/2017	
Rated by S&P / A.M. Best	Amount	Composition	Amount	Composition
AAA/A++	278,948	1.1%	1,050,918	5.2%
AA/A+	7,791,707	30.2%	6,547,204	38.1%
A/(A or A-)	13,124,406	50.8%	10,005,802	40.6%
BBB / (B++ or B+)	1,412,595	5.5%	971,923	2.6%
Less than BBB / less than B+	758,193	2.9%	664,632	2.9%
Not rated	2,447,106	9.5%	3,706,674	10.6%
Total	**25,812,955**	**100.0%**	**22,947,154**	**100.0%**

The tables below show the receivables ageing analysis, including the above-mentioned receivables for reinsurers' shares in claims.

Receivables ageing analysis

(EUR) 31/12/2018	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables arising out of primary insurance business	68,495,754	8,163,247	5,859,634	82,518,635
Receivables for reinsurers' shares in claims	3,541,151	482,112	352,473	4,375,735
Receivables for commission	329,924	136,620	0	466,544
Receivables arising out of reinsurance and co-insurance business	**72,366,829**	**8,781,979**	**6,212,107**	**87,360,914**
Short-term receivables arising out of financing	13,257	2,180	24,499	39,936
Other receivables	419,404	6,265	3,780	429,449
Other receivables	**432,661**	**8,445**	**28,279**	**469,385**
Total	**72,799,489**	**8,790,423**	**6,240,386**	**87,830,299**

(EUR) 31/12/2017	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables arising out of primary insurance business	70,333,520	9,733,178	5,101,124	85,167,822
Receivables for reinsurers' shares in claims	2,068,584	316,745	488,254	2,873,583
Receivables for commission	312,676	16,666	0	329,342
Receivables arising out of reinsurance and co-insurance business	**72,714,780**	**10,066,589**	**5,589,378**	**88,370,748**
Short-term receivables arising out of financing	18,001	1,736	21,327	41,064
Other receivables	174,792	8,417	7,373	190,583
Other receivables	**192,793**	**10,153**	**28,700**	**231,647**
Total	**72,907,573**	**10,076,742**	**5,618,078**	**88,602,395**

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.

23.5.4 Operational risks

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

Operational risks are not among the most important risks of Sava Re. Nevertheless, some of them are quite important, such as:

- risks associated with the information and communications system,
- risk associated with supervision and reporting,
- risk of loss of key, expert and high-potential employees,
- risk of incorrect data input and inadequate documentation,
- compliance risk (laws and regulations),
- risk of theft and fraud,
- risks associated with outsourcing.

We estimate that in 2018, the Company's exposure to operational risk remained on the 2017 level.

At least annually, the Company calculates its capital requirements for operational risks using the standard formula under Solvency II. This calculation, however, has a limited practical value, as the formula is not based on the actual exposure of the Company to operational risks, but on an approximation calculated mainly based on premiums, provisions and expenses.

Due to the above-mentioned reasons, the Company assesses operational risks mainly by qualitatively assessing the related probability and financial severity within the risk register, and by analysing various scenarios. With such regular assessments, it obtains an insight into the level of its exposure to operational risks.

The Company is not exposed to significant concentrations of operational risk.

The Company has in place various processes that ensure that it can properly identify, measure, monitor, manage, control and report operational risks, thus ensuring their effective management.

The Company's operational risk measures are aligned with those of the Group, as set out in section 17.6.4. "Operational risk".

23.5.5 Strategic risks

Strategic risk includes the risk of an unexpected decrease in the Company's value due to the adverse effects of management decisions, changes in the 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. Its key strategic risks in 2018 primarily include:

- the risk of an inadequate development strategy,
- risks associated with strategic investments,
- political risk,
- project risk,
- risk of market and economic conditions,
- reputation risk and
- regulatory risk.

We estimate that the Group's exposure to strategic risks in 2018 remained at a similar level as in 2017.

Strategic risks are by nature very diverse, difficult to quantify and heavily dependent on various (including external) factors. They are also not included in the calculation of capital requirement in accordance with the Solvency II standard formula.

Therefore, strategic risks relating to the risk register 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. Based on both analyses combined, an overview is obtained of the extent and change in the exposure to this type of risk.

The Company manages strategic risks well and has no material exposure to concentration risk. We estimate that strategic risks in 2018 remained at the same level as in 2017.

The Company has in place various processes that ensure that it can properly identify, measure, monitor, manage, control and report strategic risks, thus ensuring their effective management.

The Company's strategic risk measures are aligned with those of the Group, as set out in section 17.7.7. "Strategic risk".

23.6 Notes to the financial statements – statement of financial position

1) Intangible assets

Movement in cost and accumulated amortisation/impairment losses of intangible assets

(EUR)	Software	Other intangible assets	Total
COST			
Balance as at 01/01/2018	1,627,512	30,643	1,658,155
Additions	330,796	3,276	334,072
Disposals	-4,342	0	-4,342
Balance as at 31/12/2018	1,953,966	33,919	1,987,885
ACCUMULATED AMORTISATION			
Balance as at 01/01/2018	851,144	0	851,144
Additions	246,019	0	246,019
Disposals	-2,002	0	-2,002
Balance as at 31/12/2018	1,095,161	0	1,095,161
Carrying amount as at 01/01/2018	**776,368**	**30,643**	**807,011**
Carrying amount as at 31/12/2018	**858,805**	**33,919**	**892,724**

(EUR)	Software	Other intangible assets	Total
COST			
Balance as at 01/01/2017	1,431,299	39,685	1,470,984
Additions	196,213	0	196,213
Disposals	0	-9,042	-9,042
Balance as at 31/12/2017	1,627,512	30,643	1,658,155
ACCUMULATED AMORTISATION			
Balance as at 01/01/2017	638,417	0	638,417
Additions	212,727	0	212,727
Balance as at 31/12/2017	851,144	0	851,144
Carrying amount as at 01/01/2017	**792,883**	**39,685**	**832,567**
Carrying amount as at 31/12/2017	**776,368**	**30,643**	**807,011**

2) Property, plant and equipment

Movement in cost and accumulated depreciation/impairment losses of property, plant and equipment assets

(EUR)	Land	Buildings	Equipment	Other property, plant and equipment	Total
COST					
Balance as at 01/01/2018	150,833	2,322,223	1,666,228	90,667	4,229,951
Additions	0	39,546	356,930	122	396,598
Disposals	0	0	-281,150	0	-281,150
Reallocations	5,811	101,391	0	-6,376	100,826
Balance as at 31/12/2018	156,645	2,463,160	1,742,008	84,413	4,446,226
ACCUMULATED DEPRECIATION					
Balance as at 01/01/2018	0	643,037	1,051,937	49,333	1,744,306
Additions	0	31,486	202,237	1,293	235,017
Disposals	0	0	-213,478	0	-213,478
Reallocations	0	28,177	0	-2,336	25,841
Balance as at 31/12/2018	0	702,698	1,040,696	48,290	1,791,685
Carrying amount as at 01/01/2018	**150,833**	**1,679,187**	**614,291**	**41,334**	**2,485,645**
Carrying amount as at 31/12/2018	**156,644**	**1,760,461**	**701,312**	**36,123**	**2,654,540**

(EUR)	Land	Buildings	Equipment	Other property, plant and equipment	Total
COST					
Balance as at 01/01/2017	149,876	7,591,448	1,559,190	92,256	9,392,770
Additions	0	0	289,914	0	289,914
Disposals	0	0	-182,875	-1,589	-184,464
Reallocations	957	-5,269,225	0	0	-5,268,268
Balance as at 31/12/2017	150,833	2,322,223	1,666,228	90,667	4,229,951
ACCUMULATED DEPRECIATION					
Balance as at 01/01/2017	0	612,593	980,000	46,975	1,639,568
Additions	0	30,444	176,266	2,625	209,335
Disposals	0	0	-104,329	-268	-104,597
Balance as at 31/12/2017	**0**	**643,037**	**1,051,937**	**49,333**	**1,744,306**
Carrying amount as at 01/01/2017	**149,876**	**6,978,855**	**579,190**	**45,281**	**7,753,202**
Carrying amount as at 31/12/2017	150,833	1,679,187	614,291	41,334	2,485,645

Property, plant and equipment assets were not acquired under finance leases and were not encumbered with third party rights.

The fair values of land and buildings are disclosed in note 22 "Fair values of assets and liabilities".

3) Deferred tax assets and liabilities

(EUR)	31/12/2018	31/12/2017
Deferred tax assets	1,867,370	1,238,826

(EUR)	01/01/2018	Recognised in IS	Recognised in SCI	31/12/2018
Long-term financial investments	1,023,503	369,355	259,757	1,652,614
Short-term operating receivables	257,788	-3,301	0	254,487
Provisions for jubilee benefits and severance pay (retirement)	33,577	5,265	-2,346	36,496
Other	-76,041	0	-186	-76,227
Total	**1,238,826**	**371,319**	**257,224**	**1,867,370**

(EUR)	01/01/2017	Recognised in IS	Recognised in SCI	31/12/2017
Long-term financial investments	1,195,582	-167,573	-4,506	1,023,503
Short-term operating receivables	222,455	35,333	0	257,788
Provisions for jubilee benefits and severance pay (retirement)	31,440	3,742	-1,605	33,577
Other	-76,041	0	0	-76,041
Total	**1,373,436**	**-128,499**	**-6,111**	**1,238,826**

4) Investment property

Movement in cost and accumulated depreciation of investment property

(EUR)	Land	Buildings	Equipment	Total
COST				
Balance as at 01/01/2018	1,496,601	6,905,412	0	8,402,013
Additions	0	208,883	62,157	271,040
Reallocations	-5,811	-101,391	6,376	-100,826
Balance as at 31/12/2018	1,490,790	7,012,904	68,533	8,572,227
ACCUMULATED AMORTISATION				
Balance as at 01/01/2018	0	171,135	0	171,135
Additions	0	139,122	2,078	141,200
Reallocations	0	-28,177	2,336	-25,841
Balance as at 31/12/2018	0	282,080	4,414	286,494
Carrying amount as at 01/01/2018	**1,496,601**	**6,734,277**	**0**	**8,230,878**
Carrying amount as at 31/12/2018	**1,490,790**	**6,730,824**	**64,119**	**8,285,733**

(EUR)	Land	Buildings	Total
COST			
Balance as at 01/01/2017	5,810	3,200,431	3,206,241
Reallocations	1,490,790	3,704,982	5,195,772
Balance as at 31/12/2017	1,496,601	6,905,412	8,402,013
ACCUMULATED AMORTISATION			
Balance as at 01/01/2017	0	84,165	84,165
Additions	0	86,970	86,970
Balance as at 31/12/2017	0	171,135	171,135
Carrying amount as at 01/01/2017	**5,810**	**3,116,266**	**3,122,076**
Carrying amount as at 31/12/2017	**1,496,601**	**6,734,277**	**8,230,878**

Investment property of the Company includes business premises in a commercial building at Tivolska Street 48, the building at Baragova Street 5 and parking areas at Dunajska Street 56, which are leased out under long-term contracts.

All investment property assets yield rent. In 2018, the Company realised income of EUR 692,712 from investment properties leased out, of which EUR 6,506 was paid by subsidiaries and EUR 686,207 by third parties. In 2017, the Company realised income of EUR 326,147 from investment properties leased out, of which EUR 11,152 was paid by associates and EUR 314,995 by third parties. 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 EUR 112,718 in 2018 (2017: EUR 144,325).

The investment properties are unencumbered by any third-party rights.

The fair values of investment property are disclosed in note 22 “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 Group companies

(EUR)	01/01/2018		Acquisition/ recapitalisation	Impairment (-)	31/12/2018	
	Holding	Value	Value	Value	Holding	Value
Zavarovalnica Sava	100.00%	123,364,959	0	0	100.00%	123,364,959
Sava Neživotno Osiguranje (SRB)	100.00%	13,457,144	6,942,021	0	100.00%	20,399,165
Illyria	100.00%	10,318,445	0	-2,224,445	100.00%	8,094,000
Sava Osiguruvanje (MKD)	92.57%	10,284,618	0	-253,128	92.57%	10,031,490
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)	100.00%	6,685,245	0	-1,542,967	100.00%	5,142,278
Illyria Hospital	100.00%	1,800,317	0	0	100.00%	1,800,317
Sava Pokojninska	100.00%	8,089,939	0	0	100.00%	8,089,939
TBS Team 24	0.00%	0	2,906,504	0	75.00%	2,906,504
Sava Penzisko Društvo	0.00%	0	19,714,494	0	100.00%	19,714,494
Sava Terra	0.00%	0	747,831	0	30.00%	747,831
Total		**193,409,578**	**30,310,850**	**-4,020,539**		**219,699,889**

(EUR)	01/01/2017		Acquisition/ recapitalisation	Impairment (-)	31/12/2017	
	Holding	Value	Value	Value	Holding	Value
Zavarovalnica Sava	99.74%	122,312,446	1,052,512	0	100.00%	123,364,959
Sava Neživotno Osiguranje (SRB)	100.00%	13,457,144	0	0	100.00%	13,457,144
Illyria	100.00%	10,318,445	0	0	100.00%	10,318,445
Sava Osiguruvanje (MKD)	92.44%	10,278,898	5,721	0	92.57%	10,284,618
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)	100.00%	5,974,281	710,963	0	100.00%	6,685,245
Illyria Hospital	100.00%	1,800,317	0	0	100.00%	1,800,317
Sava Pokojninska	100.00%	8,089,939	0	0	100.00%	8,089,939
Total		**191,640,382**	**1,769,196**	**0**		**193,409,578**

Financial investments in associates

(EUR)	01/01/2018		Additions		31/12/2018		
	Holding	Value	Holding	Value	Holding	Value	Share of voting rights (%)
ZTSR	0.00%	0	50.00%	125,000	50.00%	125,000	50.00%
G2I	0.00%	0	17.50%	394,197	17.50%	394,197	25.00%
Total		**0**		**519,197**		**519,197**	

In 2018, the Company increased its investments in Group companies by EUR 30.3 million (2017: EUR 1.8 million).

It also reduced its investments in Group companies by EUR 4.0 million to account for impairment. The assumptions used in the valuation are presented in greater detail in section 17.7 "Notes to the consolidated financial statements – statement of financial position".

6) Financial investments

(EUR)	Held-to-maturity	At fair value through P/L	Available-for-sale	Loans and receivables	Total
		Non-derivative			
31/12/2018		Designated to this category			
Debt instruments	**2,075,425**	**3,517,591**	**214,906,431**	**3,832,188**	**224,331,635**
Deposits and CDs	0	1,589,488		742,115	2,331,604
Government bonds	2,075,425	35,863	118,775,472	0	120,886,760
Corporate bonds	0	1,892,240	96,130,959	0	98,023,199
Loans granted	0	0	0	3,090,072	3,090,072
Equity instruments	**0**	**439,304**	**11,384,576**	**0**	**11,823,880**
Shares	0	411,709	8,309,244	0	8,720,953
Mutual funds	0	27,595	3,075,332	0	3,102,927
Infrastructure funds	**0**	**0**	**1,860,608**	**0**	**1,860,608**
Deposits with cedants	**0**	**0**	**0**	**6,275,310**	**6,275,310**
Total	**2,075,425**	**3,956,895**	**228,151,616**	**10,107,498**	**244,291,434**

(EUR) 31.12.2017	Held-to-maturity	At fair value through P/L Non-derivative Designated to this category	Available-for-sale	Loans and receivables	Total
Debt instruments	**2,075,111**	**0**	**222,604,081**	**7,008,538**	**231,687,731**
Deposits and CDs	0	0	0	2,398,614	2,398,614
Government bonds	2,075,111	0	114,238,753	0	116,313,865
Corporate bonds	0	0	108,365,328	0	108,365,328
Loans granted	0	0	0	4,609,924	4,609,924
Equity instruments	**0**	**409,573**	**12,852,036**	**0**	**13,261,609**
Shares	0	409,573	9,989,654	0	10,399,227
Mutual funds	0	0	2,862,382	0	2,862,382
Deposits with cedants	**0**	**0**	**0**	**5,832,347**	**5,832,347**
Total	**2,075,111**	**409,573**	**235,456,116**	**12,840,885**	**250,781,685**

Sava Re held 0.9% of financial investments that constitute subordinated debt for the issuer (31/12/2017: 0.5%).

Loans granted to Group companies

(EUR)	Type of debt instrument	31/12/2018	31/12/2017
Sava Neživotno Osiguranje (SRB)	loan	1,305,134	1,305,929
Sava Osiguruvanje (MKD)	loan	0	300,000
Illyria Life	loan	0	3,003,995
Illyria	loan	650,169	0
Sava Terra	loan	576,880	0
Total		**2,532,183**	**4,609,924**

No securities have been pledged as security.

7) Reinsurers' share of technical provisions

(EUR)	31/12/2018	31/12/2017
From unearned premiums	3,570,489	3,513,686
From provisions for claims outstanding	17,866,732	16,559,885
Total	**21,437,221**	**20,073,571**

The reinsures' share of unearned premiums mostly moved in line with retroceded premiums, and remained at a more or less similar level in 2018. 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 2018, retroceded claims provisions increased by 7.9%: due to loss events, new provisions were set aside for the motor liability excess of loss cover for the Group portfolio and the inwards property excess of loss cover (Jebi typhoon in Japan), which was partially offset by payments and release of retroceded provisions from the previous year set aside for larger non-life losses affecting both intra- and extra-Group portfolios.

8) Receivables

Receivables of the controlling company arising out of reinsurance contracts are not specially secured. Receivables have been tested for impairment.

Receivables by type

(EUR)	31/12/2018			31/12/2017		
	Gross amount	Allowance	Receivables	Gross amount	Allowance	Receivables
Receivables due from policyholders	82,158,702	-396,032	81,762,670	85,661,458	-493,636	85,167,822
Other receivables arising out of primary insurance business	755,965	0	755,965	0	0	0
Receivables arising out of primary insurance business	**82,914,668**	**-396,032**	**82,518,635**	**85,661,458**	**-493,636**	**85,167,822**
Receivables for shares in claims payments	4,550,739	-175,004	4,375,735	3,048,587	-175,004	2,873,583
Receivables for commission	466,544	0	466,544	329,343	0	329,343
Receivables arising out of reinsurance and co-insurance business	**5,017,282**	**-175,004**	**4,842,279**	**3,377,930**	**-175,004**	**3,202,926**
Current tax assets	**0**	**0**	**0**	**0**	**0**	**0**
Receivables arising out of investments	40,024	-88	39,936	41,152	-88	41,064
Other short-term receivables	844,030	-414,581	429,449	605,163	-414,581	190,582
Other receivables	**884,054**	**-414,669**	**469,385**	**646,316**	**-414,669**	**231,647**
Total	**88,816,005**	**-985,705**	**87,830,299**	**89,685,704**	**-1,083,309**	**88,602,395**

The table gives a receivables ageing analysis. Amounts are net of any allowances.

Receivables ageing analysis

(EUR) 31/12/2018	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	68,037,014	7,977,157	5,748,499	81,762,670
Other receivables arising out of primary insurance business	458,741	186,089	111,135	755,965
Receivables arising out of primary insurance business	**68,495,754**	**8,163,247**	**5,859,634**	**82,518,635**
Receivables for reinsurers' shares in claims	3,541,151	482,112	352,473	4,375,735
Receivables for commission	329,924	136,620	0	466,544
Receivables arising out of reinsurance and co-insurance business	**3,871,074**	**618,732**	**352,473**	**4,842,279**
Short-term receivables arising out of financing	13,257	2,180	24,499	39,936
Other short-term receivables	419,404	6,265	3,780	429,449
Other receivables	**432,661**	**8,445**	**28,279**	**469,385**
Total	**72.799.489**	**8.790.423**	**6.240.386**	**87.830.299**

(EUR) 31/12/2017	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	70,333,520	9,733,178	5,101,123	85,167,822
Receivables arising out of primary insurance business	**70,333,520**	**9,733,178**	**5,101,123**	**85,167,822**
Receivables for reinsurers' shares in claims	2,068,584	316,745	488,255	2,873,583
Receivables for commission	312,676	16,666	0	329,343
Receivables arising out of reinsurance and co-insurance business	**2,381,260**	**333,411**	**488,255**	**3,202,926**
Short-term receivables arising out of financing	18,001	1,736	21,327	41,064
Other short-term receivables	174,793	8,417	7,373	190,582
Other receivables	**192,795**	**10,153**	**28,700**	**231,647**
Total	**72,907,575**	**10,076,742**	**5,618,078**	**88,602,395**

All receivables are current.

Movement in allowance for receivables

(EUR)	01/01/2018	Transfer	Additions	Reversals	Write-offs	Exchange differences	31/12/2018
Receivables due from policyholders	-493,637	0	-19,709	124,890	209	-7,786	-396,032
Receivables arising out of primary insurance business	**-493,637**	**0**	**-19,709**	**124,890**	**209**	**-7,786**	**-396,032**
Receivables for reinsurers' shares in claims	-175,004	0	0	0		0	-175,004
Receivables arising out of reinsurance and co-insurance business	**-175,004**	**0**	**0**	**0**	**0**	**0**	**-175,004**
Short-term receivables arising out of financing	-88	0	0	0		0	-88
Other short-term receivables	-414,581	0	0	0		0	-414,581
Other receivables	**-414,669**	**0**	**0**	**0**	**0**	**0**	**-414,669**
Total	**-1,083,309**	**0**	**-19,709**	**124,890**	**209**	**-7,786**	**-985,705**

(EUR)	01/01/2017	Transfer	Additions	Reversals	Exchange differences	31/12/2017
Receivables due from policyholders	0	-427,794	-134,467	48,506	20,119	-493,637
Receivables arising out of primary insurance business	**0**	**-427,794**	**-134,467**	**48,506**	**20,119**	**-493,637**
Receivables for premiums arising out of reinsurance assumed	-427,794	427,794	0	0	0	0
Receivables for reinsurers' shares in claims	-75,004	0	-100,000	0	0	-175,004
Receivables arising out of reinsurance and co-insurance business	**-502,798**	**427,794**	**-100,000**	**0**	**0**	**-175,004**
Short-term receivables arising out of financing	-88	0	0	0	0	-88
Other short-term receivables	-509,335	0	0	94,754	0	-414,581
Other receivables	**-509,423**	**0**	**0**	**94,754**	**0**	**-414,669**
Total	**-1,012,222**	**0**	**-234,467**	**143,260**	**20,119**	**-1,083,309**

9) Deferred acquisition costs

(EUR)	31/12/2018	31/12/2017
Deferred commission from inwards reinsurance in Slovenia and abroad	7,821,932	7,778,499

This item comprises commissions invoiced but relating to the next financial year, which are deferred using the straight-line method, and estimated future final commissions for intra-Group reinsurance. All deferred acquisition costs are current. Deferred commissions of ceding Group companies increased by EUR 0.7 million in 2018, which is due to growth in business volume and with it in unearned premiums and deferred commissions. The deferred commissions relating to the extra-group portfolio decreased by EUR 0.7 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 previous years.

11) Cash and cash equivalents

(EUR)	31/12/2018	31/12/2017
Cash in bank accounts	5,027,911	2,963,782
Framework deposit or overnight deposits	5,623,541	3,714,676
Total	**10,651,452**	**6,678,458**

Cash equivalents comprises demand deposits and deposits placed with an original maturity of up to three months.

12) Share capital

As at 31 December 2018, the Company's share capital was divided into 17,219,662 shares (the same as at 31/12/2017). 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 2018, the Company's shareholders' register listed 4,073 shareholders (31/12/2017: 4,061 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 EUR 22.2 million. Expenses directly attributable to the initial public offering of EUR 1.0 million were deducted from the added amount. As at 31 December 2018 capital reserves totalled EUR 54.2 million.

14) Profit reserves

Reserves provided for by the articles of association totalled EUR 11.5 million, having reached the statutory prescribed amount already in 2006, while legal reserves totalled EUR 3.5 million in 2018 and were also not strengthened in the year.

Profit reserves

(EUR)	31/12/2018	31/12/2017	Distributable/ non-distributable
Legal reserves and reserves provided for by the articles of association	14,986,525	14,986,525	non-distributable
Reserve for own shares	24,938,709	24,938,709	non-distributable
Catastrophe equalisation reserve	10,000,000	10,000,000	non-distributable
Other profit reserves	134,499,629	113,565,880	distributable
Total	**184,424,862**	**163,491,114**	

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.

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 EUR 20.9 million in 2018.

15) Own shares

As at 31 December 2018, the Company held 1,721,966 POSR shares (or 10% of all shares) worth EUR 24,938,709.

16) Fair value reserve

The fair value reserve comprises the change in fair value of available-for-sale financial assets.

(EUR)	2018	2017
As at 1 January	**3,804,764**	**3,785,553**
Change in fair value	-1,165,440	692,156
Transfer from fair value reserve to the IS due to disposal	-201,700	-668,437
Deferred tax	259,758	-4,506
As at 31 December	**2,697,381**	**3,804,764**

The table shows the net change in the fair value reserve, which is an equity component.

17) Net profit or 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 own shares. The weighted average number of shares outstanding in the financial period was 15,497,696. 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

(EUR)	2018	2017
Net profit or loss for the period	41,867,497	32,974,192
Weighted average number of shares outstanding	15,497,696	15,497,696
Net earnings/loss per share	**2.70**	**2.13**

Comprehensive income per share

(EUR)	2018	2017
Comprehensive income for the period	40,787,362	33,008,694
Weighted average number of shares outstanding	15,497,696	15,497,696
Comprehensive income per share	**2.63**	**2.13**

In line with the general meeting resolution dated 29 May 2018, the Company allocated EUR 12,398,157 to dividend pay-outs.

Statement of distributable profit/loss

(EUR)	2018	2017
Net profit or loss for the period	41,867,497	32,974,192
- profit or loss for the year under applicable standards	41,867,497	32,974,192
Retained earnings/losses	10,101,174	6,012,234
Additions to other reserves as per resolution of the management and the supervisory boards	20,933,748	16,487,096
Distributable profit to be allocated by the general meeting	**31,034,920**	**22,499,330**
- to shareholders	0	12,398,157
- to be carried forward to the next year	0	10,101,174

18) Technical provisions

Movements in gross technical provisions

(EUR)	01/01/2018	Additions	Uses	Exchange differences	31/12/2018
Gross unearned premiums	47,602,457	43,937,662	-44,466,232	73,618	47,147,505
Gross provision for outstanding claims	184,269,492	68,966,613	-66,986,678	-260,799	185,988,628
Gross provision for bonuses, rebates and cancellations	397,861	398,672	-397,861	0	398,673
Other gross technical provisions	369,352	638,273	-369,353	0	638,272
Total	**232,639,163**	**113,941,220**	**-112,220,124**	**-187,180**	**234,173,078**

(EUR)	01/01/2017	Additions	Uses	Exchange differences	31/12/2017
Gross unearned premiums	43,345,415	45,528,202	-41,023,857	-247,303	47,602,457
Gross provision for outstanding claims	182,167,780	73,160,487	-64,884,414	-6,174,360	184,269,492
Gross provision for bonuses, rebates and cancellations	483,539	397,861	-483,539	0	397,861
Other gross technical provisions	210,745	369,353	-210,745	0	369,352
Total	**226,207,479**	**119,455,903**	**-106,602,555**	**-6,421,663**	**232,639,163**

Technical provisions, the second largest item on the liabilities side, increased by 0.7%, or EUR 1.5 million, compared to 31 December 2017.

Gross unearned premiums decreased by 1.0%, or EUR 0.5 million: this is the net result of an increase due to an increased volume of intra-Group business and a decrease due to a decreased volume of extra-Group business.

Gross claims provisions increased by 0.9% in 2018, with the decrease within the intra-Group portfolio due to dismantling and payments for earlier underwriting years (from EUR 56.4 million to EUR 54.9 million) being offset with the increase within the extra-Group portfolio due to growth in business volume in previous years and larger losses in 2018 (from EUR 127.8 million to EUR 131.1 million). The largest was typhoon Jebi in Japan with EUR 6.7 million.

Composition of the provision for outstanding claims

(EUR)	31/12/2018	31/12/2017
Net provision for claims incurred but not reported (IBNR)	**59,276,486**	**63,336,603**
- gross provision	59,276,486	63,336,603
Net provision for claims reported but not settled	**109,011,761**	**104,514,999**
- gross provision	126,878,492	121,074,884
- reinsurers' share	-17,866,732	-16,559,885
Net provision for expected subrogation recoveries	**-166,350**	**-141,995**
Gross provision for outstanding claims	-166,350	-141,995
Net provision for outstanding claims	**168,121,897**	**167,709,607**
Total gross provision for outstanding claims	**185,988,628**	**184,269,492**
Total reinsurers' share (–)	**-17,866,732**	**-16,559,885**
IBNR as % of gross provision for outstanding claims	31.9%	34.4%
IBNR as % of net provision for outstanding claims	35.3%	37.8%

The movement in the gross and net claims provisions is aligned. The proportion of the IBNR provision remained at the prior-year level.

Provisions for bonuses, rebates and cancellations remained at approximately the same level.

Other technical provisions comprise the provision for unexpired risks. They are set aside when the expected combined ratio exceeds 100%. A larger increase in 2018 was observed within marine hull insurance, where the expected combined ratio was higher due to poorer results in previous years.

Calculation of the gross provision for unexpired risks by class of insurance

(EUR)	31/12/2018		31/12/2017	
	Expected combined ratio	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	84.2%	0	91.6%	0
Health	122.9%	93	128.3%	1,099
Land vehicles casco	95.9%	0	98.6%	0
Railway rolling stock	167.3%	18,471	41.8%	0
Aircraft hull	104.3%	4,125	121.9%	9,168
Ships hull	139.7%	565,258	127.3%	320,611
Goods in transit	90.3%	0	78.5%	0
Fire and natural forces	88.5%	0	90.8%	0
Other damage to property	66.4%	0	60.1%	0
Motor liability	90.9%	0	91.8%	0
Aircraft liability	26.3%	0	59.5%	0
Liability for ships	67.7%	0	73.1%	0
General liability	57.0%	0	52.8%	0
Credit	-13.1%	0	-2.0%	0
Suretyship	169.1%	50,325	180.3%	38,475
Miscellaneous financial loss	63.8%	0	73.9%	0
Legal expenses	33.2%	0	43.1%	0
Assistance	13.7%	0	38.1%	0
Life	55.1%	0	58.1%	0
Unit-linked life	55.9%	0	55.4%	0
Total	**86.1%**	**638,273**	**86.7%**	**369,353**

19) 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

(EUR)	Provision for severance pay upon retirement	Provision for jubilee benefits	Other provisions for costs	Total
01/01/2018	**293,921**	**56,958**	**370**	**351,250**
Interest costs	-1,119	-238	0	-1,357
Cost of service	37,265	7,925	0	45,190
Past service cost (IS)	18,777	4,800	0	23,577
Payments	0	-9,197	0	-9,197
Impact of changes in actuarial assumptions (IS)	0	-2,793	0	-2,793
Impact of changes in actuarial assumptions (SFP)	-29,780		0	-29,780
Other changes	0	0	-370	-370
31/12/2018	**319,065**	**57,456**	**0**	**376,521**

(EUR)	Provision for severance pay upon retirement	Provision for jubilee benefits	Other provisions for costs	Total
01/01/2017	**275,344**	**55,605**	**852**	**331,801**
Interest costs	-832	-176	0	-1,007
Cost of service	36,302	8,108	0	44,410
Payments	0	-5,021	0	-5,021
Impact of changes in actuarial assumptions (IS)	0	-1,557	0	-1,557
Impact of changes in actuarial assumptions (SFP)	-16,893	0	0	-16,893
Other changes	0	0	-482	-482
31/12/2017	**293,921**	**56,958**	**370**	**351,250**

We are also disclosing quantitative information on the sensitivity of the provisions for severance pay upon retirement and jubilee benefits to reasonably possible changes 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 0.776% (2017: 1.020%), inflation and growth in jubilee benefits 1.5% (2017: 1.5%), staff turnover up to age 35 1.9% (2017: 1.8%), in the 35-to-45 age bracket 3.8% (2017: 3.6%), after age 45 2.6% (2017: 2.0%), mortality as per SLO 2007 (m/f) tables.

Sensitivity	Provision for severance pay upon retirement		Provision for jubilee benefits	
(EUR)	31/12/2018	31/12/2017	31/12/2018	31/12/207
Decrease in discount rate of 1%	39,805	40,427	4,929	4,872
Increase in discount rate of 1%	-33,208	-33,440	-4,309	-4,244
Increase in real income growth of 0.5%	-18,085	-18,287	0	0
Increase in real income growth of 0.5%	19,762	19,959	0	0
Decrease in staff turnover of 10%	10,203	8,002	1,418	1,207
Increase in staff turnover of 10%	-9,749	-7,701	-1,369	-1,170
Decrease in mortality rate of 10%	2,562	2,506	138	131
Increase in mortality rate of 10%	-2,534	-2,477	-138	-131

20) Liabilities from operating activities

Liabilities from operating activities dropped by 9.6%, or EUR 5.2 million. Liabilities from primary insurance business fell by EUR 7.1 million as the result of lower not past due claims payables due to a normal annual dynamics and commission payables (these declined due to lower premium receivables). On the other side, there are premium receivables. Current tax liabilities as at year-end 2018 increased by EUR 1.8 million from year-end 2017.

Liabilities from operating activities

(EUR)	31/12/2018	31/12/2017
Liabilities to policyholders	23,598,949	30,427,835
Other liabilities from primary insurance business	20,440,180	20,732,279
Liabilities from primary insurance business	**44,039,129**	**51,160,114**
Liabilities for reinsurance premiums	3,149,282	3,089,298
Liabilities for shares in reinsurance claims	112	710
Liabilities from reinsurance and co-insurance business	**3,149,394**	**3,090,008**
Current tax liabilities	**1,997,157**	**154,799**
Total	**49,185,680**	**54,404,921**

All liabilities are current.

The Company does not have liabilities arising out of co-insurance. The other liabilities due from co-insurance and reinsurance item comprises liabilities for reinsurance commission.

In accordance with IFRS 16 Leases, the Company will recognise lease liabilities of EUR 176,102 as at 1 January 2019.

As at 31 December 2018, the Company recognised current tax liabilities of EUR 1,997,157 (31/12/2017: EUR 154,799).

21) Other liabilities

Compared to 2017, other liabilities increased due to an increase in accrued expenses and deferred income of EUR 0.7 million.

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

(EUR)	Maturity	
2018	Up to 1 year	Total
Short-term liabilities relating to securities	4,633	4,633
Short-term liabilities due to employees	478,216	478,216
Other short-term liabilities	882,631	882,631
Accruals and deferrals	1,787,432	1,787,432
Total	**3,152,911**	**3,152,911**

(EUR)	Maturity	
2017	Up to 1 year	Total
Short-term liabilities relating to securities	4,000	4,000
Short-term liabilities due to employees	465,008	465,008
Other short-term liabilities	926,352	926,352
Accruals and deferrals	1,038,149	1,038,149
Total	**2,433,509**	**2,433,509**

Movements in accrued expenses and deferred income

(EUR)	01/01/2018	Additions - reclassification	Uses	31/12/2018
Short-term accrued expenses	**852,118**	**3,511,394**	**-2,762,873**	**1,600,638**
- auditing costs	35,929	65,880	-35,929	65,880
- accrued labour cost	291,531	891,598	-291,531	891,598
- deferred reinsurance commission	459,530	2,490,460	-2,435,413	514,576
- deferred interest income	15,757	3,704	0	19,461
- other short-term accrued expenses	49,372	59,752	0	109,124
Other accrued expenses and deferred income	**186,031**	**186,793**	**-186,031**	**186,793**
- provision for unexpended employee leave	186,031	186,793	-186,031	186,793
Total	**1,038,149**	**3,698,187**	**-2,948,904**	**1,787,432**

(EUR)	01/01/2017	Additions - reclassification	Uses	31/12/2017
Short-term accrued expenses	**973,010**	**2,316,647**	**-2,437,541**	**852,118**
- auditing costs	42,029	96,380	-102,480	35,929
- accrued labour cost	365,207	291,531	-365,207	291,531
- deferred reinsurance commission	412,879	1,830,314	-1,783,665	459,530
- deferred interest income	11,369	4,388	0	15,757
- other short-term accrued expenses	141,526	94,034	-186,189	49,372
Other accrued expenses and deferred income	**221,180**	**186,031**	**-221,180**	**186,031**
- liabilities for retained deposits	37,446	0	-37,446	0
- provision for unexpended employee leave	183,734	186,031	-183,734	186,031
Total	**1,194,190**	**2,502,678**	**-2,658,721**	**1,038,149**

22) 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 at the BVAL price if the CBBT price is unavailable. Debt securities measured using an internal model based on level 2 inputs.	Debt securities measured using an internal model that does not consider 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 at the BVAL price when the stock exchange price is unavailable. Debt securities measured using an internal model based on level 2 inputs.	Debt securities measured using an internal model that does not consider 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 for which there is no stock exchange price and that are measured using an internal model based on level 2 inputs.	Shares are measured using an internal model that does not consider 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.		
Alternative funds			
			Fair value is determined on the basis of valuation of individual projects, where discounting of future cash flows is used.
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

(EUR) 31/12/2018	Carrying amount	Fair value				Difference between FV and CA
		Level 1	Level 2	Level 3	Total fair value	
Investments measured at fair value	**232,108,511**	**108,231,449**	**118,603,834**	**5,273,227**	**232,108,511**	**0**
At fair value through P/L	**3,956,895**	**1,955,698**	**411,709**	**1,589,488**	**3,956,895**	**0**
Designated to this category	3,956,895	1,955,698	411,709	1,589,488	3,956,895	0
Debt instruments	3,517,591	1,928,103	0	1,589,488	3,517,591	0
Equity instruments	439,304	27,595	411,709	0	439,304	0
Available-for-sale	**228,151,616**	**106,275,751**	**118,192,125**	**3,683,739**	**228,151,616**	**0**
Debt instruments	214,906,431	103,200,419	111,618,064	87,948	214,906,431	0
Equity instruments	11,384,576	3,075,332	6,574,061	1,735,183	11,384,576	0
Infrastructure funds	1,860,608	0	0	1,860,608	1,860,608	0
Investments not measured at fair value	**12,182,923**	**0**	**3,621,553**	**9,365,383**	**12,986,936**	**804,013**
Held-to-maturity assets	**2,075,425**	**0**	**2,729,023**	**0**	**2,729,023**	**653,598**
Debt instruments	2,075,425	0	2,729,023	0	2,729,023	653,598
Loans and receivables	**10,107,498**	**0**	**892,530**	**9,365,383**	**10,257,912**	**150,415**
Deposits	742,115	0	892,530	0	892,530	150,415
Loans granted	3,090,072	0	0	3,090,072	3,090,072	0
Deposits with cedants	6,275,310	0	0	6,275,310	6,275,310	0
Total investments	**244,291,434**	**108,231,449**	**122,225,387**	**14,638,609**	**245,095,447**	**804,013**

(EUR) 31/12/2017	Carrying amount	Fair value				Difference between FV and CA
		Level 1	Level 2	Level 3	Total fair value	
Investments measured at fair value	**235,865,689**	**168,973,221**	**63,313,461**	**3,579,007**	**235,865,689**	**0**
At fair value through P/L	**409,573**	**0**	**409,573**	**0**	**409,573**	**0**
Designated to this category	409,573	0	409,573	0	409,573	0
Equity instruments	409,573	0	409,573	0	409,573	0
Available-for-sale	235,456,116	168,973,221	62,903,888	3,579,007	235,456,116	0
Debt instruments	222,604,081	166,110,840	56,493,241	0	222,604,081	0
Equity instruments	12,852,035	2,862,381	6,410,647	3,579,007	12,852,035	0
Investments not measured at fair value	**14,915,997**	**2,817,696**	**3,127,264**	**10,442,271**	**16,387,231**	**1,471,235**
Held-to-maturity assets	**2,075,111**	**2,817,696**	**0**	**0**	**2,817,696**	**742,584**
Debt instruments	2,075,111	2,817,696	0	0	2,817,696	742,584
Loans and receivables	**12,840,885**	**0**	**3,127,264**	**10,442,271**	**13,569,536**	**728,650**
Deposits	2,398,614	0	3,127,264	0	3,127,264	728,650
Loans granted	4,609,924	0	0	4,609,924	4,609,924	0
Deposits with cedants	5,832,347	0	0	5,832,347	5,832,347	0
Total investments	**250,781,685**	**171,790,917**	**66,440,725**	**14,021,278**	**252,252,920**	**1,471,235**

As BID CBBT prices were unavailable for a large part of the bond portfolio, the BVAL price as at 31 December 2018 was used instead, in accordance with the methodology for determining the fair value of debt securities.

Gains and losses on level 3 financial assets

(EUR)	Debt instruments		Equity instruments		Alternative (infrastructure) funds	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Income	30,050	0	100,701	80,897	29,116	0
Expenses	0	0	1,943,974	0	0	0

Movements in level 3 financial assets

(EUR)	Debt instruments		Equity instruments		Investments in alternative (infrastructure) funds	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Opening balance	**0**	**0**	**3,579,007**	**3,899,007**	**0**	**0**
Additions	0	0	0	0	2,054,931	0
Impairment	0	0	-1,943,974	-320,000	0	0
Disposals	0	0	0	0	-299,663	0
Revaluation to fair value	0	0	0	0	105,340	0
Reclassification into level	1,677,436	0	100,150	0	0	0
Closing balance	**1,677,436**	**0**	**1,735,183**	**3,579,007**	**1,860,608**	**0**

Reclassification of assets and financial liabilities between levels

(EUR) 31/12/2018	Level 1	Level 2	Level 3
At fair value through P/L	**0**	**-1,643,558**	**1,643,558**
Designated to this category	0	-1,643,558	1,643,558
Debt instruments	0	-1,643,558	1,643,558
Available-for-sale	**-54,620,465**	**54,432,367**	**188,098**
Debt instruments	-54,620,465	54,532,517	87,948
Equity instruments	0	-100,150	100,150
Total	**-54,620,465**	**52,788,809**	**1,831,656**

(EUR) 31/12/2017	Level 1	Level 2
Available-for-sale	**3,491,762**	**-3,491,762**
Debt instruments	3,491,762	-3,491,762
Total	**3,491,762**	**-3,491,762**

Disclosure of the fair value of non-financial assets measured in the statement of financial position at amortised cost or at cost

Property 31/12/2018	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Owner-occupied property	31/12/2018	1,917,105	2,883,338	market approach and income approach (weighted 50 : 50), new purchases at cost
Investment property	31/12/2018	8,221,614	8,503,694	
Total		**10,138,719**	**11,387,032**	

Property 31/12/2017	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Owner-occupied property	31/12/2017	1,830,020	2,746,347	market approach and income approach (weighted 50 : 50), new purchases at cost
Investment property	31/12/2017	8,230,878	8,431,802	
Total		**10,060,898**	**11,178,149**	

Movements in the fair value of land and buildings

(EUR)	01/01/2018	Acquisitions	Realloca-tions	Change in fair value	31/12/2018
Owner-occupied property	2,746,347	39,546	136,991	-39,546	2,883,338
Investment property	8,431,802	208,883	-136,991	0	8,503,694
Total	**11,178,149**	**248,429**	**0**	**-39,546**	**11,387,032**

(EUR)	01/01/2017	Reallocations	31/12/2017
Owner-occupied property	8,015,572	-5,269,225	2,746,347
Investment property	3,236,030	5,195,772	8,431,802
Total	**11,251,602**	**-73,453**	**11,178,149**

In 2018, 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 2018, the proportion of OTC assets measured based on closing BID CBBT prices declined flat compared to the end of 2017. As at 31 December 2018, level 1 investments represented 46.6% (31/12/2017: 72.2%) of financial investments measured at fair value.

Quoted financial instruments that did not meet the active market criterion as at 31 December 2018, 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 23.2.12 "Investment property", for financial investments in subsidiaries and associates in section 23.2.13 "Financial investments in subsidiaries and associates", and for financial investments in section 23.2.14 "Financial investments".

23.7 Notes to the financial statements – income statement

23) Net earned premiums

Net earned premiums

(EUR) 2018	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	5,129,020	-41,007	-65,156	-2,837	5,020,019
Health	140,611	0	4,945	0	145,556
Land vehicles casco	18,630,923	-745,814	159,869	-2,001	18,042,977
Railway rolling stock	122,506	-2,244	13,012	156	133,430
Aircraft hull	786,247	-5,594	-62,226	-516	717,912
Ships hull	5,666,010	-387,575	-258,038	28,242	5,048,639
Goods in transit	5,296,882	-233,817	-40,219	-5,419	5,017,426
Fire and natural forces	69,954,809	-11,625,323	800,787	307,753	59,438,026
Other damage to property	19,963,622	-3,304,643	414,345	-142,082	16,931,240
Motor liability	14,868,527	-486,347	-642,927	0	13,739,254
Aircraft liability	148,068	-46,782	-12,278	5,766	94,774
Liability for ships	747,076	-15,846	-21,614	7,023	716,638
General liability	7,859,330	-586,121	-160,708	-130,108	6,982,393
Credit	925,198	0	11,095	0	936,293
Suretyship	36,241	0	-27,252	0	8,989
Miscellaneous financial loss	645,442	-571,507	348,710	-8,698	413,947
Legal expenses	-71	0	1,906	0	1,835
Assistance	17,888	0	0	0	17,888
Life	513,723	-261,563	-118,472	-475	133,213
Unit-linked life	184,166	-93,610	109,173	0	199,729
Total non-life	**150,938,327**	**-18,052,620**	**464,251**	**57,278**	**133,407,236**
Total life	**697,889**	**-355,173**	**-9,299**	**-475**	**332,942**
Total	**151,636,216**	**-18,407,793**	**454,952**	**56,803**	**133,740,178**

(EUR) 2017	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	5,391,534	-36,818	217,401	-7,921	5,564,197
Health	3,244,210	0	18,053	0	3,262,263
Land vehicles casco	17,966,660	-1,197,798	-1,640,571	2,538	15,130,829
Railway rolling stock	211,981	-4,248	-16,863	339	191,209
Aircraft hull	12,326	-7,894	115,173	630	120,235
Ships hull	5,542,664	-347,486	-488,455	65,421	4,772,144
Goods in transit	5,234,561	-259,542	-326,765	-2,999	4,645,256
Fire and natural forces	70,920,629	-11,050,787	-906,503	335,223	59,298,562
Other damage to property	18,222,571	-3,662,864	193,694	202,956	14,956,358
Motor liability	14,484,378	-531,754	-796,481	0	13,156,142
Aircraft liability	139,060	-49,171	-6,197	-11,011	72,682
Liability for ships	723,250	-9,932	-20,111	1,566	694,773
General liability	7,554,812	-864,517	-308,297	192,574	6,574,571
Credit	980,196	0	-186,709	0	793,486
Suretyship	242,199	0	20,594	0	262,793
Miscellaneous financial loss	1,509,279	-523,828	-87,455	27,438	925,433
Legal expenses	10,118	0	370	0	10,488
Assistance	19,355	0	-16	0	19,339
Life	489,010	-243,967	73,670	2,469	321,182
Unit-linked life	320,960	-116,710	-111,574	0	92,677
Total non-life	**152,409,782**	**-18,546,637**	**-4,219,138**	**806,756**	**130,450,762**
Total life	**809,970**	**-360,677**	**-37,904**	**2,469**	**413,858**
Total	**153,219,752**	**-18,907,314**	**-4,257,043**	**809,225**	**130,864,620**

The above table shows the movement in gross premiums written. In 2018 gross premiums written in Slovenia rose by 10.0%, or EUR 5.3 million, (increase in premiums written by Zavarovalnica Sava). This favourable premium growth is a result of growth in motor business (increase both in average premium and number of policies written), attraction of some new customers and growth in the portfolio of direct international business based on the freedom of services principle. Gross premiums written from abroad dropped by 6.8% or EUR 6.8 million. Premiums were lower due to strict underwriting discipline during the soft market phase and the related selective underwriting.

Despite the drop in gross premiums written, net premiums earned for the period were higher than in 2017. Net unearned premiums were lower than at year-end 2017, while last year's figure was an increase from end of 2016. This trend is the result of decline in gross premiums written abroad in 2018 and their growth in 2017.

24) Income and expenses relating to investments in subsidiaries and associates

In 2018 the Company received dividends from its subsidiaries amounting to EUR 33.6 million (2017: EUR 26.1 million). It also had expenses related to investments in subsidiaries of EUR 4.0 million (2017: EUR 0).

25) Investment income and expenses

Investment income, expenses and net investment income by IFRS category

Income relating to financial assets and liabilities from 1 January to 31 December 2018

(EUR)	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	**102,814**	**0**	**0**	**0**	**0**	**0**	**102,814**
Debt instruments	102,814	0	0	0	0	0	102,814
At fair value through P/L	**55,329**	**91,554**	**0**	**21,625**	**906**	**0**	**169,414**
Designated to this category	55,329	91,554	0	21,625	906	0	169,414
Debt instruments	55,329	40,126	0	0	0	0	95,455
Equity instruments	0	51,428	0	21,625	906	0	73,959
Available-for-sale	**3,176,067**	**0**	**477,596**	**654,520**	**6,002,244**	**5,677**	**10,316,104**
Debt instruments	3,176,067	0	375,429	0	6,002,244	5,677	9,559,416
Equity instruments	0	0	102,167	625,404	0	0	727,571
Infrastructure funds	0	0	0	29,116	0	0	29,116
Loans and receivables	**237,681**	**0**	**0**	**0**	**109,381**	**0**	**347,062**
Debt instruments	208,885	0	0	0	0	0	208,885
Other investments	28,796	0	0	0	109,381	0	138,177
Deposits with cedants	**17,803**	**0**	**0**	**0**	**0**	**0**	**17,803**
Total	**3,589,693**	**91,554**	**477,596**	**676,145**	**6,112,531**	**5,677**	**10,953,196**

Expenses relating to financial assets and liabilities from 1 January to 31 December 2018

(EUR)	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	Total	Other
At fair value through P/L	**0**	**217,937**	**0**	**0**	**0**	**217,937**	**0**
Designated to this category	0	217,937	0	0	0	217,937	0
Debt instruments	0	167,542	0	0	0	167,542	0
Equity instruments	0	50,395	0	0	0	50,395	0
Available-for-sale	**0**	**0**	**125,388**	**1,943,974**	**6,021,753**	**8,091,114**	**0**
Debt instruments	0	0	83,900	0	6,021,383	6,105,283	0
Equity instruments	0	0	41,488	1,943,974	369	1,985,831	0
Loans and receivables	**0**	**0**	**0**	**0**	**187,299**	**187,299**	**0**
Other investments	0	0	0	0	187,299	187,299	0
Total	**0**	**217,937**	**125,388**	**1,943,974**	**6,209,052**	**8,496,351**	**0**

Net inv. income of financial assets and liabilities from 1 January to 31 December 2018

(EUR)	Interest income/ expenses	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	Foreign exchange gains/ losses	Other income/ expenses	Total
Held to maturity	**102,814**	**0**	**0**	**0**	**0**	**0**	**0**	**102,814**
Debt instruments	102,814	0	0	0	0	0	0	102,814
At fair value through P/L	**55,329**	**-126,383**	**0**	**21,625**	**0**	**906**	**0**	**-48,523**
Designated to this category	55,329	-126,383	0	21,625	0	906	0	-48,523
Debt instruments	55,329	-127,416	0	0	0	0	0	-72,087
Equity instruments	0	1,033	0	21,625	0	906	0	23,564
Available-for-sale	**3,176,067**	**0**	**352,208**	**654,520**	**-1,943,974**	**-19,509**	**5,677**	**2,224,990**
Debt instruments	3,176,067	0	291,529	0	0	-19,140	5,677	3,454,133
Equity instruments	0	0	60,680	625,404	-1,943,974	-369	0	-1,258,260
Investments in infrastructure funds	0	0	0	29,116	0	0	0	29,116
Loans and receivables	**237,681**	**0**	**0**	**0**	**0**	**-77,919**	**0**	**159,762**
Debt instruments	208,885	0	0	0	0	0	0	208,885
Other investments	28,796	0	0	0	0	-77,919	0	-49,123
Deposits with cedants	**17,803**	**0**	**0**	**0**	**0**	**0**	**0**	**17,803**
Total	**3,589,693**	**-126,383**	**352,208**	**676,145**	**-1,943,974**	**-96,521**	**5,677**	**2,456.845**

Income relating to financial assets and liabilities from 1 January to 31 December 2017

(EUR)	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	**102,798**	**0**	**0**	**0**	**0**	**0**	**102,798**
Debt instruments	102,798	0	0	0	0	0	102,798
At fair value through P/L	**0**	**77,774**	**0**	**19,588**	**0**	**0**	**97,362**
Designated to this category	0	77,774	0	19,588	0	0	97,362
Equity instruments	0	77,774	0	19,588	0	0	97,362
Available-for-sale	**3,487,674**	**0**	**1,227,175**	**599,246**	**3,772,867**	**10,174**	**9,097,137**
Debt instruments	3,487,674	0	1,124,282	0	3,772,867	7,627	8,392,450
Equity instruments	0	0	102,893	599,246	0	2,547	704,687
Loans and receivables	**261,057**	**0**	**0**	**0**	**49,862**	**0**	**310,918**
Debt instruments	232,008	0	0	0	0	0	232,008
Other investments	29,049	0	0	0	49,862	0	78,911
Deposits with cedants	**44,415**	**0**	**0**	**0**	**0**	**0**	**44,415**
Total	**3,895,944**	**77,774**	**1,227,175**	**618,834**	**3,822,729**	**10,174**	**9,652,630**

Expenses relating to financial assets and liabilities from 1 January to 31 December 2017

(EUR)	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**	**76,271**	**0**	**0**	**0**	**0**	**76,271**
Designated to this category	0	76,271	0	0	0	0	76,271
Equity instruments	0	76,271	0	0	0	0	76,271
Available-for-sale	**0**	**0**	**130,028**	**320,000**	**9,097,932**	**422**	**9,548,382**
Debt instruments	0	0	82,313	0	9,097,932	0	9,180,245
Equity instruments	0	0	47,715	320,000	0	422	368,137
Loans and receivables	**0**	**0**	**0**	**0**	**208,337**	**0**	**208,337**
Other investments	0	0	0	0	208,337	0	208,337
Subordinated liabilities	**718,338**	**0**	**0**	**0**	**0**	**0**	**718,338**
Total	**718,338**	**76,271**	**130,028**	**320,000**	**9,306,269**	**422**	**10,551,329**

Net investment income of financial assets and liabilities from 1 January to 31 December 2017

(EUR)	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	**102,798**	**0**	**0**	**0**	**0**	**0**	**0**	**102,798**
Debt instruments	102,798	0	0	0	0	0	0	102,798
At fair value through P/L	**0**	**1,503**	**0**	**19,588**	**0**	**0**	**0**	**21,091**
Designated to this category	0	1,503	0	19,588	0	0	0	21,091
Equity instruments	0	1,503	0	19,588	0	0	0	21,091
Available-for-sale	**3,487,674**	**0**	**1,097,146**	**599,246**	**-320,000**	**-5,325,065**	**9,752**	**-451,246**
Debt instruments	3,487,674	0	1,041,969	0	0	-5,325,065	7,627	-787,795
Equity instruments	0	0	55,178	599,246	-320,000	0	2,125	336,549
Loans and receivables	**261,057**	**0**	**0**	**0**	**0**	**-158,475**	**0**	**102,582**
Debt instruments	232,008	0	0	0	0	0	0	232,008
Other investments	29,049	0	0	0	0	-158,475	0	-129,426
Deposits with cedants	**44,415**	**0**	**0**	**0**	**0**	**0**	**0**	**44,415**
Subordinated liabilities	**-718,338**	**0**	**0**	**0**	**0**	**0**	**0**	**-718,338**
Total	**3,177,606**	**1,503**	**1,097,146**	**618,834**	**-320,000**	**-5,483,540**	**9,752**	**-898,699**

Income relating to financial assets and liabilities in 2018 amounted to EUR 10.95 million (2017: EUR 9.7 million).

Expenses relating to financial assets and liabilities in 2018 amounted to EUR 8.5 million (2017: EUR 10.6 million).

The net investment income relating to financial assets and liabilities (excluding that of subsidiaries) was – EUR 2.5 million (2017: EUR -0.9 million). The increase is mainly due to lower net exchange rate differences. The net amount of exchange differences is still a loss of EUR 0.1 million (2017: exchange gain of EUR 5.5 million).

In 2018, the Company earned EUR 1,427 of interest income on impaired investments; in 2017: EUR 1,002.

Investment income and expenses by source of funds

The Company records investment income and expenses separately depending on whether they relate to own fund assets or non-life insurance register assets. Own fund assets support shareholders' funds, while the assets of the non-life insurance registers support technical provisions.

Investment income

(EUR)	Liability fund 2018	Liability fund 2017
Interest income	3,237,373	3,443,665
Change in fair value and gains on disposal of FVPL assets	77,483	77,774
Gains on disposal of other IFRS asset categories	468,988	969,436
Income from dividends and shares – other investments	478,249	428,209
Exchange gains	6,110,443	3,804,465
Other income	5,677	10,175
Total investment income – liability fund	**10,378,214**	**8,733,724**
	Capital fund 2018	**Capital fund 2017**
Interest income	352,320	452,279
Change in fair value and gains on disposal of FVPL	14,071	0
Gains on disposal of other IFRS asset categories	8,608	257,739
Income from dividends and shares – other investments	197,896	190,625
Exchange gains	2,087	18,264
Total investment income - capital fund	**574,982**	**918,906**
Total investment income	**10,953,196**	**9,652,630**

Investment expenses

(EUR)	Liability fund 2018	Liability fund 2017
Change in fair value and losses on disposal of FVPL assets	135,245	76,271
Losses on disposal of other IFRS asset categories	120,320	119,908
Impairment losses on investments	1,943,974	0
Exchange losses	6,207,534	9,300,337
Total investment expenses – liability fund	**8,407,073**	**9,496,516**
	Capital fund 2018	**Capital fund 2017**
Interest expenses	0	718,338
Change in fair value and losses on disposal of FVPL	82,692	0
Losses on disposal of other IFRS asset categories	5,068	10,120
Impairment losses on investments	0	320,000
Exchange losses	1,518	5,933
Other	0	422
Total investment expenses – capital fund	**89,277**	**1,054,812**
Total investment expenses	**8,496,351**	**10,551,329**

Net investment income	**2,456,845**	**-898,699**

Impairment losses on investments

(EUR)	31/12/2018	31/12/2017
Shares	1,943,974	320,000

26) Other technical income

(EUR)	2018	2017
Commission income	2,530,359	1,934,678
Exchange gains from reinsurance business	5,355,817	3,743,989
Other technical income	1,078,785	419,718
Total	**8,964,961**	**6,098,385**

In 2018, 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 31. Pursuant to our investment policy, we perform currency hedging.

Commission income, net of change in deferred acquisition costs attributable to reinsurers

(EUR)	2018	2017
Personal accident	13,979	12,906
Land vehicles casco	790	655
Railway rolling stock	46	190
Aircraft hull	678	656
Ships hull	1,784	2,138
Goods in transit	26,560	8,739
Fire and natural forces	1,722,566	1,299,374
Other damage to property	560,467	452,379
Motor liability	159	807
Aircraft liability	6,022	8,043
Liability for ships	260	274
General liability	31,940	32,334
Miscellaneous financial loss	89,671	52,368
Life	59,711	36,130
Unit-linked life	15,725	27,684
Total non-life	**2,454,922**	**1,870,864**
Total life	**75,437**	**63,814**
Total	**2,530,359**	**1,934,678**

27) Other income and expenses

Other income and expenses mainly include collected bad debt relating to other receivables that had been written-off, default interest under a final court decision and, to a minor extent, 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.

28) Net claims incurred

(EUR) 2018	Gross amounts Claims	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	3,569,281	0	-6,715	-1,551,886	950	2,011,630
Health	223,414	0	0	-330,978	0	-107,564
Land vehicles casco	12,439,633	-197,538	-134,940	225,112	-89,382	12,242,884
Railway rolling stock	559,088	0	-13	28,184	0	587,259
Aircraft hull	1,080,337	0	0	-687,951	-2,539	389,846
Ships hull	3,392,217	0	-5,004	3,650,700	-144,687	6,893,226
Goods in transit	5,544,521	-5,262	-235	-500,067	-6,098	5,032,859
Fire and natural forces	35,268,510	-7,760	-5,101,716	547,829	842,107	31,548,970
Other damage to property	9,754,664	-5,847	-886,923	-728,560	686,130	8,819,464
Motor liability	9,616,767	-1,346,975	-182,340	581,823	-2,674,383	5,994,892
Aircraft liability	-5,394	0	0	-23,546	0	-28,940
Liability for ships	341,558	-389	0	32,607	3,317	377,093
General liability	2,204,597	-1,820	-538	817,014	-6,645	3,012,608
Credit	399,237	-627,662	0	155,356	0	-73,069
Suretyship	60,462	-1,163	0	-147,315	0	-88,016
Miscellaneous financial loss	226,844	0	-40,458	-158,674	31,627	59,339
Legal expenses	447	0	0	-1,843	0	-1,396
Assistance	306	0	0	-437	0	-131
Life	126,290	0	-88,078	-189,515	43,655	-107,649
Unit-linked life	79,314	0	-48,374	1,284	9,102	41,325
Total non-life	**84,676,490**	**-2,194,416**	**-6,358,882**	**1,907,368**	**-1,359,603**	**76,670,957**
Total life	**205,604**	**0**	**-136,452**	**-188,232**	**52,757**	**-66,324**
Total	**84,882,093**	**-2,194,416**	**-6,495,334**	**1,719,136**	**-1,306,847**	**76,604,633**

(EUR) 2017	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	3,061,325	0	-4,711	-659,597	-2,654	2,394,364
Health	2,763,819	0	0	-243,071	0	2,520,748
Land vehicles casco	11,555,307	-182,093	-718,365	-651,684	620,857	10,624,022
Railway rolling stock	91,017	0	-4	11,627	0	102,640
Aircraft hull	36,632	0	0	242,205	-3,824	275,013
Ships hull	4,884,680	-420	-3,622	803,252	-145,659	5,538,232
Goods in transit	3,328,049	-851	-838	-478,216	-2,049	2,846,093
Fire and natural forces	36,765,809	-5,532	-3,430,891	6,619,118	315,589	40,264,092
Other damage to property	7,439,736	-5,933	-801,139	-91,303	-842,844	5,698,517
Motor liability	11,044,389	-1,095,506	-468,819	-2,854,127	-1,282,667	5,343,270
Aircraft liability	35,450	0	-40,389	-14,053	0	-18,992
Liability for ships	374,877	-214	0	-76,512	0	298,152
General liability	1,875,812	-2,312	-2,767	-141,143	-4,222	1,725,368
Credit	406,895	-590,964	0	-17,589	0	-201,658
Suretyship	176,292	-534	0	100,518	0	276,275
Miscellaneous financial loss	1,297,317	0	-386,146	-342,927	303,888	872,131
Legal expenses	1,165	0	0	-290	0	874
Assistance	9,258	0	0	-33	0	9,225
Life	129,004	0	-60,077	-34,323	-55,946	-21,342
Unit-linked life	132,977	0	-64,993	-70,139	39,097	36,942
Total non-life	**85,147,827**	**-1,884,359**	**-5,857,690**	**2,206,174**	**-1,043,585**	**78,568,367**
Total life	**261,981**	**0**	**-125,070**	**-104,462**	**-16,849**	**15,600**
Total	**85,409,808**	**-1,884,359**	**-5,982,760**	**2,101,712**	**-1,060,434**	**78,583,967**

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 gross claims provision, both retained and retroceded.

In 2018, gross claims paid were 0.6% below the 2017 figure. The effect of the change in the claims provision is described in note 18.

29) Change in other technical provisions and expenses for bonuses and rebates

In 2018 other net technical provisions increased by EUR 268,920 (2017: up EUR 158,608). The figures for both years relate to changes in the net provision for unexpired risks.

Expenses for bonuses and rebates amounted to EUR 811 in 2018 (explained with an increase in provisions for bonuses and rebates) and to EUR -85,678 in 2017 (explained with a decrease in said provisions).

30) Operating expenses

The Company classifies operating expenses by nature. Compared to 2017, operating expenses increased by 10.3%, mainly due to an increase in acquisition costs (EUR 1.6 million) and labour costs (EUR 1.5 million).

Composition of operating expenses

(EUR)	2018	2017
Acquisition costs (commissions)	34,848,052	33,185,632
Change in deferred acquisition costs	-43,433	-880,778
Depreciation of operating assets	481,036	420,825
Personnel costs	8,298,393	6,832,682
Salaries and wages	6,586,422	5,261,466
Social and pension insurance costs	1,071,730	903,092
Other labour costs	640,241	668,124
Costs under contracts for services, incl. contributions	185,715	163,472
Other operating expenses	3,793,554	3,391,292
Total	**47,563,317**	**43,113,125**

Other operating expenses, net of acquisition costs (commissions) and changes in deferred acquisition costs (commissions), increased in 2018 and represented 8.4% of gross premiums written (2017: 7.1%).

Audit fees

(EUR)	2018	2017
Audit of annual report	54,282	59,780
Other assurance services	5,561	6,100
Other audit services	2,279	12,200
Total	**62,122**	**78,080**

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 relate to assurance services for reports drawn up by the Company under Solvency II requirements.

Acquisition costs

(EUR)	2018	2017
Personal accident	1,380,614	1,268,720
Health	36,679	1,067,545
Land vehicles casco	4,301,974	3,733,175
Railway rolling stock	25,167	28,389
Aircraft hull	99,061	1,064
Ships hull	1,055,588	1,299,980
Goods in transit	825,014	1,060,298
Fire and natural forces	16,409,633	15,324,674
Other damage to property	4,367,021	3,602,661
Motor liability	3,465,539	3,171,810
Aircraft liability	27,513	18,491
Liability for ships	131,685	156,368
General liability	1,978,881	1,672,985
Credit	289,709	238,109
Suretyship	-34,405	64,591
Miscellaneous financial loss	331,579	314,208
Legal expenses	1,174	3,698
Assistance	1,769	1,779
Life	122,987	94,737
Unit-linked life	30,869	62,350
Total non-life	**34,694,195**	**33,028,545**
Total life	**153,856**	**157,087**
Total	**34,848,052**	**33,185,632**

Change in deferred acquisition costs

(EUR)	2018	2017
Personal accident	-27,527	109,825
Health	1,472	2,936
Land vehicles casco	83,774	-182,043
Railway rolling stock	-2,515	-6,622
Aircraft hull	-8,036	20,274
Ships hull	-10,950	-206,363
Goods in transit	18,476	-111,795
Fire and natural forces	183,552	-525,629
Other damage to property	33,826	136,249
Motor liability	-231,864	56,234
Aircraft liability	-3,181	-1,709
Liability for ships	-794	-20,060
General liability	-101,963	-100,344
Credit	13,699	-29,837
Suretyship	-2,350	2,964
Miscellaneous financial loss	13,675	-28,539
Legal expenses	496	-126
Life	-3,025	4,089
Unit-linked life	-198	-282
Total non-life	**-40,210**	**-884,585**
Total life	**-3,223**	**3,807**
Total	**-43,433**	**-880,778**

31) Other technical expenses

(EUR)	2018	2017
Expenses for exchange losses	5,313,931	5,433,841
Value adjustments	107,727	234,467
Regulator fees	199,186	191,656
Other technical expenses	41,442	16,598
Total	**5,662,287**	**5,876,562**

32) Income tax expense

Tax rate reconciliation

(EUR)	2018	2017
Profit/loss before tax	45,021,864	34,763,864
Income tax expenses at statutory tax rate	8,554,154	6,605,134
Tax effect of income that is deducted for tax purposes	-6,521,174	-4,838,614
Tax effect of expenses not deducted for tax purposes	1,217,676	289,085
Income or expenses relating to tax relief	-49,839	-37,561
Other	-46,449	-228,373
Total income tax expense in the income statement	**3,154,368**	**1,789,672**
Effective tax rate	7.01%	5.15%

23.8 Notes to the financial statements – cash flow statement

33) Notes to the cash flow statement, which has been prepared using the indirect method

The cash flow statement shown in section 22.4 “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).

(EUR)	2018	2017
Net profit/loss for the period	**41,867,497**	**32,974,192**
Non-monetary income statement items not included in cash flow	**6,442,265**	**8,979,610**
- change in unearned premiums	-511,755	3,447,818
- change in the provision for outstanding claims	412,289	1,041,278
- change in other technical provisions	268,920	158,608
- operating expenses – amortisation/depreciation and change in deferred acquisition cost	-524,469	-459,952
- impairment losses on financial assets	6,797,280	4,791,859
Eliminated investment income items	**-37,824,293**	**-30,651,609**
- interest received disclosed under C. a.) 1.	-3,589,693	-3,895,944
- receipts from dividends and shares in profit of others disclosed under C. a.) 2.	-34,234,600	-26,755,665
Eliminated investment expense items	**0**	**718,338**
- interest paid disclosed under C. C) 1.	0	718,338
Cash flows from operating activities – income statement items	**10,485,469**	**12,020,532**

23.9 Contingent receivables and liabilities

The Company has contingent liabilities arising out of guarantees given. The estimated contingent liabilities in this regard total EUR 6.7 million for alternative funds.

The Company has contingent liabilities from claims against issuing banks for subordinated financial instruments of EUR 10.0 million.

Off-balance sheet items are shown in the appendix hereto.

23.10 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;
- subsidiaries and associates.

The Company is a party to a contract with the Sava Pokojninska pension company on the participation in a supplementary pension scheme.

Owners and related enterprises

The Group’s largest shareholder is Slovenian Sovereign Holding with a 17.7% stake.

Business relationship with the largest shareholder

In 2018 the Company had no business transactions with its largest shareholder.

The members of the management and supervisory boards, the audit committee 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

(EUR)	2018	2017
The management board	698,458	620,246
Payments to employees not subject to the tariff section of the collective agreement	2,817,528	2,580,706
Supervisory board	131,377	111,606
Supervisory board committees	42,516	32,021
Total	**3,689,879**	**3,344,579**

Remuneration of management board members in 2018

(EUR)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premiums	Fringe benefits – use of company car	Total
Marko Jazbec	160,560	12,630	248	7,686	181,124
Jošt Dolničar	144,600	18,655	5,282	7,469	176,006
Srečko Čebron	152,592	12,189	5,244	5,620	175,645
Polona Pirš Zupančič	139,404	0	3,988	4,906	148,298
Mateja Treven	5,196	12,189	0	0	17,385
Total	**602,352**	**55,663**	**14,762**	**25,681**	**698,458**

Remuneration of management board members in 2017

(EUR)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premiums	Fringe benefits – use of company car	Total
Marko Jazbec	101,831	0	134	4,281	106,246
Jošt Dolničar	150,440	14,912	5,582	8,664	179,599
Srečko Čebron	152,697	7,170	5,205	7,116	172,188
Mateja Treven	141,667	7,170	5,193	8,184	162,214
Total	**546,635**	**29,253**	**16,114**	**28,245**	**620,246**

Liabilities to members of the management board based on gross remuneration

(EUR)	31/12/2018	31/12/2017
Marko Jazbec	13,280	13,280
Jošt Dolničar	11,950	11,950
Srečko Čebron	12,616	12,616
Polona Pirš Zupančič	11,950	0
Mateja Treven	0	11,950
Total	**49,796**	**49,796**

As at 31 December 2018, 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 2018

(EUR)		Attendance fees	Remuneration for performing the function	Reimbursement of expenses and training	Fringe benefits	Total
Supervisory board members						
Mateja Lovšin Herič	chair	2,420	19,500	0	0	21,920
Slaven Mićković	deputy chair (until 15/07/2017)	0	0	0	0	0
Keith William Morris	deputy chair (since 16/08/2017)	2,420	14,300	14,440	0	31,160
Gorazd Andrej Kunstek	member	2,420	13,000	93	0	15,513
Mateja Živec	member	2,145	13,000	81	0	15,226
Davor Ivan Gjivoje	member (since 07/03/2017)	2,475	13,000	16,423	0	31,898
Andrej Kren	member (since 16/07/2017)	2,420	13,000	240	0	15,660
Total supervisory board members		**14,300**	**85,800**	**31,277**	**0**	**131,377**
Audit committee members						
Andrej Kren	chair (since 16/08/2017)	1,980	4,875	194	0	7,049
Slaven Mićković	chair (until 15/07/2017)	0	0	0	0	0
Mateja Lovšin Herič	member	1,980	3,250	0	0	5,230
Ignac Dolenšek	external member	0	9,450	714	0	10,164
Total audit committee members		**3,960**	**17,575**	**908**	**0**	**22,443**
Members of the nominations and remuneration committee						
Mateja Lovšin Herič	chair	660	0	0	0	660
Slaven Mićković	member (until 15/07/2017)	0	0	0	0	0
Keith William Morris	member (since 24/08/2017)	660	0	0	0	660
Davor Ivan Gjivoje	member (since 24/08/2017)	220	0	0	0	220
Andrej Kren	member (since 24/08/2017)	660	0	0	0	660
Total nominations committee members		**2,200**	**0**	**0**	**0**	**2,200**
Fit & proper committee members						
Mateja Živec	chair (since 24/08/2017)	0	0	0	0	0
Mateja Lovšin Herič	member (until 15/07/2017)	0	0	0	0	0
Keith William Morris	member (since 24/08/2017)	0	0	0	0	0
Nika Matjan	external member	0	0	0	0	0
Andrej Kren	alternate member (since 24/08/2017)	0	0	0	0	0
Total fit & proper committee members		**0**	**0**	**0**	**0**	**0**
Members of the risk committee						
Keith William Morris	committee chair (since 24/08/2017)	1,100	4,875	0	0	5,975
Davor Ivan Gjivoje	member (since 24/08/2017)	1,628	3,521	0	0	5,149
Slaven Mićković	external member (since 24/08/2017)	0	6,750	0	0	6,750
Total risk committee members		**2,728**	**15,146**	**0**	**0**	**17,874**

Remuneration of the supervisory board and its committees in 2017

(EUR)		Attendance fees	Remuneration for performing the function	Reimbursement of expenses and training	Fringe benefits	Total
Supervisory board members						
Mateja Lovšin Herič	chair	2,970	18,958	183	0	22,111
Slaven Mićković	deputy chair (until 15/07/2017)	1,595	7,727	0	0	9,322
Keith William Morris	deputy chair (since 16/08/2017)	2,970	13,489	10,013	1,069	27,541
Gorazd Andrej Kunstek	member	2,970	13,000	0	0	15,970
Mateja Živec	member	2,970	13,000	0	0	15,970
Davor Ivan Gjivoje	member (since 07/03/2017)	2,640	10,624	0	0	13,264
Andrej Kren	member (since 16/07/2017)	1,375	5,976	77	0	7,428
Total supervisory board members		**17,490**	**82,773**	**10,273**	**1,069**	**111,606**
Audit committee members						
Andrej Kren	chair (since 16/08/2017)	880	1,835	97	0	2,812
Slaven Mićković	chair (until 15/07/2017)	1,320	2,634	0	0	3,954
Mateja Lovšin Herič	member	2,200	2,979	0	0	5,179
Ignac Dolenšek	external member	0	10,125	467	0	10,592
Total audit committee members		**4,400**	**17,573**	**564**	**0**	**22,537**
Members of the nominations and remuneration committee						
Mateja Lovšin Herič	chair	880	0	0	0	880
Slaven Mićković	member (until 15/07/2017)	660	0	0	0	660
Keith William Morris	member (since 24/08/2017)	880	0	0	0	880
Davor Ivan Gjivoje	member (since 24/08/2017)	176	0	0	0	176
Andrej Kren	member (since 24/08/2017)	220	0	0	0	220
Total nominations committee members		**2,816**	**0**	**0**	**0**	**2,816**
Fit & proper committee members						
Mateja Živec	chair (since 24/08/2017)	616	0	0	0	616
Mateja Lovšin Herič	member (until 15/07/2017)	220	0	0	0	220
Keith William Morris	member (since 24/08/2017)	220	0	0	0	220
Nika Matjan	external member	0	0	0	0	0
Andrej Kren	alternate member (since 24/08/2017)	176	0	0	0	176
Total fit & proper committee members		**1,232**	**0**	**0**	**0**	**1,232**
Members of the risk committee						
Keith William Morris	committee chair (since 24/08/2017)	440	1,730	0	0	2,170
Davor Ivan Gjivoje	member (since 24/08/2017)	396	882	0	0	1,278
Slaven Mićković	external member (since 24/08/2017)	0	1,988	0	0	1,988
Total risk committee members		**836**	**4,600**	**0**	**0**	**5,436**

Liabilities to members of the supervisory board and audit committee of the supervisory board based on gross remuneration

(EUR)	31/12/2018	31/12/2017
Mateja Lovšin Herič	0	2,391
Slaven Mićković	350	788
Andrej Gorazd Kunstek	0	1,358
Keith William Morris	0	3,714
Mateja Živec	0	1,358
Davor Ivan Gjivoje	0	1,534
Andrej Kren	0	2,023
Ignac Dolenšek	0	844
Total	**350**	**14,011**

Employee remuneration not subject to the tariff section of the collective agreement for 2018

(EUR)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	2,331,035	340,028	146,465	2,817,528

Employee remuneration not subject to the tariff section of the collective agreement for 2017

(EUR)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	2,263,970	173,658	143,078	2,580,706

Subsidiaries

Investments in and amounts due from Group companies

(EUR)		31/12/2018	31/12/2017
Debt securities and loans granted to Group companies	gross	2,532,183	4,609,924
Receivables for premiums arising out of reinsurance assumed	gross	15,107,402	13,394,084
Short-term receivables arising out of financing	gross	4,472	6,308
Other short-term receivables	gross	179,570	53,154
Short-term deferred acquisition costs	gross	1,879,080	1,182,922
Total		**19,702,708**	**19,246,392**

Liabilities to Group companies

(EUR)	31/12/2018	31/12/2017
Liabilities for shares in reinsurance claims due to Group companies	9,800,555	8,248,985
Other short-term liabilities from co-insurance and reinsurance	3,766,321	3,040,284
Other short-term liabilities	2,760	2,891
Total (excl. provisions)	**13,569,636**	**11,292,160**

Liabilities to Group companies by maturity

(EUR)	Maturity	
31/12/2018	Up to 1 year	Total
Liabilities for shares in reinsurance claims due to Group companies	9,800,555	9,800,555
Other short-term liabilities from co-insurance and reinsurance	3,766,321	3,766,321
Other short-term liabilities	2,760	2,760
Total (excl. provisions)	**13,569,636**	**13,569,636**

(EUR)	Maturity	
31/12/2017	Up to 1 year	Total
Liabilities for shares in reinsurance claims due to Group companies	8,248,985	8,248,985
Other short-term liabilities to Group companies	3,040,284	3,040,284
Other short-term liabilities	2,891	2,891
Total (excl. provisions)	**11,292,160**	**11,292,160**

Income and expenses relating to Group companies

(EUR)	2018	2017
Gross premiums written	62,318,774	56,998,934
Change in gross unearned premiums	-2,306,927	-2,313,806
Gross claims payments	-32,562,533	-30,532,041
Change in the gross claims provision	1,571,572	-288,023
Income from gross recourse receivables	1,272,641	1,166,341
Change in gross provision for bonuses, rebates and cancellations	-811	85,678
Other operating expenses	-160,221	-96,148
Dividend income	33,558,455	26,136,830
Other investment income	6,506	11,152
Interest income	71,728	76,441
Acquisition costs	-13,610,558	-12,009,817
Change in deferred acquisition costs	696,158	-322,672
Other non-life income	326,370	11,865
Total	**51,181,154**	**38,924,734**

Investments in governments and majority state-owned companies

(EUR)	31/12/2018	31/12/2017
Interests in companies	8,238,751	8,005,401
Debt securities and loans	25,276,511	28,698,492
Total	**33,515,262**	**36,703,893**

Income and expenses relating to majority state-owned companies

(EUR)	2018	2018
Dividend income	517,087	483,592
Interest income	729,578	972,365
Exchange gains	594,912	218,869
Other income	21,345	114,198
Total	**1,862,921**	**1,789,024**

Characteristics of loans granted to subsidiaries

Borrower	Principal	Type of loan	Maturity	Interest rate
Sava Neživotno Osiguranje (SRB)	500,000	ordinary	30/06/2019	3.50%
Sava Neživotno Osiguranje (SRB)	800,000	ordinary	15/07/2020	3.00%
Illyria	642,000	ordinary	15/07/2022	3.00%
Sava Terra	15,000	ordinary	11/12/2019	1.00%
Sava Terra	499,500	ordinary	02/02/2021	1.50%
Total	**2,456,500**			

24 Significant events after the reporting date

On 27 February 2019, Zavarovalnica Sava satisfied all suspensive conditions and became sole owner of the Croatian companies ERGO Osiguranje d.d. and ERGO Životno Osiguranje d.d.