

SAVA RE GROUP FINANCIAL STATEMENTS WITH NOTES

REFLECTING KNOWLEDGE

Knowledge drives progress, so training is central to achieving strategic goals.

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15 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 consolidated financial statements of the Sava Re Group ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Sava Re Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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

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

Key audit matters

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

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



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

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

Those estimates also influence other significant areas within the consolidated financial statements, such as gross premium income, commission and premium receivables. Premium estimates are made based on expected premiums from reinsurance contracts which, according to due dates, are already in force, although the Group has yet to receive reinsurance accounts.

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

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

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

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

The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. Various economic and non-economic assumptions are being used to estimate these long-term liabilities,

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

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

We reviewed the methodology and assumptions used by the Group to establish its IBNR provision and performed recalculation of Group IBNR provisions. We reviewed the methodology used by the Group to calculate claim provisions established by estimation using actuarial methods.

We performed detailed analytical procedures on estimates relating to premiums, commissions and technical provisions and assessed the experience (back testing) analyses performed by the Group in their assumption setting processes. We tested, on a sample basis, whether the input data in the model for recalculation of estimates is accurate and complete. We assessed the adequacy of the disclosures included in notes 17.4.24 and 17.8.22 of the consolidated financial statements.

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, particularly long-tail business in non-life operations and Liability Adequacy Test ("LAT") cash flows in life



both in the insurance contract liabilities as reported in the statement of financial position and in the provisions adequacy test. We determined this to be a significant item for our audit and a key audit matter.

products. We assessed the design and verified the operating effectiveness of internal controls over the actuarial process including claim provisions calculation, process of setting economic and actuarial assumptions as well as cash flow derivation approach. We assessed the Group's approach and methodology for the actuarial analyses including estimated versus actual results and experience studies. Our assessments included evaluation, as necessary, of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied, along with comparison to applicable industry experiences considering the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with International Financial Reporting Standards as adopted by the European Union. We also performed audit procedures to determine the models and systems were calculating the insurance contracts liabilities accurately and completely, including sample recalculations of the results produced by the models. We tested the validity of management's liability adequacy testing, which is a test performed to evaluate whether the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessment of the projected cash flows and assessment of the assumptions adopted in the context of both the Group and industry experience and specific product features.

We assessed the adequacy of the disclosures included in notes 17.4.24 and 17.8.22 of the consolidated financial statements.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with



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

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

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

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

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;



- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the audit committee and supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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 Group on 28 October 2016 based on our approval by the General Meeting of Shareholders of the Group on 30 August 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 5 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 27 March 2018.

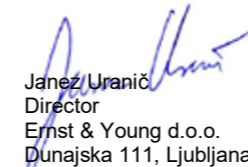
Non-audit Services

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 Group in conducting the audit.



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

Ljubljana, 28 March 2018


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


Nena Cvetkovska
Certified auditor

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

16 CONSOLIDATED FINANCIAL STATEMENTS

16.1 Consolidated statement of financial position

(€)	Notes	31/12/2017	31/12/2016
ASSETS		1,708,348,067	1,671,189,179
Intangible assets	1	22,712,944	25,508,583
Property and equipment	2	45,438,014	51,887,127
Deferred tax assets	3	2,107,564	2,326,063
Investment property	4	15,364,184	7,933,786
Financial investments:	5	1,038,125,019	1,030,235,239
- loans and deposits		28,029,543	31,605,347
- held to maturity		106,232,327	130,812,195
- available for sale		897,645,279	858,641,003
- at fair value through profit or loss		6,217,870	9,176,694
Funds for the benefit of policyholders who bear the investment risk	6	227,228,053	224,175,076
Reinsurers' share of technical provisions	7	30,787,241	28,444,628
Investment contract assets	8	129,622,131	121,366,122
Receivables	9	138,455,525	127,408,527
Receivables arising out of primary insurance business		124,324,547	51,340,821
Receivables arising out of co-insurance and reinsurance business		6,197,717	68,005,582
Current tax assets		17,822	124,720
Other receivables		7,915,439	7,937,404
Deferred acquisition costs	10	18,507,194	16,510,536
Other assets	11	2,043,395	1,366,844
Cash and cash equivalents	12	37,956,119	33,939,160
Non-current assets held for sale	13	684	87,488

(€)	Notes	31/12/2017	31/12/2016
EQUITY AND LIABILITIES		1,708,348,067	1,671,189,179
Equity		316,116,895	297,038,327
Share capital	14	71,856,376	71,856,376
Capital reserves	15	43,035,948	43,681,441
Profit reserves	16	162,548,076	145,893,612
Treasury shares	17	-24,938,709	-24,938,709
Fair value reserve	18	18,331,697	17,458,948
Reserve due to fair value revaluation		667,518	351,655
Retained earnings		33,093,591	36,778,941
Net profit or loss for the period	19	14,557,220	9,049,238
Translation reserve		-3,353,304	-3,854,182
Equity attributable to owners of the controlling company		315,798,413	296,277,319
Non-controlling interests in equity	20	318,482	761,008
Subordinated liabilities	21	0	23,570,771
Technical provisions	22	931,398,362	911,221,323
Unearned premiums		171,857,259	157,678,496
Technical provisions for life insurance business		271,409,915	269,762,815
Provision for outstanding claims		479,072,582	475,157,985
Other technical provisions		9,058,606	8,622,027
Technical provision for the benefit of life insurance policyholders who bear the investment risk	22	226,527,893	226,994,200
Other provisions	23	7,600,613	8,080,877
Deferred tax liabilities	3	5,781,494	6,038,631
Investment contract liabilities	8	129,483,034	121,229,675
Other financial liabilities	24	245,205	393,996
Liabilities from operating activities	25	60,598,188	48,790,646
Liabilities from primary insurance business		54,711,289	11,910,253
Liabilities from reinsurance and co-insurance business		5,160,183	36,292,698
Current income tax liabilities		726,716	587,695
Other liabilities	26	30,596,383	27,830,733

The notes to the financial statements in sections 17.4–17.12 form an integral part of these financial statements.

16.2 Consolidated income statement¹⁰³

(€)	Notes	2017	2016
Net earned premiums	28	470,865,993	458,101,526
Gross premiums written		517,233,431	490,205,154
Written premiums ceded to reinsurers and co-insurers		-34,243,296	-31,242,514
Change in gross unearned premiums		-13,765,765	-1,829,377
Change in unearned premiums, reinsurers' and co-insurers' shares		1,641,623	968,263
Investment income	29	27,446,915	33,136,242
Interest income		18,607,327	21,233,656
Other investment income		8,839,588	11,902,586
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	29	16,849,384	17,958,678
Other technical income	30	15,429,720	18,237,409
Commission income		2,870,868	3,732,607
Other technical income		12,558,852	14,504,802
Other income	30	6,058,000	6,489,633
Net claims incurred	31	-296,103,320	-268,393,776
Gross claims payments, net of income from recourse receivables		-309,727,160	-269,445,796
Reinsurers' and co-insurers' shares		15,846,528	14,819,654
Change in the gross claims provision		-2,931,960	-15,832,894
Change in the provision for outstanding claims, reinsurers' and co-insurers' shares		709,272	2,065,260
Change in other technical provisions	32	-2,179,849	-5,254,856
Change in technical provisions for policyholders who bear the investment risk	32	-1,121,327	-17,442,161
Expenses for bonuses and rebates		5,848	-1,263,545
Operating expenses	33	-156,962,328	-159,563,486
Acquisition costs		-51,949,127	-51,882,550
Change in deferred acquisition costs		2,389,002	-1,474,454
Other operating expenses		-107,402,203	-106,206,482

(€)	Notes	2017	2016
Expenses for investments in associates and impairment losses on goodwill	29	0	-1,693,699
Impairment loss on goodwill		0	-1,693,699
Expenses for financial assets and liabilities	29	-11,891,544	-8,556,415
Impairment losses on financial assets not at fair value through profit or loss		-320,000	-594,025
Interest expense		-718,860	-842,126
Other investment expenses		-10,852,684	-7,120,264
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	29	-8,256,416	-11,256,348
Other technical expenses	34	-17,486,080	-17,310,937
Other expenses	34	-2,774,013	-2,518,278
Profit or loss before tax		39,880,983	40,669,987
Income tax expense	35	-8,786,075	-7,751,774
Net profit or loss for the period		31,094,908	32,918,213
Net profit or loss attributable to owners of the controlling company		31,065,329	32,824,911
Net profit or loss attributable to non-controlling interests		29,579	93,302
Earnings per share (basic and diluted)	19	2.00	2.08

The notes to the financial statements in sections 17.4–17.12 form an integral part of these financial statements.

16.3 Consolidated statement of comprehensive income

(€)	2017			2016		
	Attributable to owners of the controlling company	Attributable to non-controlling interests	Total	Attributable to owners of the controlling company	Attributable to non-controlling interests	Total
PROFIT OR LOSS FOR THE PERIOD, NET OF TAX	31,065,329	29,579	31,094,908	32,824,911	93,302	32,918,213
OTHER COMPREHENSIVE INCOME, NET OF TAX	1,689,492	6,503	1,695,995	4,739,343	2,689	4,742,032
a) Items that will not be reclassified subsequently to profit or loss	315,865	0	315,865	389,127	726	389,853
Other items that will not be reclassified subsequently to profit or loss	386,089	0	386,089	392,921	726	393,647
Tax on items that will not be reclassified subsequently to profit or loss	-70,224	0	-70,224	-3,794	0	-3,794
b) Items that may be reclassified subsequently to profit or loss	1,373,627	6,503	1,380,130	4,350,216	1,963	4,352,179
Net gains/losses on remeasuring available-for-sale financial assets	851,240	4,184	855,424	6,216,376	3,994	6,220,370
Net change recognised in the fair value reserve	2,804,458	4,184	2,808,642	5,245,968	1,017	5,246,985
Net change transferred from fair value reserve to profit or loss	-1,953,218	0	-1,953,218	970,408	2,977	973,385
Tax on items that may be reclassified subsequently to profit or loss	21,508	0	21,508	-1,479,133	0	-1,479,133
Net gains/losses from translation of financial statements of non-domestic companies	500,879	2,319	503,198	-387,027	-2,031	-389,058
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	32,754,821	36,082	32,790,903	37,564,254	95,991	37,660,245
Attributable to owners of the controlling company	32,754,821	0	32,754,821	37,564,254	0	37,564,254
Attributable to non-controlling interests	0	36,082	36,082	0	95,991	95,991

The notes to the financial statements in sections 17.4–17.12 form an integral part of these financial statements.

16.4 Consolidated statement of cash flows

(€)	Notes	1-12/2017	1-12/2016
A. Cash flows from operating activities			
a) Items of the income statement	36	29,652,140	49,825,078
1. Net premiums written in the period	28	482,990,135	458,962,640
2. Investment income (other than financial income)	29	143,722	210,989
3. Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables		21,487,720	24,727,042
4. Net claims payments in the period	31	-293,880,632	-254,626,142
5. Expenses for bonuses and rebates		5,848	-1,263,545
6. Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	33	-151,825,973	-150,471,848
7. Investment expenses (excluding amortisation and financial expenses)		-54,102	-133,069
8. Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	34	-20,428,503	-19,829,215
9. Tax on profit and other taxes not included in operating expenses	35	-8,786,075	-7,751,774
b) Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the income statement		1,698,017	-7,642,805
1. Change in receivables from primary insurance	9	-72,983,726	169,946
2. Change in receivables from reinsurance	9	61,807,865	752,004
3. Change in other receivables from (re)insurance business	9	365,290	669,194
4. Change in other receivables and other assets	9	-2,880,757	-4,301,734
5. Change in deferred tax assets	3	218,499	45,794
6. Change in inventories		-28,879	4,428
7. Change in liabilities arising out of primary insurance	25	42,801,036	941,388
8. Change in liabilities arising out of reinsurance business	25	-31,132,515	-3,446,714
9. Change in other operating liabilities	26	-2,442,917	-4,410,572
10. Change in other liabilities (except unearned premiums)	26	6,231,258	493,561
11. Change in deferred tax liabilities	3	-257,137	1,439,900
c) Net cash from/used in operating activities (a + b)		31,350,157	42,182,273

(€)	Notes	1-12/2017	1-12/2016
B. Cash flows from investing activities			
a) Cash receipts from investing activities		1,416,437,638	1,577,964,374
1. Interest received from investing activities		18,607,327	21,233,656
2. Cash receipts from dividends and participation in the profit of others		1,141,433	1,284,400
3. Proceeds from sale of intangible assets		0	5,664
4. Proceeds from sale of property and equipment		2,707,118	4,162,273
5. Proceeds from sale of financial investments		1,393,981,760	1,551,278,381
b) Cash disbursements in investing activities		-1,405,529,717	-1,563,064,826
1. Purchase of intangible assets		-1,177,107	-1,022,400
2. Purchase of property and equipment		-4,833,554	-6,895,120
3. Purchase of long-term financial investments		-1,399,519,056	-1,555,147,306
c) Net cash from/used in investing activities (a + b)		10,907,921	14,899,548
C. Cash flows from financing activities			
b) Cash disbursements in financing activities		-38,241,119	-27,853,565
1. Interest paid		-718,860	-842,126
3. Repayment of long-term financial liabilities		-24,000,000	0
4. Repayment of short-term financial liabilities		-1,058,233	6,080
5. Dividends and other profit participations paid		-12,464,026	-12,398,157
6. Own share repurchases		0	-14,619,362
c) Net cash from/used in financing activities (a + b)		-38,241,119	-27,853,565
C2. Closing balance of cash and cash equivalents		37,956,119	33,939,160
x) Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)		4,016,959	29,228,256
y) Opening balance of cash and cash equivalents		33,939,160	4,710,904

The notes to the financial statements in sections 17.4–17.12 form an integral part of these financial statements.

16.5 Consolidated statement of changes in equity for 2017

(€)	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/loss for the period	VII. Treasury shares	VIII. Translation reserve	IX. Equity attributable to owners of the controlling company	X. Non-controlling interest in equity	Total (15 + 16)	
	1.	2.	Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Catastrophe equalisation reserve	Other		8.	9.	10.	11.	12.	13.	14.	15.
Closing balance in previous financial year	71,856,376	43,681,441	11,411,550	24,938,709	11,225,068	98,318,285	17,458,948	351,655	36,778,941	9,049,238	-24,938,709	-3,854,182	296,277,319	761,008	297,038,327
Prior-period restatements	0	0	0	0	0	0	0	0	-190,075	0	0	0	-190,075	0	-190,075
Opening balance in the financial period	71,856,376	43,681,441	11,411,550	24,938,709	11,225,068	98,318,285	17,458,948	351,655	36,588,866	9,049,238	-24,938,709	-3,854,182	296,087,244	761,008	296,848,252
Comprehensive income for the period, net of tax	0	0	0	0	0	0	872,748	315,865	0	31,065,329	0	500,879	32,754,821	36,082	32,790,903
a) Net profit/loss for the period	0	0	0	0	0	0	0	0	0	31,065,329	0	0	31,065,329	29,579	31,094,908
b) Other comprehensive income	0	0	0	0	0	0	872,748	315,865	0	0	0	500,879	1,689,492	6,503	1,695,995
Dividend payouts	0	0	0	0	0	0	0	0	-12,398,157	0	0	0	-12,398,157	-65,869	-12,464,026
Allocation of net profit to profit reserve	0	0	167,369	0	0	16,487,095	0	0	-146,356	-16,508,109	0	0	0	0	0
Transfer of profit	0	0	0	0	0	0	0	0	9,049,238	-9,049,238	0	0	0	0	0
Acquisition of non-controlling interests	0	-645,493	0	0	0	0	0	0	0	0	0	0	-645,493	-412,740	-1,058,233
Closing balance in the financial period	71,856,376	43,035,948	11,578,920	24,938,709	11,225,068	114,805,380	18,331,697	667,518	33,093,591	14,557,220	-24,938,709	-3,353,304	315,798,413	318,482	316,116,895

16.6 Consolidated statement of changes in equity for 2016

(€)	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/ loss for the period	VII. Treasury shares	VIII. Translation reserve	IX. Equity attributable to owners of the con- trolling com- pany	X. Non-con- trolling interest in equity	Total (15 + 16)	
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risk	Catastrophe equalisation reserve										Other
	1.	2.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
Closing balance in previous financial year	71,856,376	43,388,724	11,242,766	10,319,347	976,191	11,225,068	89,191,057	12,721,705	-37,472	23,490,926	24,849,678	-10,319,347	-3,467,155	285,437,863	963,815	286,401,678
Opening balance in the financial period	71,856,376	43,388,724	11,242,766	10,319,347	976,191	11,225,068	89,191,057	12,721,705	-37,472	23,490,926	24,849,678	-10,319,347	-3,467,155	285,437,863	963,815	286,401,678
Comprehensive income for the period, net of tax	0	0	0	0	0	0	0	4,737,243	389,127	0	32,824,911	0	-387,027	37,564,254	95,991	37,660,245
a) Net profit/loss for the period	0	0	0	0	0	0	0	0	0	0	32,824,911	0	0	32,824,911	93,302	32,918,213
b) Other comprehensive income	0	0	0	0	0	0	0	4,737,243	389,127	0	0	0	-387,027	4,739,343	2,689	4,742,032
Net purchase/sale of treasury shares	0	0	0	14,619,362	0	0	0	0	0	0	-14,619,362	-14,619,362	0	-14,619,362	0	-14,619,362
Dividend payouts	0	0	0	0	0	0	0	0	0	-12,398,157	0	0	0	-12,398,157	0	-12,398,157
Allocation of net profit to profit reserve	0	0	168,784	0	0	0	9,127,228	0	0	-139,699	-9,156,313	0	0	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-976,191	0	0	0	0	976,191	0	0	0	0	0	0
Acquisition of non-controlling interests	0	292,717	0	0	0	0	0	0	0	0	0	0	0	292,717	-298,797	-6,080
Transfer of profit	0	0	0	0	0	0	0	0	0	24,849,678	-24,849,678	0	0	0	0	0
Closing balance in the financial period	71,856,376	43,681,441	11,411,550	24,938,709	0	11,225,068	98,318,285	17,458,948	351,655	36,778,941	9,049,238	-24,938,709	-3,854,182	296,277,319	761,008	297,038,327

The notes to the financial statements in sections 17.4–17.12 form an integral part of these financial statements.



Jožica P.

REFLECTING ENVIRONMENTAL CONCERN

One of our values is **concern** for the environment. At the Sava Re Group we encourage employees to be more protective of and responsible toward the environment, and to safeguard our natural and cultural heritage.

17 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17.1 Basic details

Reporting company

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

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

The Group transacts reinsurance business (19% of gross premiums written), non-life insurance business (64% of gross premiums written) and life insurance business (17% of gross premiums written).

In 2017 the Group employed on average 2,438 people (2016: 2,465 employees) on a full-time equivalent basis. As at 31 December 2017, the total number of employees was 2,389 (31/12/2016: 2,488 employees) on a full-time equivalent basis. Statistics on employees in regular employment by various criteria are given in section 10 “Human resources management”.

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

The largest shareholder of the controlling company is Slovenian Sovereign Holding 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. The table “Ten largest shareholders as at 31 December 2017” (section 5.6) is followed by a note on the share of voting rights (section 5.6).

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

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

Employees by level of education on a full-time equivalent basis as at-year-end

	2017	2016
Primary and lower secondary education	78	72
Secondary education	1,031	1,138
Higher education	294	272
University education	892	912
Master’s degree and doctorate	94	93
Total	2,389	2,488

The figures for 2016 differ from those published in the 2016 annual report.

17.2 Business combinations and overview of Group companies¹⁰⁴

In September 2017, the general meeting of shareholders of Zavarovalnica Sava adopted a resolution to transfer all of its shares of minority shareholders to the majority shareholder Sava Re. After the resolution on the share transfer was entered into the register of companies on 10 October 2017, the controlling company became the sole owner of Zavarovalnica Sava.

In 2017 the controlling company injected €0.7 million of capital in its life insurance company Sava

životno osiguranje (SRB) and acquired a minority shareholding in the insurer Sava osiguranje (MKD) for €5,721.

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

¹⁰⁴ GRI 102-7, 102-45

Subsidiaries as at 31 December 2017

(€)	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	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	does not currently perform any activities	Kosovo	1,800,742	4,579	1,796,163	-114	0	100.00%
Sava Car	research and analysis	Montenegro	634,723	42,188	592,535	-3,991	724,473	100.00%
ZS 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 agent	Montenegro	2,100,120	1,798,730	301,390	112,971	651,469	100.00%
Sava Station	motor research and analysis	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%

Subsidiaries as at 31 December 2016

(€)	Activity	Registered office	Assets	Liabilities	Equity at 31/12/2016	Profit/loss for 2016	Total income	Share of voting rights
Zavarovalnica Sava	insurance	Slovenia	1,138,039,266	980,210,101	157,829,165	23,430,774	326,410,351	99.74%
Sava neživotno osiguranje (SRB)	insurance	Serbia	25,387,084	20,316,459	5,070,625	116,929	15,379,795	100.00%
Illyria	insurance	Kosovo	14,538,265	10,841,158	3,697,107	-171,970	7,300,855	100.00%
Sava osiguruvanje (MKD)	insurance	Macedonia	21,377,413	16,348,215	5,029,198	465,490	11,850,287	92.44%
Sava osiguranje (MNE)	insurance	Montenegro	22,112,854	16,725,274	5,387,580	1,204,218	11,889,234	100.00%
Illyria Life	insurance	Kosovo	7,866,533	4,213,820	3,652,713	128,266	1,813,319	100.00%
Sava životno osiguranje (SRB)	insurance	Serbia	5,834,828	2,389,128	3,445,700	-206,975	1,612,217	100.00%
Illyria Hospital	does not currently perform any activities	Kosovo	1,800,772	4,495	1,796,277	-84	0	100.00%
Sava Car	research and analysis	Montenegro	481,718	36,624	445,094	39,883	708,948	100.00%
ZS Vivus	consulting and marketing of insurances of the person	Slovenia	267,008	54,548	212,460	-103,271	598,713	99.74%
ZS Svetovanje	insurance agent	Slovenia	33,767	128,609	-94,842	-122,823	162,848	99.74%
Ornatus KC	ZS call centre	Slovenia	46,896	25,166	21,730	7,494	216,000	99.74%
Sava Agent	insurance agent	Montenegro	2,322,627	2,129,557	193,070	72,788	641,735	100.00%
Sava Station	motor research and analysis	Macedonia	281,143	32,291	248,852	38,537	171,424	92.44%
Sava pokojninska	pension fund	Slovenia	134,444,848	126,401,679	8,043,169	581,695	3,210,125	100.00%

The data for Zavarovalnica Sava differ from those in the 2016 annual report, which were consolidated, while this year we present data from the separate financial statements.

17.3 Consolidation principles

The controlling company prepared both separate and consolidated financial statements for the year ended 31 December 2017. The consolidated financial statements include Sava Re as the controlling company and all its subsidiaries, i.e. companies in which Sava Re holds, directly or indirectly, more than half of the voting rights and has the power to control the financial and operating policies so as to obtain benefits from its activities. It is also of key importance for the satisfaction of the conditions mentioned above that, in the event of a takeover of the insurance company, the controlling company obtains all required approvals and consents (from the Insurance Supervision Agency and other supervisory institutions).

All subsidiaries were fully consolidated in the Sava Re Group.

The financial year of the Group is the same as the calendar year.

Business acquisitions are accounted for by applying the purchase method. Subsidiaries are fully consolidated as of the date of obtaining control and they are deconsolidated as of the date that such control is

lost. At the time of an entity's first consolidation, its assets and liabilities are measured at fair value. Any excess of the market value over the share of the fair value of the acquired identifiable assets, liabilities and contingent liabilities is capitalised as goodwill.

When acquiring a non-controlling interest in a subsidiary (when the Group already holds a controlling interest), the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid, and attributes it to the owners of the controlling company. The difference between cost and the carrying amount of the non-controlling interest is accounted for in equity under capital reserves.

Profits earned and losses made by subsidiaries are included in the Group's income statement. Intra-group transactions (receivables and liabilities, expenses and income between the consolidated companies) have been eliminated.

17.4 Significant accounting policies

Below is a presentation of significant accounting policies applied in the preparation of the consolidated financial statements. The Group applied the same

17.4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretations Committee's (IFRIC), as adopted by the European Union. They were also prepared in accordance with applicable Slovenian legislation (the Companies Act, ZGD-1).

Interested parties can obtain information on the results of operations of the Sava Re Group by consulting the annual report. Annual reports are available on Sava Re's website and at its registered office.

17.4.2 Measurement bases

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss and available-for-sale

accounting policies in 2017 as in 2016, except for minor changes as described in section 17.5 "Changes in accounting policies and presentation".

In selecting and applying accounting policies, as well as in preparing the financial statements, the management board of the controlling company aims at providing understandable, relevant, reliable and comparable accounting information.

The financial statements have been prepared based on the going-concern assumption.

The management board of the controlling company approved the audited financial statements on 28 March 2018.

financial assets, which are measured at fair value. Assets of policyholders who bear the investment risk are also measured at fair value.

17.4.3 Presentation currency, translation of events and items

The financial statements are presented in euros (€), rounded to the nearest euro. The euro is the functional and presentation currency of the Group. Due to rounding, figures in tables may not add up to the totals.

Assets and liabilities as at 31 December 2017 denominated in foreign currencies were translated into euros using the mid-rates of the European Central Bank (ECB) as at 31 December 2017. Amounts in the income statements were translated using the average exchange rate. As at 31 December 2016 and 31 December 2017, they were translated using the then applicable mid-rates of the ECB. Foreign exchange differences arising on settlement of trans-

actions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve. Since equity items in the statement of financial position as at 31 December 2017 are translated using the exchange rates of the ECB on that day and since interim movements are translated using the average exchange rates of the ECB, any differences arising therefrom are disclosed in the equity item translation reserve.

17.4.4 Use of major accounting estimates and sources of uncertainty

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

- Calculation of goodwill, its measurement and impairment is determined using the accounting policy under 17.4.9 and note 1.
- Deferred tax assets are recognised if Group entities plan to realise a profit in the medium-term projections.
- Receivables are impaired based on the accounting policy set out in section 17.4.17. Any recognised impairment loss is shown in note 9.

- Financial investments: Classification, recognition, measurement and derecognition, as well as investment impairment and fair value measurement, are made based on the accounting policy set out in section 17.4.14. Movements in investments and their classification are shown in note 5, while the associated income and expenses, and impairment, are shown in note 30.
- Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are shown in sections 17.4.24–27. Movements in these provisions are shown in note 22.

17.4.5 Materiality

To serve as a starting point in determining a materiality threshold for the consolidated financial statements, the management used the equity of the Sava Re Group, specifically 2% thereof as at 31 December

2017, which is €6.3 million. The disclosures and notes required to meet regulatory or statutory requirements are presented, despite their being below the materiality threshold.

17.4.6 Cash flow statement

The cash flow statement has been prepared using the indirect method. The Group cash flow statement was prepared as the sum of all cash flows of all Group companies less any inter-Group cash flows. Cash flows from operating activities have been prepared based on data from the 2017 statement of financial

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

17.4.7 Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the

period. Profit reserves also include the treasury share reserve and the catastrophe equalisation reserve.

17.4.8 Intangible assets

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

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

17.4.9 Goodwill

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

For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made. Movement in goodwill is discussed in detail in note 1 of section 17.8.

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

Section 17.8, note 1, sets out the main assumptions for cash flow projections used in the calculation of the value in use.

17.4.10 Property and equipment

Property and equipment assets are initially recognised at cost, including cost directly attributable to acquisition of the asset. Subsequently, the cost model is applied: assets are carried at cost, less any accumulated depreciation and any impairment losses. For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made.

Depreciation rates of property and equipment assets

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

The Group assesses annually whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

17.4.11 Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, its sale must be highly probable and it must be available for immediate sale in its

Property and equipment assets are first depreciated upon their availability for use. Depreciation is calculated for each item separately, on a straight-line basis. Depreciation rates are determined so as to allow the cost of property and equipment assets to be allocated to expenses over their estimated useful lives.

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

present condition. The Group must be committed to the sale and must realise it within one year. Such assets are measured at the lower of the assets' carrying amount or fair value less costs to sell, and are not depreciated.

17.4.12 Deferred tax assets and liabilities

Deferred tax assets and liabilities are amounts of income taxes expected to be recoverable or payable, respectively, in future periods depending on taxable temporary differences. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

The Group establishes deferred tax assets for temporary tax non-deductible impairments of portfolio investments. Deferred tax assets are additionally established for impairment losses on receivables, unused tax losses and for provisions for employees. Deferred tax liabilities were recognised for the credit risk and catastrophe equalisation reserves transferred (as at 1 January 2007) from technical provisions to profit reserves, which used to be tax-deductible when set aside (prior to 1 January 2007).

In addition, the Group establishes deferred tax assets and liabilities for that part of value adjustments recorded under negative fair value reserve. Deferred tax assets and liabilities are also accounted for actuarial gains/losses when calculating provisions for severance pay upon retirement. This is because actuarial gains/losses affect comprehensive income as well as the related deferred tax assets/liabilities.

17.4.13 Investment property

Investment property relates to assets that the Group does not use directly for carrying out its activities, but holds to earn rent or to realise capital gains at disposal. The Group uses the cost model and the straight-line depreciation method to account for investment property. Investment property is depreciated at the rate of 1.3%–2%. The basis for calculating the depreciation rate is the estimated useful life. All leases where the Group acts as lessor are cancellable operating leases. Payments and/or rentals received are recognised as income on a straight-line basis over the term of the lease. For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made. The

Upon acquiring Zavarovalnica Maribor (now Zavarovalnica Sava), the Group recognised deferred tax liabilities relating to property, equipment and intangible assets, representing the value of the assumed liabilities when Zavarovalnica Maribor joined the Group, being the difference between the fair value of the contractual insurance rights acquired and assumed insurance liabilities and the value of assets acquired.

The Group does not set off deferred tax assets and liabilities.

A deferred tax asset is recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In 2017, no deferred tax assets of this kind were recognised by the Group.

In 2017, deferred tax assets and liabilities were accounted for using tax rates that in the management's opinion will actually be used to tax the differences; these range from 9% to 19% (2016: from 9% to 20%).

Group assesses annually whether there is an indication of impairment of investment property. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of the value in use and the net selling price less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

The Group measures the fair value of investment property using fair value models. The fair values of investment property in Slovenia were verified based on appraisals made by certified property appraisers in 2016, while the values of investment property in Serbia were verified in 2017.

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

17.4.14.1 Classification

The Group classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss

This category consists of the following two sub-categories:

- financial assets held for trading, and
- financial assets designated as at fair value through profit or loss.

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Loans and receivables (deposits)

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

17.4.14.2 Recognition, measurement and derecognition

Available-for-sale financial assets and held-to-maturity financial assets are initially measured at fair value plus any transaction costs. Financial assets at fair value through profit or loss are initially measured at fair value, with any transaction costs recognised as investment expenses.

Acquisitions and disposals of financial assets, loans and deposits are recognised on the trade date.

Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in the statement of comprehensive income, and transferred to the income statement upon disposal or impairment. Gains and losses arising from fair value revaluation of financial assets at fair value through profit or loss are recognised directly in the income statement. Held-to-maturity financial assets are measured at amortised cost less any impairment losses.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the assets are transferred and the transfer qualifies for derecognition in accordance with IAS 39.

Loans and receivables (deposits), and held-to-maturity financial assets are measured at amortised cost.

17.4.14.3 Determination of fair values

The Group measures all financial instruments at fair value, except for deposits, shares not quoted in any regulated market, loans and subordinated debt (assumed that the carrying amount is a reasonable approximation of fair value) and financial instruments held to maturity, which are measured at amortized cost. The fair value of investment property and land and buildings used in business operations and the fair value of financial instruments measured at amortized cost are set out in note 27. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group determines the fair value of a financial asset on the valuation date by determining the price on the principal market based on:

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

Assets and liabilities measured or disclosed at fair value in the consolidated financial statements are measured and presented in accordance with the IFRS 13 fair-value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.

Assets and liabilities are classified in accordance with IFRS 13 especially based on the availability of market information, which is determined by the relative levels of trading identical or similar instruments in the market, with a focus on information that represents actual market activity or binding quotations of brokers or dealers.

Investments measured or disclosed at fair value, are presented in accordance with the levels of fair value under IFRS 13, which categorizes the inputs to measure fair value into the following three levels of the fair value hierarchy:

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

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

17.4.14.4 Impairment of investments

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

17.4.14.4.1 Debt securities

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

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

If the first condition above is met, an impairment loss is recognised in the income statement in the amount of the difference between the fair value and carrying amount of the debt security (if the carrying amount exceeds the fair value).

If the second condition above is met, an impairment loss is recognised in profit or loss, being the difference between the potential payment out of the bankruptcy or liquidation estate and the cost of the investment. The potential payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement proceedings, or, if such information is not available, based on experience or estimates made by credit rating or other financial institutions.

In respect of debt securities, only impairment losses recognised pursuant to indent one above (first condition) may be reversed. An impairment loss is reversed when the issuer's liability is settled. Impairment losses are reversed through profit or loss.

17.4.14.4.2 Equity securities

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

- their market price is more than 40% below cost;
- their market price has remained below cost for more than one year;

17.4.15 Reinsurers' share of technical provisions

The amount of reinsurers' share of technical provisions represents the proportion of gross technical provisions and unearned premiums for transactions that the Group ceded to reinsurers outside the Sava Re Group. The amount is determined in accordance with reinsurance (retrocession) contracts and in line with movements in the portfolio based on gross technical provisions for the business that is the object

17.4.16 Investment contract assets and liabilities

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

- the model based on which the Group assesses the need for impairment of unquoted securities indicates that the asset needs to be impaired.

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

of these reinsurance (retrocession) contracts at the close of each accounting period.

The Group tests these assets for impairment on the reporting date. Assets retroceded to counterparties are tested strictly individually. For an estimation of retrocession risks, see section 17.7.3.6 "Risk management: Retrocession programme – non-life business".

The Company initially recognises investment property assets under investment contract assets at cost plus any transaction costs. Subsequently, investment property assets are measured using the fair value model. Sava pokojninska monitors the value of its investment property assets in local markets using indexes (change in value) calculated in-house or in-Group. The data used in such calculations are taken from the latest available report on the Slovenian real property market issued by the Surveying and Mapping Authority of the Republic of Slovenia. If the property price index changes by more than 10% compared to the index of the most recent valuation or that upon initial recognition, the property assets must be reappraised. The appraisal must be carried out by a certified real estate appraiser licensed by the Slovenian Institute of Auditors. Notwithstanding the above sentence, property assets are appraised at least once every three years.

17.4.17 Receivables

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

17.4.17.1 Recognition of receivables

Receivables are initially recognised based on issued policies, invoices or other authentic documents (e.g. confirmed reinsurance or co-insurance accounts). In financial statements, receivables are reported in net amounts, i.e. net of any allowances made.

Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commissions relating to retrocession business are invoiced to cedants or reinsurers, respectively. For existing reinsurance contracts for which no confirmed invoices have been received from cedants or reinsurers, receivables are recognised in line with policies outlined in sections 17.4.30 “Net premiums earned” and 17.4.31 “Net claims incurred”.

Recourse receivables are recognised as assets only if, on the basis of a recourse claim, an appropriate legal basis exists (a final order of attachment, a written

17.4.18 Deferred acquisition costs

Acquisition costs that are deferred include the part of operating expenses associated with policy underwriting.

The Group discloses under deferred acquisition costs, mostly deferred commissions. These are booked

agreement with or payments by the policyholder or debtor, or subrogation for credit risk insurance). Even if subrogation is applicable, recourse receivables are recognised only after the debtor’s existence and contactability have been verified. Recognition of principal amounts to which recourse receivables relate decreases claims paid. Group companies recognise impairment losses on recourse receivables based on past experience.

No receivables have been pledged as security.

17.4.17.2 Impairment of receivables

The Group classifies receivables into groups with similar credit risk. It assesses receivables in terms of recoverability or impairment, making allowances based on payment history. Individual assessments are carried for all material items of receivables.

In addition to age, the method for accounting for allowances takes into account the phase of the collection procedure, historical data on the percentage of write-offs made and the ratio of recoverability. Assumptions are reviewed annually.

commissions relating to the next financial year and are recognised based on (re)insurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line amortisation.

17.4.19 Other assets

Other assets include capitalised short-term deferred costs and short-term accrued income. Short-term deferred costs comprise short-term deferred costs

17.4.20 Cash and cash equivalents

Thus, 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

17.4.21 Equity

Composition:

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

for prepayments of unearned commissions to counterparties.

- cash equivalents, including demand deposits and deposits with an original maturity of up to three months.

Reserves provided for by the articles of association are used:

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

Profit reserves also include catastrophe (earthquake) equalisation reserves set aside pursuant to the rules on technical provisions and reserves as approved by appointed actuaries. These are tied-up reserves.

Pursuant to the Companies Act, the management board has the power to allocate up to half of the net profit to other reserves.

17.4.22 Subordinated liabilities

Subordinated liabilities represented a long-term liability of the Group in the form of a subordinated loan to be used by the Group for its expansion from 2006 onwards. In the first half of 2017, the controlling

company fully repaid its subordinated loan after obtaining approval from the Insurance Supervision Agency.

17.4.23 Classification of insurance contracts

The Group transacts traditional and unit-linked life business, non-life business and reinsurance business, the basic purpose of which is the transfer of underwriting risk. Underwriting risk is considered significant, if the occurrence of an insured event would result in significant additional payments. Accordingly, the Group classified all such contracts concluded as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, which are insurance contracts.

Since non-proportional reinsurance contracts provide for the payment of significant additional pay-outs in case of loss events, they also qualify as insurance contracts.

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

17.4.24 Technical provisions

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

Unearned premiums are the portions of premiums written pertaining to periods after the accounting period. Unearned premiums are calculated on a pro rata temporis basis at insurance policy level, except for decreasing term contracts (credit life). Since there is generally insufficient data available for inwards reinsurance business on the individual policy level, the fractional value method is used for calculating unearned premiums at the level of individual reinsurance accounts for periods for which premiums are written.

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

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

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

well as development triangles for underwriting years succeeding accounted quarters; the IBNR provision is then established at the amount of the claims provision thus estimated.

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

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

Other technical provisions solely include the provision for unexpired risks derived from a liability adequacy test of unearned premiums, as described below.

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

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

These are provisions for unit-linked life business. They comprise mathematical provisions, unearned premiums and provisions for outstanding claims. The bulk comprises mathematical provisions. Their value is the aggregate value of all units of funds under all policies,

including all premiums not yet converted into units, plus the discretionary bonuses of guaranteed funds managed by us. The value of funds is based on market value as at the statement of financial position date.

17.4.26 Liability adequacy test (LAT)

The Group carries out adequacy testing of provisions set aside based on insurance contracts as at the financial statement date separately for non-life and life business. The liability adequacy test for non-life business is described in section 17.4.24 “Technical provisions”.

Liability adequacy testing for life business

The liability adequacy test for life policies is carried out at a minimum at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses and expenses. For this purpose, the present value of future cash flows is used.

Discounting is based on the yield curve for euro area sovereign bonds at the statement of financial position date, but for EU Member States the risk-free yield curve of government bonds at the statement of financial position date, including a loading for the investment mix. Where reliable market data is available, assumptions (such as discount rate and investment return) are derived from observable market prices. Assumptions that cannot be reliably derived from market values are based on current estimates calculated by reference to the Group’s own internal models (lapse rates, actual mortality and morbidity) and publicly available resources (demographic information published by the local statistical bureau). For mortality, higher rates are anticipated than realised due to uncertainty.

Input assumptions are updated annually based on recent experience. Correlations between risk factors are not taken into account. The principal assumptions used are described below.

The liability adequacy test is performed on the policy or product level. If the test is performed on the policy level, the results are shown on the product-level, with products grouped by class of business. Results of the test are then evaluated for each of the three groups separately. Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining any additional liabilities to be established. The net present value of future cash flows calculated using the assumptions described below is compared with the insurance liabilities, for each group separately. If this comparison shows that the carrying amount of the insurance liabilities is inadequate in the light of the estimated cash flows, the entire deficiency is recognised in profit or loss by establishing an additional provision.

Mortality and morbidity are usually based on data supplied by the local statistical bureau and amended by the Group based on a statistical investigation of its mortality experience. Assumptions for mortality and morbidity are adjusted by a margin for risk and uncertainty and are higher than actual.

Future contractual premiums are included and for most business also premium indexation is taken into consideration. Estimates for lapses and surrenders are made based on experience. Actual persistency rates by product type and duration are regularly investigated, and assumptions updated accordingly. The actual persistency rates are adjusted by a margin for risk and uncertainty.

Estimates for future maintenance expenses included in the liability adequacy test are derived from current experience. For future periods, cash flows for expenses have been increased by a factor equal to the estimated annual inflation or have remained on the present level, taking into account the portfolio development.

Yield and the discount rate are based on the same yield curve; a loading for market development is added when discounting.

The liability adequacy test partly takes into account future discretionary bonuses due to the method of determining bonuses. The share of discretionary bonuses complies with internal rules and is treated as a discounted liability.

The Group estimated, for most of the life policies, the impact of changes in key variables that may have a material effect on the results of liability adequacy tests at the end of the year. Sensitivity analyses are prepared separately for traditional life business and investment-linked life business.

(€)	31/12/2017		31/12/2016	
	LAT test for traditional life policies	LAT test for unit-linked life policies	LAT test for traditional life policies	LAT test for unit-linked life policies
Base run	250,957,433	175,425,847	256,939,710	178,717,678
Investment return + 100 bp	240,471,344	173,613,304	245,369,854	175,187,656
Investment return – 100 bp	264,443,797	178,836,827	271,679,805	182,905,734
Mortality + 10%	253,487,108	177,445,629	259,464,566	180,554,154
Policy maintenance expenses + 10%	254,384,583	179,078,866	260,327,207	183,218,403

The base run is calculated using the same assumptions as for liability adequacy testing. Changes in variables represent reasonable possible changes which, had they occurred, would have led to significant changes in insurance liabilities at the statement of financial position date. The reasonable possible changes represent neither expected changes in variables nor worst case scenarios. A change in key variables would affect the corresponding component of the result in the same proportion.

The analysis has been prepared for a change in variable with all other assumptions remaining unchanged and ignores changes in values of the related assets. Sensitivity was calculated for an unfavourable direction of movement. The income statement and insurance liabilities (as show in the LAT test) are mostly impacted by changes in the investment return, while unit-linked business is also impacted by changes in operating expenses.

17.4.27 Other provisions

Employee benefits include severance pay upon retirement and jubilee benefits. Provisions for employee benefits are the net present value of the Group's future liabilities proportionate to the years of service in the Group (the projected unit credit method). Pursuant to IAS 19 "Employee benefits", actuarial gains and losses arising on re-measurement of net liabilities are recognised in other comprehensive income.

These provisions are calculated based on personal data of employees: date of birth, date of commencement of employment in the Group, anticipated retirement, and salary. For each Group company, the amounts of severance pay upon retirement and jubilee benefit are in accordance with local legislations, employment

contracts and other applicable regulations. Expected pay-outs also include tax liabilities where payments exceed statutory non-taxable amounts.

The probability of an employee staying with the Group includes both the probability of death and the probability of employment relationship termination. Assumptions relating to future increases in salaries, severance pay upon retirement and jubilee benefits, as well as those relating to employee turnover depend on developments in individual markets and individual Group companies. The same term structure of risk-free interest rates is used for discounting as in the capital adequacy calculation under the Solvency II regime.

17.4.28 Other financial liabilities

Other financial liabilities mainly include liabilities to banks regarding borrowings.

17.4.29 Liabilities from operating activities and other liabilities

Liabilities are initially recognised at amounts recorded in the relevant documents. Subsequently, they are increased or decreased in line with documents or decreased through payments. Other liabilities comprise: liabilities for claims and outwards retrocession

premiums, liabilities for claims arising out of inwards reinsurance contracts, liabilities for retained deposits, current income tax liabilities, amounts due to employees, amounts due to clients and other short-term liabilities.

17.4.30 Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of cash inflows or increases in assets. The following are disclosed separately: gross (re)insurance premiums, co-insurance and retrocession premiums, and unearned premiums. These items are used to calculate net premiums written in the income statement. Revenues are recognised based on confirmed (re)insurance accounts or (re)insurance contracts.

Estimates are made on the basis of amounts in reinsurance contracts, which, according to due dates, have already accrued although the Group has yet to receive reinsurance accounts. Net premiums earned are calculated based on invoiced gross reinsurance premiums less invoiced premiums retroceded, both adjusted for the movement in gross unearned premiums and the change in reinsurers' share of unearned premiums. Premiums earned are estimated based on individual reinsurance contracts.

17.4.31 Net claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. Net claims incurred comprise gross claims paid net of recourse receivables and reinsured claims, i.e. amounts invoiced to retrocessionaires. The amount of gross claims paid includes the change in the claims provision, taking into account estimated claims and provisions for outstanding

claims. Estimates are made on the basis of amounts in reinsurance contracts, which, according to due dates, have already accrued although the Group has yet to receive reinsurance accounts. Claims incurred are estimated based on estimated premiums and combined ratios for individual reinsurance contracts. These items are used to calculate net claims incurred in the income statement.

17.4.32 Investment income and expenses

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

Investment income includes:

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

Investment expenses include:

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

The mentioned income and expenses are disclosed depending on how the underlying investments are classified, i.e. investments held to maturity, at fair value through profit or loss, available for sale, loans and receivables, or deposits.

Interest income and expenses for investments classified as held to maturity or available for sale are recognised in the income statement using the effective interest rate method. Interest income and expenses for investments at fair value through profit or loss are recognised in the income statement using the coupon interest rate. Dividend income is recognised in the income statement when payout is authorised. Gains and losses on the disposal of investments represent the difference between the carrying amount of a financial asset and its sale price, or between its cost less impairment, if any, and sale price in the case of investments available for sale.

17.4.33 Operating expenses

Operating expenses comprise:

- acquisition costs;
- change in deferred acquisition costs;
- other operating expenses classified by nature, as follows:

- a. depreciation/amortisation of operating assets,
- b. personnel costs including employee salaries, social and pension insurance costs and other personnel costs,
- c. remuneration of the supervisory board and audit committee; and payments under contracts for services,
- d. other operating expenses relating to services and materials.

17.4.34 Other technical income

Other technical income comprises income from reinsurance commission less the change in deferred acquisition costs relating to reinsurers, and is recog-

nised based on confirmed reinsurance accounts and estimated commission income taking into account straight-line amortisation.

17.4.35 Income tax expense

Income tax expense for the year comprises current and deferred tax. Current income tax is presented in the income statement, except for the portion relating to the items presented in equity. The same applies to deferred tax. Current tax is payable on the taxable profit for the year using the tax rates enacted by the date of the statement of financial position, as well as on any adjustments to tax liabilities of prior periods. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax amount is based on the expected manner of recovery

or settlement of the carrying amount of assets and liabilities, using the tax rates that have been enacted by the date of the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group income tax expense has been determined in accordance with the requirements of each member's local legislation. Statutory tax rates in various countries are between 9% and 19%.

17.4.36 Information on operating segments

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

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

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

Asset items by operating segment as at 31 December 2017

31/12/2017 (€)	Reinsurance business	Non-life insurance business			Life insurance business			Other	Total
		Slovenia	International	Total	Slovenia	International	Total		
ASSETS	276,777,816	562,908,852	116,258,983	679,167,835	718,242,683	29,257,618	747,500,301	4,902,115	1,708,348,067
Intangible assets	807,011	5,930,640	8,664,733	14,595,373	7,255,178	38,444	7,293,622	16,938	22,712,944
Property and equipment	2,485,645	25,240,112	11,247,477	36,487,589	2,174,948	2,197,557	4,372,505	2,092,275	45,438,014
Deferred tax assets	1,238,826	534,480	95,467	629,947	238,446	345	238,791	0	2,107,564
Investment property	8,230,878	3,066,546	4,025,810	7,092,356	40,950	0	40,950	0	15,364,184
Financial investments:	165,705,134	440,654,143	71,007,767	511,661,910	336,499,602	24,247,593	360,747,194	10,781	1,038,125,019
- loans and deposits	5,540,491	3,026,235	15,193,903	18,220,138	16,927	4,242,206	4,259,132	9,781	28,029,543
- held to maturity	1,396,816	40,299,903	3,651,181	43,951,084	58,002,493	2,881,934	60,884,427	0	106,232,327
- available for sale	158,492,132	397,200,750	52,153,364	449,354,114	272,987,549	16,810,484	289,798,033	1,000	897,645,279
- at fair value through profit or loss	275,695	127,256	9,318	136,574	5,492,633	312,968	5,805,601	0	6,217,870
Funds for the benefit of policyholders who bear the investment risk	0	0	0	0	227,172,652	55,401	227,228,053	0	227,228,053
Reinsurers' share of technical provisions	9,744,947	16,212,812	4,626,944	20,839,757	198,672	3,866	202,538	0	30,787,241
- from unearned premiums	1,556,970	5,657,509	1,578,175	7,235,684	31,617	2,503	34,120	0	8,826,773
- from provisions for claims outstanding	8,187,977	10,555,303	3,047,522	13,602,825	167,055	1,363	168,418	0	21,959,220
Investment contract assets	0	0	0	0	129,622,131	0	129,622,131	0	129,622,131
Receivables	74,851,935	47,924,024	10,775,776	58,699,800	857,814	1,867,321	2,725,135	2,178,655	138,455,525
Receivables arising out of primary insurance business	71,773,739	45,187,064	6,451,723	51,638,787	741,601	170,420	912,021	0	124,324,547
Receivables arising out of co-insurance and reinsurance business	2,906,051	567,453	2,721,346	3,288,799	0	2,867	2,867	0	6,197,717
Current tax assets	0	0	17,822	17,822	0	0	0	0	17,822
Other receivables	172,145	2,169,507	1,584,885	3,754,392	116,213	1,694,034	1,810,247	2,178,655	7,915,439
Deferred acquisition costs	6,235,349	8,743,590	3,214,513	11,958,103	311,809	1,933	313,742	0	18,507,194
Other assets	799,634	880,008	295,432	1,175,440	7,259	30,286	37,545	30,776	2,043,395
Cash and cash equivalents	6,678,458	13,721,812	2,305,064	16,026,876	13,863,223	814,872	14,678,095	572,690	37,956,119
Non-current assets held for sale	0	684	0	684	0	0	0	0	684

Equity and liabilities items by operating segment as at 31 December 2017

31/12/2017 (€)	Reinsurance business	Non-life insurance business			Life insurance business			Other	Total
		Slovenia	International	Total	Slovenia	International	Total		
EQUITY AND LIABILITIES	347,465,526	515,078,617	120,483,412	635,562,029	693,283,920	27,311,028	720,594,948	4,725,561	1,708,348,067
Equity	145,495,325	67,041,741	38,103,173	105,144,914	49,925,921	10,999,493	60,925,414	4,551,239	316,116,895
Equity attributable to owners of the controlling company	145,495,325	67,041,741	37,791,395	104,833,136	49,925,921	10,999,493	60,925,414	4,544,535	315,798,413
Non-controlling interests in equity	0	0	311,778	311,778	0	0	0	6,704	318,482
Technical provisions	155,981,500	413,731,878	73,020,045	486,751,923	272,935,086	15,729,853	288,664,939	0	931,398,362
Unearned premiums	27,784,980	115,284,582	27,763,773	143,048,355	794,499	229,425	1,023,924	0	171,857,259
Mathematical provisions	0	0	0	0	256,160,676	15,249,239	271,409,915	0	271,409,915
Provision for outstanding claims	127,827,170	290,994,868	44,020,475	335,015,343	15,979,911	250,158	16,230,069	0	479,072,582
Other technical provisions	369,350	7,452,428	1,235,797	8,688,225	0	1,031	1,031	0	9,058,606
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	0	0	226,472,492	55,401	226,527,893	0	226,527,893
Other provisions	351,250	5,356,300	664,195	6,020,495	1,196,929	31,137	1,228,066	802	7,600,613
Deferred tax liabilities	0	2,674,519	253,835	2,928,354	2,799,681	49,496	2,849,177	3,963	5,781,494
Investment contract liabilities	0	0	0	0	129,483,034	0	129,483,034	0	129,483,034
Other financial liabilities	91,181	0	154,023	154,023	0	0	0	1	245,205
Liabilities from operating activities	43,115,652	5,423,252	4,089,229	9,512,481	7,683,212	274,965	7,958,177	11,878	60,598,188
Liabilities from primary insurance business	39,870,845	4,204,601	2,988,994	7,193,595	7,464,498	181,597	7,646,095	754	54,711,289
Liabilities from reinsurance and co-insurance business	3,090,008	1,218,651	845,443	2,064,094	1,308	4,773	6,081	0	5,160,183
Current income tax liabilities	154,799	0	254,792	254,792	217,406	88,595	306,001	11,124	726,716
Other liabilities	2,430,618	20,850,927	4,198,912	25,049,839	2,787,565	170,683	2,958,248	157,678	30,596,383

Asset items by operating segment as at 31 December 2016

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

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

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

Inter-segment business – inter-segment consolidation eliminations

(€)	Reinsurance business		Non-life insurance business		Life insurance business		Other	
	2017	2016	2017	2016	2017	2016	2017	2016
Net earned premiums	56,998,934	54,743,174	155,695	-429,653	0	0	0	0
Net claims incurred	-29,365,699	-27,155,374	-63,437	327,231	0	0	0	0
Operating expenses	-12,428,627	-13,906,899	-988,469	-1,059,346	-790,224	-650,470	-138,825	-145,742
Investment income	76,441	156,454	4,456	1,494	0	0	0	0
Other income	23,017	26,349	118,402	69,382	3	76	1,875,677	1,935,064

Cost of intangible and property and equipment assets by operating segment

(€)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Investments in intangible assets	196,213	287,714	806,960	1,006,107	74,849	32,941	672	1,916	1,078,694	1,328,678
Investments in property and equipment	289,914	5,656,548	4,620,411	4,368,242	170,803	651,604	23,512	63,841	5,104,640	10,740,234

The Group's insurance operations are focused on Slovenia and the Adria region (Serbia, Croatia, Montenegro, Macedonia and Kosovo), while its reinsurance operations take place in global reinsurance markets.

17.5 Changes in accounting policies and presentation

In 2017, the Group changed the presentation of the sub-items of receivables and liabilities from operating activities.

To better reflect the nature of the Group's operations, we now disclose the items relating to accepted reinsurance and co-insurance business, also known as inwards re/co-insurance, under receivables and liabilities from primary insurance business. The effect of the change is shown in disclosure 9 "Receivables", in section 17.8 "Notes to the consolidated financial statements – statement of financial position".

Receivables and liabilities from co-insurance and reinsurance business, however, will continue to include items relating to ceded business (reinsurance and

ceded co-insurance written by primary insurance companies and outward retrocession business of reinsurance companies). The effect of the change is shown in disclosure 25 "Liabilities from operating activities", in section 17.8 "Notes to the consolidated financial statements – statement of financial position".

This change in presentation only relates to re-classification from one item to another within asset or liability items, and does not affect the balance sheet total. Accounting policies have been adjusted with regard to the allocation of policy acquisition costs and the related establishment of provisions for unexpired risks in the Serbian non-life insurance company. The effect of the adjustment totals €0.2 million and impacts retained earnings.

17.6 Standards and interpretations issued but not yet effective and new standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended IFRSs adopted by the Group as of 1 January 2017:

Amended standards that are already effective

IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The objective of the amendments is to clarify the requirements of deferred tax assets for unrealised losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments have no effect on the consolidated financial statements.

IAS 7: Disclosure Initiative (Amendments)

The amendments to IAS 7 require that undertakings provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments have no effect on the consolidated 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 following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities:

The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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

IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018. Early application is permitted. 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. Regarding the implementation of IFRS 9, the Group will opt to apply the temporary exemption from this standard until the coming into force of IFRS 17 Insurance contracts. The management assesses that the enforcement of the standard will have a significant effect on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. 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 entity's ordinary activities (e.g., sales 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 the effect of the standard on the consolidated financial statements and believes that the enforcement of the standard will have no significant effect on the operations of the Group.

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The clarifications apply for annual periods beginning on or after 1 January 2018. Early application is permitted. 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 the effect of the standard on the consolidated financial statements and believes that the enforcement of the standard will have no significant effect on the operations of the Group.

IFRS 16: Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract,

i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The management has assessed the effect of the standard on the consolidated financial statements and believes that the enforcement of the standard will have no significant effect on the operations of the Group.

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 issued. 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 been yet endorsed by the EU. The management is assessing the impact of the standard on the consolidated financial statements. The coming into force of the standard will have an important impact on the consolidated financial statements.

Amendment in 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. 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 main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). In December 2015 the IASB post-

poned 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 been yet endorsed by the EU. The management has assessed the effect of the amendment on the consolidated financial statements and believes that the enforcement of the amendments will have no significant effect on the Group's financial statements.

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

The amendments are effective for periods beginning on or after 1 January 2018. Early application is permitted. 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 amendments to the standard have not been yet endorsed by the EU. The management has assessed the effect of the amendment on the consolidated financial statements and believes that the enforcement of the amendments will have no significant effect on the Group's financial statements.

IFRS 4: Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)

The amendments are effective for periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue 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 Insurance Contracts.

IAS 40: Transfers to Investment Property (Amendments)

The amendments are effective for periods beginning on or after 1 January 2018. Early application is permitted. 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 amendments to the standard have not been yet endorsed by the EU. The management has assessed the effect of the amendments to the standard on the consolidated financial statements and believes that the amendments will not have a significant effect on the consolidated financial statements.

IFRS 9 Amendment: Prepayment features with negative compensation

The amendments are effective for 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 amendments to the standard have not been yet endorsed by the EU. The management has assessed the effect of the amendments to the standard on the consolidated financial statements and believes that the amendments will not have a significant effect on the consolidated financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments are effective for 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 applies 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 been yet endorsed by the EU. The management has assessed the effect of the amendments to the standard on the consolidated financial statements and believes that the amendments will not have a significant effect on the consolidated financial statements.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The interpretation is effective for periods beginning on or after 1 January 2018. Early application is permitted. 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 a 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. This interpretation has not yet been endorsed by the EU. The management has assessed the effect of the amendments to the standard on the consolidated financial statements and believes that the amendments will not have a significant effect on the consolidated financial statements.

The IASB has issued the **Annual Improvements to IFRSs 2014–2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The management has assessed the effect of the improvements on the consolidated financial statements and believes that the improvements will have no significant effect on the consolidated 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.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The interpretation is effective for 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. This interpretation has not yet been endorsed by the EU. 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. This interpretation has not yet been endorsed by the EU. The management has assessed the effect of the interpretation on the consolidated financial statements and believes that the interpretation will have no significant effect on the Group's financial statements.

17.7 Risk management¹⁰⁵

The most important risks that the Group members are exposed to are underwriting risks (underwriting process risk, pricing risk, claims risk, net retention risk, reserving risk and risks associated with the retrocession programme and life insurance business), market risks (interest rate risk, equity risk, currency risk, concentration risk and asset-liability mismatch risk), insolvency risk, credit risk and operational risk. To illustrate concentration risk for insurance contracts, a table showing a breakdown of insurance premiums by region is provided in section 17.4.36 “Information on operating segments”.

The following table shows the changes in the Group’s risk profile in 2017 compared to 2016. The risks have been assessed with regard to the potential volatility of business results and the resulting impact on the Group’s financial statements. The potential impact in case an extreme internal or external risk realises and the impact on the Group’s solvency position is set out in the “Sava Re Group Solvency and financial condition report”.

Change in the Group’s risk profile compared to the previous year

	Risk rating	Change in risk in 2017 compared to 2016	Risk described in section
Operational risks	medium	↓	17.7.6
Strategic risks	medium	↓	17.7.7
Insolvency risk	low	→	17.7.1
Financial risks			17.7.5
Interest rate risk	low	↓	17.7.5.1.1
Equity risk	medium	→	17.7.5.1.2
Property risk	medium	↑	17.7.5.1.3
Currency risk	low	→	17.7.5.1.4
Liquidity risk	low	→	17.7.5.2
Credit risk	medium	↓	17.7.5.3
Life underwriting risks	low	→	17.7.3.8
Investment contract risks	low	→	17.7.2
Non-life underwriting risk			17.7.3
Underwriting process risk	medium	→	17.7.3.1
Pricing risk	medium	→	17.7.3.2
Claims risk	medium	→	17.7.3.3
Net retention risk	medium	→	17.7.3.4
Reserve risk	low	→	17.7.3.5
Retrocession programme	low	→	17.7.3.6

17.7.1 Capital adequacy and capital management in the Sava Re Group

The Group uses the standard formula for calculating its capital requirements under the Solvency II regime. The solvency capital requirement is calculated annually, while eligible own funds supporting the Group’s solvency requirements are valued on a quarterly basis. The following table shows the Group’s capital adequacy calculation as at 31 December 2016¹⁰⁶.

Capital adequacy of the Sava Re Group

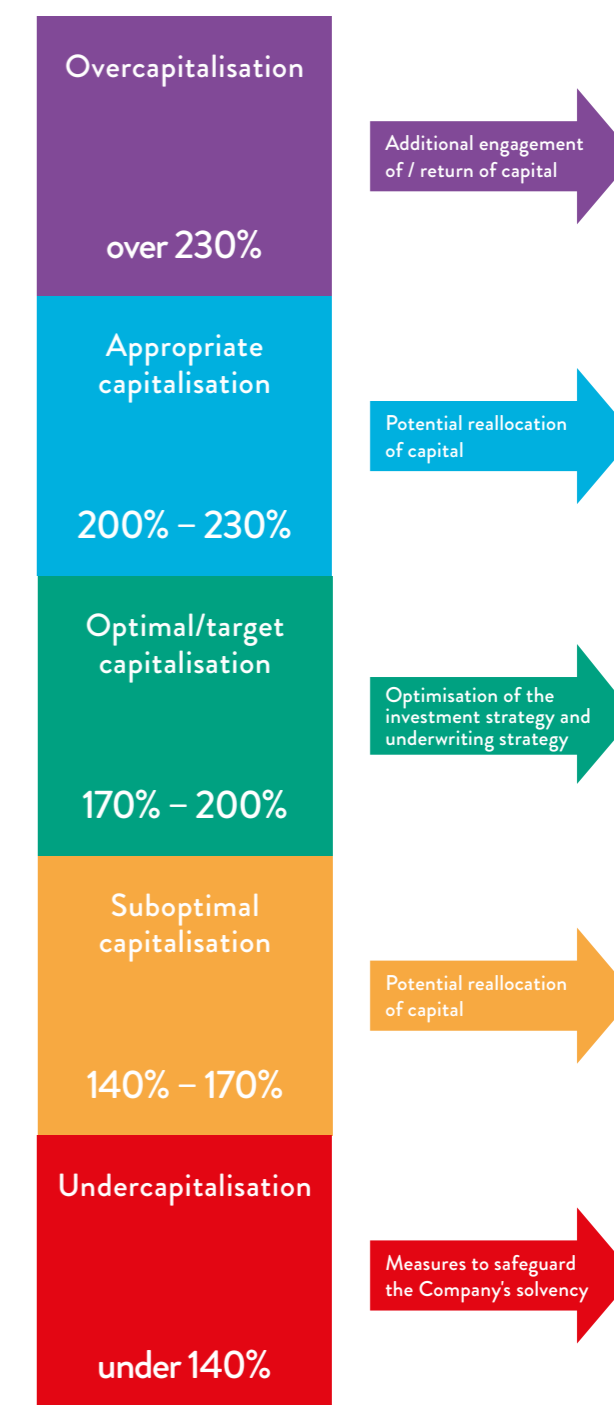
(€)	31/12/2016
Eligible own funds of the Group	423,393,781
Minimum capital requirement (MCR)	103,336,896
Solvency capital requirement (SCR)	207,112,504
Solvency ratio	204%

The Group’s unaudited eligible own funds as at 30 September 2017 totalled €465.2 million and were slightly higher than as at 31 December 2016. It needs to be noted that foreseeable dividends for 2017 are not considered in the calculation of eligible own funds in the first three quarters, while eligible own funds as at 31 December 2017 will be reduced by the foreseeable dividends. Nevertheless, we assess that the level of eligible own funds at the end of the year is slightly above the level as at 31 December 2016.

We also expect that the solvency ratio as at 31 December 2017 is broadly on the same level as at 31 December 2016.

As part of its risk strategy, the Sava Re Group has defined capitalisation ranges in terms of the solvency ratio:

We assess that, as at 31 December 2017, the Sava Re Group’s solvency ratio was at the upper limit of the optimal capitalisation range. And the Sava Re Group will be striving to maintain such a capital position in the coming years.



¹⁰⁵ GRI 102-11

¹⁰⁶ During the preparation of the audited annual report, the Sava Re Group is yet to obtain audited capital adequacy data for 2017. The capital adequacy calculation will be published in the “Sava Re Group solvency and financial condition report for 2017” to be released no later than 17 June 2018.

17.7.2 Investment contract risks

The Group's investment contracts include a group of life cycle funds called MOJI skladi življenjskega cikla (MY life-cycle funds), relating to supplementary pension business of the company Sava pokojninska in the accumulation phase. The company started managing the group of long-term business funds MOJI skladi življenjskega cikla on 1 January 2016. They comprise three funds: MOJ dinamični sklad (MY Dynamic Fund, MDF), and MOJ uravnoteženi sklad (MY Balanced Fund, MBF), and MOJ zajamčeni sklad (MY Guaranteed Fund, MGF). Investment contract liabilities are not included in the consolidated technical provisions item, and are, therefore, not included in the presentation of underwriting risk. Investment contract assets are not included in the consolidated financial investments item, and are, therefore, not included in the presentation of financial risks. Relating to investment contract assets and liabilities, the Sava Re Group is exposed to the risk of failing to achieve the guaranteed return for the long-term business fund with a guaranteed return – MGF.

The members of the supplementary pension insurance scheme thus bear the entirely investment risk arising out of the two funds MDF and MBF, while with the MGF they bear the investment risk above the guaranteed return. The guaranteed return of MGF is 60% of the average annual interest rate on government securities with a maturity of over one year. Investment contract liabilities of MGF include liabilities for guaranteed funds (net contributions plus guaranteed return) and additional liabilities to cover

any deficit resulting from the difference between the actual and the required rate of return (liability to exceed the return). For each member, the fund administrator keeps a personal account with accumulating net contributions and assets to exceed the guaranteed return (provisions); for MGF, additionally the guaranteed return is maintained. Liabilities to the members of the MDF and MBF move in line with the value of investments; members fully bear the investment risk. In years when the return in excess of guaranteed return is realised, liabilities to the members of the MGF for assets in excess of guaranteed levels of assets are increased; if, however, realised return is below the guaranteed level, this part of liabilities decreases until the provision is fully exhausted. The described control of guaranteed return is carried out at the level of individual members' accounts. In the event that individual provisions of any account are not sufficient to cover the guaranteed assets, the company is required to make provisions for the difference, which may exceed 20% of the capital. Any excess must be covered by the company's own funds (no such payments were required in 2017).

The risk of failing to realise guaranteed returns is managed primarily through appropriate management of policyholder assets and liabilities, an appropriate investment strategy, an adequate level of the company's capital and provisioning. The Group tests its risk exposure arising out of guaranteed return through stress tests and scenarios as part of the own risk and solvency assessment.

17.7.3 Underwriting risk

Underwriting risks are risks related to the main activity pursued by the Group members, i.e. the assumption of risk from policyholders. As part of this risk category, the Group is exposed to underwriting process risk (insurance and reinsurance), pricing risk, claims risk, retention risk and reserving risk. The Group is indirectly exposed to some other underwriting risks, such as product design risk, economic environment risk and policyholder behaviour risk. While these risks may be significant, we believe their impact is indirectly reflected in the main underwriting risks, which is why we do not consider them in detail.

The basic purpose of both non-life and life insurance is the assumption of risk from policyholders. In addition to the risks assumed directly by Group primary insurance companies, the controlling company also indirectly assumes reinsurance risks from cedants outside the Group. The Group retains a portion of the assumed risks and retrocedes the portion that exceeds its capacity. The Group classifies its insurance and reinsurance contracts as insurance and investment contracts within the meaning of IFRS 4. Below is a detailed outline of the risks arising out of insurance contracts, as required under IFRS 4.

First, we present underwriting risks arising out of non-life business. This is followed by risks arising out of life insurance business. The Group has a minor exposure relating to health insurance business considered under non-life insurance business. The technique underlying these policies is similar to non-life insurance so that their risks are by their nature very similar to non-life underwriting risks.

17.7.3.1 Underwriting process risk – non-life business

The underwriting process risk is the risk of incurring financial losses caused by the Group's incorrect selection and approval of risks to be (re)insured. The Group mitigates this risk mainly by complying with established and prescribed underwriting procedures (especially with large risks); correctly determining the probable maximum loss (PML) for each risk; complying with internal underwriting guidelines and instructions; complying with the authorisation system; and having in place an appropriate pricing and reinsurance policy.

Most non-life insurance contracts are renewed annually. This allows insurers to amend the conditions and rates to take into account any deterioration in the underwriting results of entire classes of business, and for major policyholders in a timely manner.

Where significant risks are involved, underwriting experts of the controlling company collaborate with the underwriters of subsidiaries (and risks are mainly reinsured with the controlling company). Additionally in respect of risks exceeding the limits set out in the reinsurance treaties, it is vital that adequate facultative reinsurance cover is obtained to upgrade the basic reinsurance programme.

Underwriting risks in excess of the Group's capacity are reduced through retrocession contracts.

We estimate that underwriting process risk relating to (re)insurance business is well managed, although it moderately increased in 2017 compared to 2016 due to an increase in premium volume. This is because net non-life premiums written by the Group grew by 2.5% or €9.1 million compared to 2016.

17.7.3.2 Pricing risk – non-life business

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re)insurance contracts. Principally, the Group monitors pricing risk by conducting actuarial analyses of loss ratios and identifying their trends and by making relevant corrections. When premium rates are determined for new products, the pricing risk can be monitored by prudently modelling loss experience, by comparing against market practice, and by comparing the actual loss experience against estimates.

In proportional reinsurance contracts, reinsurance premiums depend on insurance premiums, mostly set by ceding companies, while the risk premium also depends on the commission recognised by the reinsurer. Therefore, the Group manages this risk by having an appropriate underwriting process in place and by adjusting applicable commission rates. Likewise in respect of non-proportional reinsurance treaties, the pricing risk is managed by properly underwriting the risks to be reinsured and by determining adequate reinsurance premiums. Expected results of reinsurance contracts entered into on the basis of available information and set prices must be in line with target combined ratios; the adequacy of prices is verified based on the results by form and class of reinsurance.

Based on reasonable actuarial expectations of claims movements or loss ratios and expenses or expense ratios and assuming rational behaviour of all market participants, the premium rates on the Group level allow the achievement of a combined ratio below 100%. The Group considers the aggregate pricing risk to have been moderate in 2017 and similar to that in 2016.

17.7.3.3 Claims risk – non-life business

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. This risk may materialise due to incorrect assessments in the underwriting process, changes in court practice, new types of losses, increased claims awareness, changes in macroeconomic conditions and such like.

The claims risk is managed through designing appropriate policy conditions and tariffs, appropriate underwriting, monitoring risk concentration by site or geographical area and especially through adequate reinsurance and retrocession programmes.

Based on the realised loss events and their small impact on the Group's profit, we believe that the risk management measures set out are adequate and we estimate that the claims risk remained on a similar level as in the previous period.

17.7.3.4 Net retention risk – non-life business

Net retention risk is the risk that higher retention of insurance loss exposures will result in large aggregate losses due to catastrophic or concentrated claims experience. This risk may also materialise in the event of "shock losses", where a large number of insured properties are impacted. This may occur especially through losses caused by natural peril events, which are generally covered by a basic or an additional fire policy or by a policy attached to an underlying fire policy (e.g. business interruption policy or earthquake policy).

The Group manages this risk by way of adequate professional underwriting of the risks to be insured, partly by measuring the exposure to natural peril events by geographical area and designing appropriate reinsurance programmes. In managing these risks, due consideration is given to the fact that maximum net aggregate losses in any one year are affected both by the maximum net claim arising from a single catastrophe event as well as by the frequency of such events.

The Group considers the net retention risk to have remained essentially the same in both 2017 and 2016.

17.7.3.5 Reserve risk – non-life business

Reserve risk is the risk that technical provisions are not sufficient to cover the commitments of the (re) insurance business assumed. When establishing technical provisions, the Group takes into account any underreserved technical provisions identified on the subsidiary company level, recognising any identified deficiencies at the Group level.

Unearned premiums are established by Group members on a pro rata basis at the insurance policy level. In addition to unearned premiums, the Group establishes provisions for unexpired risks for those homogeneous risk groups where the combined ratio (loss ratio plus expense ratio) is expected to exceed 100%.

Due to the difference in reserving (set out later in the report) methodologies used in accepted reinsurance and primary insurance business, the run-off analysis was made separately for primary insurance and reinsurance business.

Subsidiaries analyse claims provision data by accident year, unlike reinsurers, who analyse data by underwriting year. The table below shows an adequacy test/analysis of gross claims provisions established by the Group for liabilities under non-life primary insurance contracts. Amounts were translated from local currencies into euros using the exchange rate prevailing at the end of the year (provisions) or in the middle of the year (claims paid).

Adequacy analysis of gross claims provisions for past years – non-life insurance business

(€ thousand)	Year ended 31 December					
	2012	2013	2014	2015	2016	2017
Estimate of gross liabilities						
As originally estimated	290,374	292,403	311,449	302,508	312,626	313,058
Reestimated as of 1 year later	247,059	248,748	251,958	254,822	256,099	
Reestimated as of 2 years later	230,462	218,062	231,885	218,171		
Reestimated as of 3 years later	207,127	207,571	205,037			
Reestimated as of 4 years later	200,338	186,200				
Reestimated as of 5 years later	183,234					
Cumulative gross redundancy (latest estimate – original estimate)	107,140	106,204	106,412	84,337	56,527	
Cumulative gross redundancy as % of original estimate	36.9%	36.3%	34.2%	27.9%	18.1%	

The cumulative gross redundancies for underwriting years 2012–2015 increased if compared to amounts at the end of the preceding year, which were 31.0%, 29.0%, 25.5% and 15.8% of original estimates.

Unlike for primary insurance business, the Group cannot use triangles based on accident year data for actuarial estimations of loss reserves in respect of accepted reinsurance business. This is because ceding companies report claims under quota share contracts by underwriting years. As claims under one-year policies written during any one year may occur either in the year the policy is written or in the year

after, aggregated data for proportional reinsurance contracts are not broken down by accident year. Furthermore, some markets renew treaty business during the year, resulting in additional discrepancies between the underwriting year and the accident year. Due to these specifics, the Group provides data on reinsurance claims paid by underwriting year. The estimated liabilities relate to claims that have already been incurred the settlement of which is provided for within the claims provision, and to claims of the existing portfolio that have not yet been incurred the settlement of which is covered by unearned premiums, net of deferred commission.

The table below therefore shows originally estimated gross or net liabilities with claims provisions included at any year-end plus unearned premiums

less deferred commission, which is compared to subsequent estimates of these liabilities.

Adequacy analysis of gross technical provisions for past years – reinsurance business

(€ thousand)	Year ended 31 December					
Estimate of gross liabilities	2012	2013	2014	2015	2016	2017
As originally estimated	206,099	199,339	207,416	209,963	218,615	224,093
Reestimated as of 1 year later	179,499	170,890	183,590	191,260	191,207	
Reestimated as of 2 years later	169,304	160,099	174,579	175,447		
Reestimated as of 3 years later	158,181	156,865	164,654			
Reestimated as of 4 years later	155,634	147,772				
Reestimated as of 5 years later	149,283					
Cumulative gross redundancy (latest estimate – original estimate)	56,816	51,566	42,763	34,516	27,409	
Cumulative gross redundancy as % of original estimate	27.6%	25.9%	20.6%	16.4%	12.5%	

The cumulative gross redundancies for underwriting years 2012–2015 increased if compared to amounts at the end of the preceding year, which were 24.5%, 21.3%, 15.8% and 8.9% of original estimates.

Due to the high cumulative redundancies of both the gross claims provision for non-life business and the gross technical provision for reinsurance business, we estimate that reserving risk at the end of 2017 is relatively small and similar to that at year-end 2017.

17.7.3.6 Retrocession programme – non-life business

To reduce the underwriting risks to which it is exposed, the Group must have in place an appropriate reinsurance programme (in particular a retrocession programme). These are designed so as to reduce exposure to possible single large losses or the effect of a large number of single losses arising from the same loss event. In 2017 the Group purchased an additional layer for the excess of loss cover of the retention (after operation of the proportional cover) as protection against earthquake risks in Slovenia. The Group considers its reinsurance programme (including proportional and non-proportional reinsurance) to be appropriate in view of the risks it is exposed to.

Net retention limits as determined by the Group are only rarely used. The Group also concludes co-insurance and reciprocal contracts with other reinsurers to further disperse risks. The Group's net retained portfolio, relating to both domestic and foreign cedants, is further covered for potentially large losses through prudently selected non-proportional reinsurance programmes.

We believe that the reinsurance programme (and in particular the retrocession programme) is appropriate and similar in 2017 and 2016.

17.7.3.7 Estimated exposure to underwriting risks – non-life business

An increase in realised underwriting risk would essentially result in an increase in net claims. As the Group has in place an adequate retrocession programme, it is not exposed to the risk of a sharp increase in net claims, not even in case of catastrophic losses. A more likely scenario to which the Group is exposed to is the deterioration of the net combined ratio as a result of an increase in claims or expenses along with a decrease in premiums. If the Group's net combined ratio increased/decreased by one percentage point, its profit before tax would decrease/increase by €3.8 million (2016: €3.7 million).

The net retention limit per risk is set at €4 million for the majority of non-life classes of insurance and a combined limit of €4 million is used for the classes fire and natural forces, other damage to property and miscellaneous financial loss; a net retention limit of €2 million is set for motor liability and for marine; for life policies net retention limits are uniformly set at €300,000. In principle, this caps any net claim arising out of any single loss event at a maximum of €4 million. In case of any catastrophe event, e.g. flood, hail, storm or even earthquake, the maximum net claim payable is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is €5 million for Group business as well as non-Group business. These amounts represent the maximum net claim on the Group level for a single catastrophe event based on reasonable actuarial expectations. In case of multiple catastrophic events in any single year, the non-proportional treaties include reinstatement provisions. Hence, the probability that a large number of catastrophe events would compromise the solvency position of the Group is negligible. As the number of catastrophic events randomly fluctuates, an increase in net claims must always be expected. This may have an adverse effect on profit or loss, but will not compromise the Group's solvency position, which has been tested using scenarios as part of the own risk and solvency assessment.

The risk that the underwriting risk may seriously compromise the Group's financial stability is deemed, according to our assessment, low and there are no significant differences between 2017 and 2016.

17.7.3.8 Underwriting risks in life insurance

The main risks that the Group is exposed to due to life insurance operations are lapse risk, mortality risk and life expense risk. The exposure to other risks, such as longevity, disability and morbidity risk, is smaller.

Underwriting risks relating to additional accident business are similar to those described under non-life insurance and are managed in a similar way.

In order to manage the underwriting risk of life insurance business, the Group regularly monitors mortality and morbidity rates, termination of life policies, looking for specific trends. In addition, it regularly conducts adequacy testing of provisions. The Group also manages underwriting risk by strictly complying with underwriting procedures. These specify the criteria and terms of risk acceptance. At given premium rates, risk assumption depends on the age at entry and the requested sum insured. The Group accepts risks if the insured's health, as a measure of risk quality, is in line with table data listing criteria for medical examinations. An additional factor in the assumption of risks is lifestyle, including leisure activities and occupation. The Group has in place an appropriate reinsurance programme in order to limit the impact of underwriting risk; covers are generally on a proportional basis. The retention of insurers generally does not exceed €50,000. Critical illness is reinsured with a foreign partner (Partner Re).

At the Group level, there is no significant concentration of life underwriting risk, as the portfolio is well-diversified in terms of the age of insured persons, the unexpired policy term, exposures (of sums insured and sums at risk), and annual and single premium payment. The portfolio is also diversified in terms of the percentage of policies lapsed in a period, expenses and mortality and morbidity rates by product.

We estimate that the exposure to underwriting risk relating to life insurance business remained at the same level as in 2016.

17.7.4 Risks associated with policies where policyholders bear the investment risk

With policies where policyholders bear the investment risk, market risk is transferred to policyholders, as mathematical provisions move in line with assets, except for products with a guaranteed return feature.

Table of risk registers for unit-linked life insurance business where the risk of achieving the guaranteed return and market risks are born by the insurer.

Financial investments supporting life insurance liabilities with guaranteed NAV

	31/12/2017	31/12/2016
Zavarovalnica Sava d.d. – ZS Zajamčeni	24,414,858	21,579,034
Zavarovalnica Sava d.d. – ZS Garant	1,313,503	1,714,951
Zavarovalnica Sava d.d. ZS Varnost and ZS Zajamčeni	45,805,687	59,654,615
Total financial investments	71,534,048	82,948,600

The ZS Zajamčeni investment register has a guaranteed return of 2.75%. Mathematical provisions comprise liabilities for guaranteed funds (net contributions plus guaranteed return) and additional liabilities for profit attribution based on the difference between the actual and the required rate of return (liabilities for exceeding the return). Fund managers maintain data for each policyholder on the individual policy level, comprising net premiums paid, guaranteed return and amounts for exceeding the guaranteed return (provisions for profit attribution). In years when the guaranteed return is exceeded, liabilities for exceeding the guaranteed return are increased; if, however, the realised return is below the guaranteed level, these liabilities are decreased. If these liabilities are negative, they need to be covered by the insurer from own funds (the balance of additional liabilities is set to zero in the accounting books), but in years when the guaranteed return is again reached, the insurer first has to cover the negative balance through profit attribution. The described control of guaranteed return is carried out at the level of individual policies.

The assets underlying the policies of the ZS Hibrid product are managed in a separate KSNT 2a investment register, which combines two investment funds: the DWS Garant 80 Dynamic fund managed by DWS Investments and the ZS Garant investment portfolio managed by the insurance company. Each month on the cut-off date, the proportion of each policy's assets in any fund is recalculated using a specific algorithm to ensure the achievement of the investment objective (selected by the policyholder) at the policy expiry. Fund managers maintain data for each policyholder on the individual policy level, comprising net premiums paid, current level of selected investment objective and balance of liabilities in both investment funds. For the DWS Garant 80 investment fund, the guarantee that the unit value does not fall by more than 20% per month is provided by DWS Investment GmbH. The ZS Garant portfolio offers a guaranteed return of 2.25%. Mathematical provisions comprise liabilities for guaranteed funds (net premiums paid and guaranteed return). There are no additional liabilities for profit attribution for this fund. Fund managers maintain data for each policyholder on the individual policy level, comprising net premiums paid and guaranteed return. If the guaranteed return is not achieved, the insurer is to cover the loss from own funds.

Relating to the KSNT-3 investment register, the insurance company manages the Zavarovalnica Sava Varnost and Zavarovalnica Sava Zajamčeni funds. The 100% guarantee of the Zavarovalnica Sava Varnost fund is for maintaining the net asset value, i.e. the return is 0.00% per year for inflows. The guaranteed return of the Zavarovalnica Sava Zajamčeni fund is 1.5% per year for inflows. There is a real risk of failure

to achieve the guaranteed return since interest rates on bonds rated A or better are already negative for shorter-term bonds.

The following table shows assets underlying unit-linked life insurance business with guaranteed return. As at 31 December 2017, these totalled €71.5 million (31/12/2016: €82.9 million).

(€)	31/12/2017	31/12/2016	Absolute difference 31/12/2017 / 31/12/2016
Type of investment			
Deposits and CDs	15,349,258	35,018,570	-19,669,312
Government bonds	20,578,867	15,488,749	5,090,118
Corporate bonds	32,128,654	30,978,474	1,150,180
Mutual funds	3,047,086	534,050	2,513,036
Financial investments	71,103,864	82,019,843	-10,915,979
Cash and cash equivalents	430,184	928,757	-498,573
Investment portfolio	71,534,048	82,948,600	-11,414,552

17.7.5 Financial risks

In the course of their financial operations, individual Group companies are exposed to financial risks, such as market, liquidity and credit risk.

Insurers are not exposed to the investment risk relating to life insurance business funds for which policyholders define the investment policy and also fully assume any financial risks, except for products for which the insurance company provides a guaranteed return. The risks arising out of life insurance contracts where the investment risk is born by the policyholders are shown in section 17.7.4 "Risks associated with policies where policyholders bear the investment risk".

The investment contract assets and liabilities are linked with liability fund assets relating to SVPI managed by the Company for the benefit of policyholders. Risks arising out of investment contracts are described in section 17.7.2 "Risks relating to investment contracts".

17.7.5.1 Market risk

Financial investments exposed to market risk

(€) Type of investment	31/12/2017	As % of total 31/12/2017	31/12/2016	As % of total 31/12/2016	Absolute difference 31/12/2017 / 31/12/2016	Change in structure (p.p.) 31/01/2017/ 31/12/2016
Deposits	21,605,211	2.0%	24,737,308	2.3%	-3,132,097	-0.3
Government bonds	566,515,923	52.3%	595,132,601	56.2%	-28,616,678	-3.9
Corporate bonds	394,196,963	36.4%	368,357,333	34.8%	25,839,630	1.6
Shares (excluding strategic shares)	17,524,834	1.6%	16,980,847	1.6%	543,987	0.0
Mutual funds	31,857,756	2.9%	16,531,807	1.6%	15,325,949	1.4
bond and money market	29,456,220	2.7%	9,565,440	0.9%	19,890,780	1.8
mixed	167,621	0.0%	1,703,918	0.2%	-1,536,297	-0.1
equity	2,233,915	0.2%	5,262,449	0.5%	-3,028,534	-0.3
Loans granted and other investments	591,985	0.1%	659,484	0.1%	-67,499	0.0
Deposits with cedants	5,832,347	0.5%	7,835,859	0.7%	-2,003,512	-0.2
Financial investments	1,038,125,019	95.7%	1,030,235,239	97.2%	7,889,780	-1.5
Investment property	15,364,184	1.4%	7,933,786	0.7%	7,430,398	0.7
Cash and cash equivalents	30,746,332	2.8%	21,481,381	2.0%	9,264,951	0.8
Investment portfolio	1,084,235,535	100.0%	1,059,650,406	100.0%	24,585,129	0.0

* Fixed-income investments do not include cash and cash equivalents of policyholders who bear the investment risk (2017: €7.2 million; 2016: €12.5 million).

17.7.5.1.1 Interest rate risk

Interest rate risk is the risk of exposure to losses resulting from fluctuations in interest rates. These can cause a decrease in investments or an increase in liabilities.

The major part of interest rate risk on the liabilities side only affects the life insurance segment (mathematical provisions). Based on the prescribed methodology for the calculation of technical provisions for the purposes of preparing financial statements, on the non-life business side only temporary and life annuities arising out of liability policies are interest-rate sensitive; however, any change in liabilities due to changes in the capitalised value of annuities as a result of a decline in interest rates is negligible and has therefore not been considered in those calculations.

Interest rate risk is measured through a sensitivity analysis, by observing the change in the value of investments in bonds or the value of mathematical provisions in case of a change in interest rates by one percentage point. The interest-rate sensitive bond portfolio includes government and corporate bonds, bond mutual funds with a weight of 1 and mixed mutual funds with a weight of 0.5. 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.

The total value of investments included in the calculation as at 31 December 2017 was €882.8 million (31/12/2016: €841.7 million). Of this, €593.9 million (31/12/2016: €582.7 million) relates to assets of non-life insurers (including Sava Re) and €288.9 million (31/12/2016: €259.0 million) to assets of life insurers.

The sensitivity analysis of the non-life segment as at 31 December 2017 showed that in the event of an interest rate increase by one percentage point, the value of the interest rate sensitive investments would drop €18.8 million (31/12/2016: €22.0 million) or

3.2% (31/12/2016: 3.8%). Although the amount of interest-rate sensitive investments rose by €11.2 million in 2017 year on year, interest rate sensitivity declined as a result a reduced weighted average maturity of the investment portfolio (2017: 3.15; 2016: 3.74). The table below shows in greater detail how the value of investments changes in response to a change in interest rates and the impact on the financial statements, where the impact on equity is a result of available-for-sale investments and the impact on profit or loss a result of investments classified as at fair value through profit or loss.

Results of the sensitivity analysis on interest-rate sensitive non-life investments

(€)	31/12/2017					
	+100 bp			-100 bp		
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	310,599,940	300,233,681	-10,366,259	310,599,940	321,759,952	11,160,012
Corporate bonds	267,662,140	259,699,784	-7,962,356	267,662,140	276,223,084	8,560,944
Bond and mixed mutual funds	15,615,819	15,120,860	-494,960	15,615,819	16,148,378	532,559
Total	593,877,899	575,054,324	-18,823,575	593,877,899	614,131,414	20,253,515
Effect on equity			-18,823,575			20,253,515
Effect on the income statement			0			0

(€)	31/12/2016					
	+100 bp			-100 bp		
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	318,233,611	305,537,548	-12,696,063	318,233,611	332,153,233	13,919,622
Corporate bonds	257,788,563	248,745,357	-9,043,206	257,788,563	267,563,232	9,774,669
Bond mutual funds	6,641,937	6,391,268	-250,669	6,641,937	6,915,149	273,212
Total	582,664,111	560,674,173	-21,989,938	582,664,111	606,631,614	23,967,503
Effect on equity			-21,988,831			23,966,383
Effect on the income statement			-1,107			1,120

The sensitivity analysis of interest rate sensitive life insurance investments showed that in case of an increase in interest rates by one percentage point, the value would decrease by €10.8 million or 3.8% (31/12/2016: €11.8 million; 4.6%). Although the amount of interest rate sensitive investments rose by €29.9 million in 2017 year on year, interest rate sensitivity declined as a result a reduced weighted aver-

age maturity of the investment portfolio (2017: 3.46; 2016: 4.03). The table below shows in greater detail how the value of investments changes in response to a change in interest rates and the impact on the financial statements, where the impact on equity is a result of available-for-sale investments and the impact on profit or loss a result of investments classified as at fair value through profit or loss.

Results of the sensitivity analysis on interest-rate sensitive life investments

(€)	31/12/2017					
	+100 bp			-100 bp		
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	149,786,960	144,015,994	-5,770,965	149,786,960	156,040,677	6,253,717
Corporate bonds	126,373,189	121,787,702	-4,585,488	126,373,189	131,289,468	4,916,279
Bond and mixed mutual funds	12,743,652	12,265,745	-477,908	12,743,652	13,259,101	515,449
Total	288,903,801	278,069,443	-10,834,361	288,903,801	300,589,245	11,685,445
Effect on equity		-10,663,287			11,503,648	
Effect on the income statement		-171,074			181,797	

(€)	31/12/2016					
	+100 bp			-100 bp		
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	144,665,631	137,373,425	-7,292,206	144,665,631	152,771,794	8,106,163
Corporate bonds	111,894,083	107,514,441	-4,379,642	111,894,083	116,583,394	4,689,311
Bond mutual funds	2,449,680	2,338,235	-111,445	2,449,680	2,571,854	122,174
Total	259,009,394	247,226,101	-11,783,293	259,009,394	271,927,041	12,917,647
Effect on equity		-11,643,534			12,763,133	
Effect on the income statement		-139,759			154,514	

The value of the mathematical provision included in the sensitivity analysis on the liabilities side amounted to €263.8 million at 31 December 2017 (31/12/2016: €262.7 million) and did not include the part of mathematical provision that is not interest-sensitive (31/12/2017: €7.6 million, 31/12/2016: €7.0 million). A sensitivity analysis for liabilities (mathematical provisions) showed that if the present value of mathematical provisions is calculated using an interest rate

that is one percentage point higher, the mathematical provisions would decrease by €10.5 million, or 4.0% (31/12/2016: €17.3 million; 6.6%). By contrast, if the provision is calculated using a one percentage point lower interest rate, mathematical provisions would increase by €13.5 million or 5.1% (31/12/2016: €9.0 million; 3.4%). The sensitivity analysis includes the results of the LAT test set out in section 17.4.26.

Results of the sensitivity analysis on life insurance liabilities

31/12/2017 (€)					
+100 bp			-100 bp		
Value of mathematical provision	Post-stress value	Change in value	Value of mathematical provision	Post-stress value	Change in value
263,841,809	253,355,720	-10,486,089	263,841,809	277,328,172	13,486,363

31/12/2016 (€)					
+100 bp			-100 bp		
Value of mathematical provision	Post-stress value	Change in value	Value of mathematical provision	Post-stress value	Change in value
262,716,953	245,369,854	-17,347,099	262,716,953	271,679,805	8,962,853

The results of the sensitivity analysis on the assets and liabilities sides show that assets and mathematical provisions are less sensitive to change in interest rates compared to 2016. In 2017, the Company continued matching the maturity of assets and liabilities to minimise the net impact of changes in interest rates on the Group's financial statements. The difference between the average maturity of assets and liabilities separately for life and non-life business is presented below.

The average maturity of bonds and deposits of non-life business was 3.15 years at year-end 2017 (31/12/2016: 3.74 years), while the expected maturity of non-life liabilities was 3.18 years (31/12/2016: 3.27 years).

The average maturity of bonds and deposits of life business was 3.46 years at year-end 2017 (31/12/2016: 3.74 years), while the expected maturity of life liabilities was 4.68 years (31/12/2016: 6.45 years).

Based on the above, we estimate that the interest rate risk at the Group and individual company level is well managed. Although the amount of interest rate sensitive investments and mathematical provision increased compared to 2016, the interest rate risk relating to financial investments and mathematical provisions decreased because of maturity of the investment portfolio and mathematical provisions decreased. It is important to note that due to the low interest rate environment, the companies are primarily exposed to reinvestment risk, and this is particularly important for the life insurance segment, which must meet its commitments regarding guaranteed returns.

17.7.5.1.2 Equity risk

Equity risk is the risk that the value of investments will decrease due to fluctuations in equity markets.

Equity risk affects shares, equity mutual funds and mixed mutual funds (in stress tests, we include half of the amount).

To assess the Group's sensitivity of investments to equity risk, we can assume a 10% drop in the value of all equity securities, which would result in a decrease in the value of investments by €2.0 million (31/12/2016: €2.3 million).

Sensitivity assessment of investments to change in equity prices

(€)	31/12/2017			31/12/2016			
	Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
-10%		19,842,559	17,858,303	-1,984,256	23,095,255	20,785,730	-2,309,526

Unlike the bond portfolio, which moves inversely to interest rates, the value of equities and mutual funds changes linearly with stock prices. Thus, a 20% fall in equity prices would reduce the value of investments by €4.0 million (31/12/2016: €4.6 million).

The Sava Re Group's exposure to equity risk slightly declined in 2017 compared to 2016.

17.7.5.1.3 Property risk

Exposure to property risk is monitored through a stress test assuming a 25% drop in prices. The basis for the calculation is the balance of investment property.

Sensitivity assessment of investments to changes in real estate prices

(€)	31/12/2017			31/12/2016			
	Value decrease	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
-25%		15,364,184	11,523,138	-3,841,046	7,933,786	5,950,340	-1,983,447

Property risk rose compared to year-end 2016 because of the higher amount of property investments.

17.7.5.1.4 Currency risk

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

The Sava Re Group manages currency risk through the efforts of each Group member to optimise asset-liability currency matching.

Sava Re is the Sava Re Group member with the largest exposure to currency risk. Currency risk levels for Sava Re are explained in more detail in the notes to the financial statements of Sava Re in section 23.5.3.2.4 "Currency risk".

Group companies whose local currency is the euro (companies based in Slovenia, Montenegro and Kosovo) have all liabilities and investments denominated in euro, meaning that these companies are not affected by currency risk. Other Group companies whose local currency is not the euro (companies based in Croatia, Serbia and Macedonia), transact most business in their respective local currencies, while due to Group relations, they are to a minor extent subject to euro-related currency risk.

We estimate that currency risk at the Group level remained the same in 2017 compared to 2016 since Sava Re is taking measures to reduce exposure to currency risk.

17.7.5.2 Liquidity risk

Liquidity risk is the risk that because of unexpected or unexpectedly high obligations, the Company will suffer a loss when ensuring liquid assets.

Individual Group members manage liquidity risk in line with the guidelines laid down in the liquidity risk management policy of the Sava Re Group. Each Group member carefully plans and monitors the realisation of cash flows (cash inflows and outflows), and in the case of liquidity problems, informs the parent company, which assesses the situation and provides the necessary funds to ensure liquidity.

Liquidity risk assumed by individual Group members is also reduced by regular measurement and monitoring based on selected indicators. An indicator of liquidity risk is the level of maturity matching of financial assets and liabilities.

The table below shows the value of financial investments and technical provisions covering life policies by year based on undiscounted cash flows, while the value of technical provisions covering non-life business is shown by year and expected maturity based on triangular development.

Maturity profile of financial assets and liabilities

(€)	Carrying amount as at 31/12/2017	Callable	Up to 1 year	1–5 years	Over 5 years	No maturity	Total 31/12/2017
Financial investments	1,038,125,019	0	175,502,951	608,973,459	229,873,163	49,382,591	1,063,732,164
- at fair value through profit or loss	6,217,870	0	1,225,784	2,467,681	1,528,861	1,219,659	6,441,985
- held to maturity	106,232,327	0	35,093,621	70,469,179	9,535,251	0	115,098,051
- loans and deposits	28,029,543	0	22,849,390	5,305,157	1,726,295	0	29,880,843
- available-for-sale	897,645,279	0	116,334,156	530,731,442	217,082,756	48,162,932	912,311,286
Reinsurers' share of technical provisions	30,787,241	0	12,380,814	9,121,982	9,284,445	0	30,787,241
Cash and cash equivalents	30,746,332	19,570,040	11,176,292			0	30,746,331
TOTAL ASSETS	1,099,658,591	19,570,040	199,060,056	618,095,441	239,157,608	49,382,591	1,125,265,737
Technical provisions	931,398,362	0	378,731,057	344,027,587	204,267,658	4,372,060	931,398,362
TOTAL LIABILITIES	931,398,362	0	378,731,057	344,027,587	204,267,658	4,372,060	931,398,362
Difference	168,260,229	19,570,040	-179,671,001	274,067,854	34,889,950	45,010,531	193,867,375

(€)	Carrying amount as at 31/12/2016	Callable	Up to 1 year	1–5 years	Over 5 years	No maturity	Total as at 31/12/2016
Financial investments	1,030,235,239	0	177,341,485	577,592,915	287,214,735	35,801,964	1,077,951,099
- at fair value through profit or loss	9,176,694	0	3,330,220	2,794,152	1,607,755	1,737,641	9,469,768
- held to maturity	130,812,195	0	29,964,659	102,833,329	11,917,206	0	144,715,195
- loans and deposits	31,605,347	0	24,027,212	7,968,379	979,770	0	32,975,361
- available-for-sale	858,641,003	0	120,019,394	463,997,055	272,710,003	34,064,323	890,790,775
Reinsurers' share of technical provisions	28,444,628	0	10,377,430	9,752,870	8,314,328	0	28,444,628
Cash and cash equivalents	21,481,381	15,765,619	5,715,762	0	0	0	21,481,381
TOTAL ASSETS	1,080,161,248	15,765,619	193,434,677	587,345,785	295,529,063	35,801,964	1,127,877,108
Subordinated liabilities	23,570,771	0	23,570,771	0	0	0	23,570,771
Technical provisions	911,221,323	0	343,478,085	358,860,297	208,882,941	0	911,221,323
TOTAL LIABILITIES	934,792,094	0	367,048,856	358,860,297	208,882,941	0	934,792,094
Difference	145,369,154	15,765,619	-173,614,179	228,485,488	86,646,122	35,801,964	193,085,014

Liquidity requirements are met by allocating funds to money market instruments in the percentage consistent with the estimated normal current liquidity requirement. In this regard, each EU-based Group company maintains a liquidity buffer of highly liquid assets accounting for at least 15% of its invest-

ment portfolio. Highly liquid assets are intended to provide liquidity to meet any extraordinary liquidity requirements and are available on an ongoing basis. The other Group members manage their short-term liquidity requirements through cash in bank accounts and short-term deposits.

An additional liquidity cushion is provided by a credit line of €10 million arranged by Sava Re with a commercial bank for the purpose of covering the liquidity needs of its Group members.

Based on the above, we estimate that liquidity risk is well managed both at the Group and individual company level and did not change significantly compared to year-end 2016.

17.7.5.3 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

(€)	31/12/2017	31/12/2016
Type of asset	Amount	Amount
Fixed-income investments	1,019,488,761	1,018,157,489
Debt instruments*	982,910,082	988,840,249
Deposits with cedants	5,832,347	7,835,859
Cash and cash equivalents	30,746,332	21,481,381
Receivables due from reinsurers	36,624,163	32,775,804
Reinsurers' share of technical provisions	30,787,241	28,444,628
Receivables for shares in claims payments	5,836,922	4,331,176
Other receivables	132,618,603	123,077,351
Receivables arising out of primary insurance business	124,324,547	51,340,821
Receivables arising out of co-insurance and reinsurance business (excluding receivables for shares in claims)	360,795	63,674,406
Current tax assets	17,822	124,720
Other receivables	7,915,439	7,937,404
Total exposure	1,188,731,527	1,174,010,644

* Debt instruments include loans granted; the figure for 2016 differs from that published in the 2016 annual report (€988.2 million).

**Cash and cash equivalents investments do not include cash and cash equivalents of policyholders who bear the investment risk (2017: €7.2 million; 2016: €12.5 million).

Credit risk due to issuer default

Credit risk for investments is estimated based on two factors:

- credit ratings used in determining credit risk for fixed-income investments¹⁰⁷ and cash assets¹⁰⁸;
- performance indicators for other investments.

Below we set out an assessment of credit risk for fixed-income investments (including debt securities, bank deposits, deposits with cedants, cash and cash equivalents, and loans granted).

¹⁰⁷ Included are bonds, corporate bonds, deposits, deposits with cedants and loans granted.

¹⁰⁸ Included are cash and demand deposits (cash and cash equivalents of policyholders who bear the investment risk are excluded).

Fixed-income investments by issuer credit rating

(€)	31/12/2017		31/12/2016		Change in structure (p.p.)
	Amount	As % of total	Amount	As % of total	
AAA/Aaa	279,019,700	27.4%	236,493,008	23.2%	4.1
AA/Aa	132,428,575	13.0%	119,352,552	11.7%	1.3
A/A	344,177,775	33.8%	393,031,864	38.6%	-4.8
BBB/Baa	111,424,864	10.9%	110,749,691	10.9%	0.1
Less than BBB/Baa	75,648,660	7.4%	91,343,721	9.0%	-1.6
Not rated	76,789,187	7.5%	67,186,654	6.6%	0.9
Total	1,019,488,761	100.0%	1,018,157,489	100.0%	

* Fixed-income investments also include investments in loans granted; the figure for 2016 differs from that published in the 2016 annual report (€1,017.5 million).

As at 31 December 2017, fixed-income investments rated "A" or better accounted for 74.2% of the total fixed-income portfolio (31/12/2016: 73.6%). In 2017 the share of the best rated investments remained unchanged from the previous year.

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 investment portfolio of the Sava Re Group is reasonably diversified in accordance with local law and Group internal rules in order to avoid large concentration in a certain type of investment, large concentration with any counterparty or economic sector or other potential forms of concentration.

Diversification of financial investments by industry

(€)	31/12/2017		31/12/2016		Change in structure (p.p.)
	Amount	As % of total	Amount	As % of total	
Banking	218,982,228	20.2%	210,315,960	19.8%	0.3
Government	566,514,207	52.3%	595,184,920	56.2%	-3.9
Finance & insurance	95,170,912	8.8%	65,503,264	6.2%	2.6
Industry	55,661,651	5.1%	62,439,993	5.9%	-0.8
Consumables	66,132,793	6.1%	48,636,399	4.6%	1.5
Utilities	81,773,744	7.5%	77,569,871	7.3%	0.2
Total	1,084,235,535	100.0%	1,059,650,406	100.0%	

The Sava Re Group's largest exposure by industry was to the government (31/12/2017: 52.3%; 31/12/2016: 56.2%), with a notable high diversification by issuer. As at 31 December 2017, the exposure to the bank-

ing sector was €219.0 million, representing 20.2% of financial investments (31/12/2016: €210.3 million; 19.8%).

Diversification of financial investments by region

(€) Region	31/12/2017		31/12/2016		Change in structure (p.p.)
	Amount	As % of total	Amount	As % of total	
Slovenia	261,117,159	24.1%	329,122,108	31.1%	-7.0
EU Member States	602,072,673	55.5%	548,247,185	51.7%	3.8
Non-EU members	96,356,039	8.9%	94,328,566	8.9%	0.0
Russia and Asia	20,446,256	1.9%	18,915,979	1.8%	0.1
Africa and the Middle East	2,134,198	0.2%	2,619,478	0.2%	-0.1
America and Australia	102,109,209	9.4%	66,417,090	6.3%	3.1
Total	1,084,235,535	100.0%	1,059,650,406	100.0%	

In terms of geography, the Sava Re Group is mostly exposed to EU Member States (2017: 55.5%; 2016: 51.7%). Compared to the previous year, this proportion increased marginally as a result of the investment policy of reducing exposure to Slovenia. Exposure to

Slovenia-based issuers decreased by 7.0 percentage points. The exposure is lower due to maturing securities and the adopted limit system (lowering of exposure to individual issuers). Exposure to other regions remained broadly unchanged year on year.

Exposure to Slovenia

(€) Type of investment	31/12/2017		31/12/2016		Change in structure (p.p.)
	Amount	As % of total	Amount	As % of total	
Deposits and CDs	858,059	0.1%	3,102,766	0.3%	-0.2
Government bonds	188,505,257	17.4%	256,793,600	24.2%	-6.8
Corporate bonds	23,758,217	2.2%	34,225,105	3.2%	-1.0
Shares	16,992,679	1.6%	16,269,334	1.5%	0.0
Mutual funds	1,286,438	0.1%	3,483,276	0.3%	-0.2
Cash and cash equivalents	18,015,252	1.7%	11,378,637	1.1%	0.6
Other	11,701,257	1.1%	3,869,391	0.4%	0.7
Sum total	261,117,159	24.1%	329,122,108	31.1%	-7.0

As at 31 December 2017, exposure to the ten largest issuers was €396.7 million, representing 36.6% of financial investments (31/12/2016: €416.8 million; 39.3%). The largest single issuer of securities that the Group is exposed to is the Republic of Slovenia. As at 31 December 2017, the exposure to the ten largest issuers totalled €170.0 million, representing 15.7% of financial investments (31/12/2016: €235.2 million; 22.2%). No other corporate issuer exceeded the 1.4% of financial assets threshold.

Based on the above, we estimate that particularly through reducing their exposure to Slovenia and increased diversification by issuer, region and industry, the Sava Re Group companies managed their exposure to credit risk well in 2017 and reduced it compared to 2016.

Counterparty default risk

The Group is also exposed to credit risk in relation to its retrocession programme. As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company. If so required by local regulations, they would also buy reinsurance from the providers of assistance services and from local reinsurers. In such cases, local reinsurers transfer the risks to Sava Re, thus reducing the effective credit risk exposure relating to reinsurers below the one correctly shown according to accounting rules.

As at 31 December 2017 the total exposure of the Group to credit risk relating to reinsurers was €36.6 million (31/12/2016: €32.8 million), of which €30.8 million (31/12/2016: €28.4 million) relate to reinsurers' share of technical provisions and €5.8 million (31/12/2016: €4.3 million) to receivables for reinsurers' and co-insurers' shares in claims. At 31 December 2017, the Group's total credit risk exposure relating to retrocessionaires represented 2.1% of total assets (31/12/2016: 1.9%).

Retrocession programmes are mostly placed with first-class reinsurers which have an appropriate rating (at least A- according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). Thus, at the end of 2017 and 2016, reinsurers rated BBB or better accounted for at least 60% of the credit risk exposure relating to reinsurers. When classifying reinsurers by credit rating group, we considered the credit rating of each individual reinsurer, also where the reinsurer is part of a group. Often such reinsurers are unrated subsidiaries, while the parent company has a credit rating. We consider such a treatment conservative, as ordinarily a controlling company takes action if a subsidiary gets into trouble.

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

Receivables ageing analysis

(€) 31/12/2017	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	37,365,349	9,999,372	2,588,030	49,952,751
Receivables due from insurance intermediaries	910,753	1,269,562	39,911	2,220,226
Other receivables arising out of primary insurance business	106,151	66,590	5,989	178,730
Receivables for premiums arising out of assumed reinsurance and co-insurance	57,750,077	9,206,356	5,016,407	71,972,840
Receivables for reinsurers' shares in claims	2,734,526	2,580,876	521,520	5,836,922
Other receivables from co-insurance and reinsurance	343,008	17,787	0	360,795
Other short-term receivables arising out of insurance business	1,832,858	404,434	48,324	2,285,616
Short-term receivables arising out of financing	777,596	15,578	42,468	835,642
Current tax assets	17,822	0	0	17,822
Other short-term receivables	4,369,177	341,327	83,677	4,794,181
Total	106,207,317	23,901,882	8,346,326	138,455,525

(€) 31/12/2016	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	36,688,644	9,345,376	3,085,627	49,119,647
Receivables due from insurance intermediaries	1,146,175	939,073	37,458	2,122,706
Other receivables arising out of primary insurance business	86,029	6,013	6,426	98,468
Receivables for premiums arising out of assumed reinsurance and co-insurance	51,162,568	9,624,769	2,450,504	63,237,841
Receivables for reinsurers' shares in claims	3,158,284	606,406	566,486	4,331,176
Other receivables from co-insurance and reinsurance	429,134	7,431	0	436,565
Other short-term receivables arising out of insurance business	1,810,502	823,955	16,449	2,650,906
Short-term receivables arising out of financing	777,099	68,724	71,995	917,818
Current tax assets	124,720	0	0	124,720
Other short-term receivables	3,830,310	439,853	98,517	4,368,680
Total	99,213,465	21,861,600	6,333,462	127,408,527

Receivables are discussed in greater detail in note 9.

17.7.6 Operational risk

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 Group's most significant risks. Nevertheless, some of them are quite important, especially:

- risk associated with supervision and reporting,
- risk of external theft or fraud,
- risk of loss of key, professional and high-potential employees,
- risk of loss or failure of computer or telecommunication systems,
- risk of incorrect data input and inadequate documentation,
- risk of damage to physical assets due to natural disaster or fire.

We estimate that in 2017, the Group's exposure to operational risk slightly decreased compared to 2016, primarily because the project of merging four of its EU-based insurers and the setting up of business processes at Zavarovalnica Sava had been finalised.

The Group calculates its capital requirements for operational risks using the Solvency II standard formula at least once annually. This calculation of operational risk, however, has only limited practical value as the formula is not based on the actual exposure of the Group to operational risk, but on an approximation calculated mainly based on consolidated premiums, provisions and expenses of the Group.

For this reason, the Group assesses operational risks qualitatively in the risk register, assessing their frequency and potential financial impact, while the EU-based (re)insurance companies additionally use scenario analysis. Through regular risk assessments,

the Group companies obtain insight into the actual level of their exposure to such risks.

The Group is not exposed to any significant concentrations of operational risk.

Group companies have established processes for identifying, measuring, monitoring, managing and reporting on such risks for the effective management of operational risk. Operational risk management processes have been set up also at the Group level and are defined in the operational risk management policy.

The main measures of operational risk management on the individual company and the Group level include:

- maintaining an effective business processes management system and system of internal controls;
- awareness-raising and training of all employees on their role in the implementation of the internal control system and management of operational risks;
- implementing security policies regarding information security;
- having in place a business continuity plan for all critical processes (in order to minimise the risk of unpreparedness for incidents and external events and any resulting business interruption);
- having in place IT-supported processes and controls in the key areas of business of every Group company;
- awareness-raising and training of all employees.

In addition, the Group also manages operational risks through independent oversight implemented by internal audit.

17.7.7 Strategic risk

Strategic risk is the risk of an unexpected decrease in the Group'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 Group's income and capital adequacy.

The Group is exposed to a variety of internal and external strategic risks. The key strategic risks of the Group in 2017 primarily include:

- strategic investment risk,
- political risk,
- risk of strategic direction regarding the Company's business,
- reputation risk and
- regulatory risk.

The Group's exposure to strategic risk decreased in 2017 due to the successful merger of four EU-based insurers into Zavarovalnica Sava in 2016.

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, the Group assesses strategic risks qualitatively in the risk register, assessing their frequency and potential financial severity. In addition, the Group tries to evaluate key strategic risks through the use of a qualitative analysis of various scenarios (also as part of ORSA). Based on both analyses combined, an overview is obtained of the extent and changes in the exposure to this type of risk.

We perceived no concentration of strategic risk in 2017.

Group companies mitigate individual strategic risks mainly through preventive measures.

In addition to the competent organisational units in Group companies, it is also the executive management bodies, the risk management committees and the risk management functions that are actively involved in the identification and management of strategic risks. Strategic risks are additionally identified by the Group's risk management committee.

Strategic risks are also managed by continually monitoring the realisation of short- and long-term goals of Group companies, and by monitoring regulatory changes in the pipeline and market developments.

The Group is aware that reputation is important for realising its business goals and achieving strategic plans in the long term. The risk strategy therefore identifies reputation risk as a key risk, providing that each Group company must continually strive to minimise the likelihood of actions that could have a major impact on their reputation or on the reputation of the Group as a whole. In addition, Group companies have taken steps aimed at mitigating the reputation risk, such as setting up fit and proper procedures applicable to key employees, ensuring systematic operations of their respective compliance functions, having in place business continuity plans, developing stress tests and scenarios, and planning actions and response in case risks materialise. Risks related to reputation are also managed through seeking to improve services, timely and accurate reporting to supervisory bodies, and well-planned public communication. A crucial factor in ensuring good reputation and successful performance is the quality of services; therefore, each and every employee is responsible for improving the quality of services and customer satisfaction.

The Group manages and mitigates regulatory risk by continually monitoring the anticipated legislative changes in all countries where Group companies are established, and by assessing their potential impact on the operations of the Group in the short and long term. All Group companies have established compliance functions to monitor and assess the adequacy and effectiveness of regular procedures and measures taken to remedy any deficiencies in the Group's compliance with the law and regarding other commitments.

17.8 Notes to the consolidated financial statements – statement of financial position

1) Intangible assets

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

(€)	Software	Goodwill	Deferred acquisition costs	Other intangible assets	Total
Cost					
01/01/2017	10,482,029	14,548,585	3,424,663	15,340,708	43,795,984
Additions	1,078,694	0	0	0	1,078,694
Disposals	-543,742	0	459,143	-48,639	-133,238
Exchange differences	45,996	0	0	125	46,121
31/12/2017	11,062,977	14,548,585	3,883,806	15,292,194	44,787,562
Accumulated amortisation and impairment losses					
01/01/2017	7,287,402	0	0	11,000,000	18,287,402
Additions	1,141,649	0	0	3,000,000	4,141,649
Disposals	-396,038	0	0	0	-396,038
Exchange differences	41,605	0	0	0	41,605
31/12/2017	8,074,618	0	0	14,000,000	22,074,618
Carrying amount as at 01/01/2017	3,194,627	14,548,585	3,424,663	4,340,708	25,508,583
Carrying amount as at 31/12/2017	2,988,359	14,548,585	3,883,806	1,292,194	22,712,944

(€)	Software	Goodwill	Property rights	Deferred acquisition costs	Other intangible assets	Total
Cost						
01/01/2016	9,774,061	16,242,284	1,523,339	3,509,404	15,128,179	46,177,266
Additions	1,100,681	0	0	0	227,997	1,328,678
Disposals	-374,356	0	-1,523,339	-84,741	0	-1,982,436
Impairment losses	0	-1,693,699	0	0	-15,232	-1,708,931
Exchange differences	-18,356	0	0	0	-236	-18,592
31/12/2016	10,482,029	14,548,585	0	3,424,663	15,340,708	43,795,985
Accumulated amortisation and impairment losses						
01/01/2016	6,727,975	0	983,975	0	8,000,000	15,711,950
Additions	940,998	0	0	0	3,000,000	3,940,998
Disposals	-365,582	0	-983,975	0	0	-1,349,557
Exchange differences	-15,990	0	0	0	0	-15,990
31/12/2016	7,287,402	0	0	0	11,000,000	18,287,402
Carrying amount as at 01/01/2016	3,046,084	16,242,284	539,364	3,509,404	7,128,179	30,465,315
Carrying amount as at 31/12/2016	3,194,627	14,548,585	0	3,424,663	4,340,708	25,508,583

In 2017 goodwill remained at the same level as in the previous year. In the year, the Group acquired no companies, and impairment testing of goodwill revealed no need for impairment of goodwill.

Movement in goodwill

Goodwill relates to the acquisition of the following companies: Sava neživotno osiguranje (SRB), Illyria, Sava osiguruvanje (MKD), Sava osiguranje (MNE), Zavarovalnica Sava, Sava Agent, and Sava pokojninska. As at year-end 2017, goodwill totalled €14.5

million (31/12/2016: €14.5 million). Each of the listed companies is treated as a cash-generating unit. The table below shows the value of goodwill for each cash-generating unit.

Movement in goodwill in 2017

(€)	
Total amount carried over at 31/12/2016	14,548,585
Balance at 31/12/2017	14,548,585
Sava neživotno osiguranje (SRB)	4,510,873
Sava osiguruvanje (MKD)	94,907
Sava osiguranje (MNE)	3,648,534
Zavarovalnica Sava	4,761,733
Sava Agent	2,718
Sava pokojninska (former Moja naložba)	1,529,820

Movement in goodwill in 2016

(€)	
Total amount carried over at 31/12/2015	16,242,284
Disposals in current year	-1,693,699
Illyria	-1,693,699
Balance at 31/12/2016	14,548,585
Sava neživotno osiguranje (SRB)	4,510,873
Sava osiguruvanje (MKD)	94,907
Sava osiguranje (MNE)	3,648,534
Zavarovalnica Sava	4,761,733
Sava Agent	2,718
Moja naložba	1,529,820

Method of calculating value in use

Value in use for each cash-generating unit is calculated using the discounted cash flow method (DCF method). The budget projections of the CGUs and their estimate of the long-term results achievable are used as a starting point. Value in use is determined by reference to free cash flows discounted at an appropriate discount rate.

The discount rate is determined as cost of equity (COE), using the capital asset pricing model (CAPM). It is based on the risk free interest rate, equity risk premium and insurance business prospects. Added is a country risk premium and, for some companies, a smallness factor.

Discount rates used in goodwill impairment testing in 2017

	Discount factor
Serbia	12.0%
Montenegro	12.6%
Macedonia	11.4%

The discount rates used in 2017 are lower than those of 2016, primarily due to a lower beta factor (systematic risk measure) and a lower country risk.

The bases for the testing of value in use are prepared in several phases. In phase one, the Company prepares three- or five-year projections of performance results for each company as part of the regular planning process unified Group-wide. These strategic plans are approved by the controlling company and relevant governance body. Based on such medium-term plans, the controlling company then makes extrapolations for those companies for which it is reasonable to assume that a normal volume of business has not yet been achieved (one where the capital required for an insurance company to operate under local regulations would be fully engaged and the minimum capital calculation using premium or loss ratios larger or equal to the lower limit of prescribed capital). In all their markets, insurance penetration (gross premiums written to gross domestic product) is relatively low. However, insurance penetration is expected to increase significantly due to the expected convergence of their countries' macro-

The discount rate is made up of the following:

- the risk-free rate of return is calculated in accordance with Duff & Phelps, International Valuation Handbook 2017, by taking the German risk-free rate of return and adjusting it to account for the difference in the long-term inflation rate between Germany and the country in question;
- the equity risk premium is calculated according to Duff & Phelps, International Valuation Handbook 2017;
- tax rates included in the discount rate are the applicable tax rates in individual countries where companies operate;
- the beta factor for industry according to Damodaran;
- national risk premium according to Damodaran.

economic indicators towards EU levels. Western Balkan markets, which have a relatively low penetration level, are expected to see a faster growth of gross premiums compared to the expected growth in GDP.

To estimate the residual value used in the calculation of the estimated value of equity, the calculation considers normalised cash flow in the last year of the forecast made using the Gordon growth model, where the expected long-term growth rate of net cash flow (g) does not exceed the long-term inflation rate expected for a market.

Goodwill impairment testing

In the impairment testing of goodwill arising out of the acquired companies listed at the beginning of this section, the recoverable amount of each cash-generating unit exceeded its carrying amount including goodwill belonging to the unit. The impairment testing indicated that no impairment of goodwill was necessary.

2) Property and equipment

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

(€)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
01/01/2017	8,030,475	54,625,070	24,272,128	218,004	87,145,677
Additions	90,522	3,048,978	1,937,007	28,133	5,104,640
Reclassification	-280,665	-7,393,827	0	0	-7,674,492
Disposals	-5,490	-205,855	-2,299,881	-7,733	-2,518,959
Impairment	0	-617,045	0	0	-617,045
Exchange differences	0	171,796	67,678	4,003	243,477
31/12/2017	7,834,841	49,629,117	23,976,932	242,407	81,683,298
Accumulated depreciation and impairment losses					
01/01/2017	0	17,107,342	18,072,626	78,583	35,258,551
Additions	0	1,229,690	2,078,597	4,357	3,312,644
Reclassification	0	-246,361	0	0	-246,361
Disposals	0	-212,715	-1,953,210	-5,737	-2,171,662
Exchange differences	0	46,051	45,981	80	92,112
31/12/2017	0	17,924,007	18,243,994	77,283	36,245,284
Carrying amount as at 01/01/2017	8,030,475	37,517,728	6,199,502	139,421	51,887,127
Carrying amount as at 31/12/2017	7,834,841	31,705,110	5,732,938	165,124	45,438,014

(€)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
01/01/2016	8,019,657	48,886,307	23,962,466	462,257	81,330,687
Additions	10,817	6,450,192	4,279,225	0	10,740,234
Disposals	0	-635,118	-3,941,727	-239,705	-4,816,550
Exchange differences	0	-76,311	-27,836	-4,548	-108,695
31/12/2016	8,030,475	54,625,070	24,272,128	218,004	87,145,677
Accumulated depreciation and impairment losses					
01/01/2016	0	16,060,017	17,799,123	254,237	34,113,377
Additions	0	1,243,869	3,873,342	8,074	5,125,285
Disposals	0	-175,993	-3,580,289	-181,393	-3,937,675
Exchange differences	0	-20,551	-19,550	-2,335	-42,436
31/12/2016	0	17,107,342	18,072,626	78,583	35,258,551
Carrying amount as at 01/01/2016	8,019,657	32,826,290	6,163,343	208,020	47,217,311
Carrying amount as at 31/12/2016	8,030,475	37,517,728	6,199,502	139,421	51,887,127

In its books of account, the Group recorded property for own use being acquired at the total value invested (land, buildings and equipment). Individual parts of property assets have been recorded separately when put into use (in investment property).

As regards land and buildings assets for own use, the Group made an investment in a sales and claims centre in Maribor, which had already partly functioned as a property for own use in progress in 2016. The investment worth €7.3 million was completed in September 2017. The property is partly (€5.2 million) used for own

insurance operations, while the other part (€2.1 million) is classified as investment property. Furthermore, the Baraga 5 property in Ljubljana (€5.2 million), formerly recorded as property for own use in progress, was reclassified, through the reclassifications item, as investment property in September 2017. Impairment losses on property in the amount of €0.6 million relate to impairment losses recognised after a valuation by an independent appraiser, specifically, business premises for own use in Serbia (€0.3 million) and property

owned by the non-life insurer in Slovenia (€0.3 million). The latter was carried out before its reclassification to investment property.

Property and equipment assets have not been acquired under financial lease arrangements and are unencumbered by any third-party rights.

The fair values of land and buildings are disclosed in note 27 "Fair values of assets and liabilities".

3) Deferred tax assets and liabilities

(€)	31/12/2017	31/12/2016
Deferred tax assets	2,107,564	2,326,063
Deferred tax liabilities	-5,781,494	-6,038,631
Total net deferred tax assets/liabilities	-3,673,930	-3,712,568

Movement in deferred tax assets

(€)	01/01/2017	Recognised in the IS	Recognised in the SCI	31/12/2017
Long-term financial investments	1,386,480	-330,922	-5,105	1,050,453
Short-term operating receivables	239,298	117,378	0	356,676
Provisions for jubilee benefits and severance pay (retirement)	700,285	70,374	-70,224	700,435
Total	2,326,063	-143,170	-75,329	2,107,564

(€)	01/01/2016	Recognised in the IS	Recognised in the SCI	31/12/2016
Long-term financial investments	2,127,811	-560,603	-180,728	1,386,480
Short-term operating receivables	204,044	35,254	0	239,298
Provisions for jubilee benefits and severance pay (retirement)	40,002	664,077	-3,794	700,285
Total	2,371,857	138,728	-184,522	2,326,063

Movement in deferred tax liabilities

(€)	01/01/2017	Recognised in the IS	Recognised in the SCI	31/12/2017
Long-term financial investments	-6,038,631	230,524	26,613	-5,781,494

(€)	01/01/2016	Recognised in the IS	Recognised in the SCI	31/12/2016
Long-term financial investments	-4,597,921	-141,495	-1,299,215	-6,038,631
Provisions for jubilee benefits and severance pay (retirement)	-810	0	810	0
Total	-4,598,731	-141,495	-1,298,405	-6,038,631

4) Investment property

Movement in cost and accumulated depreciation of investment property

(€)	Land	Buildings	Total
Cost			
01/01/2017	775,979	7,848,997	8,624,976
Additions	8,467	664,945	673,412
Reclassification	1,772,412	5,829,584	7,601,996
Impairment	0	-546,740	-546,740
Exchange differences	273	125,859	126,132
31/12/2017	2,557,131	13,922,645	16,479,776
Accumulated depreciation and impairment losses			
01/01/2017	28,517	662,673	691,190
Additions	0	168,444	168,444
Reclassification	0	246,361	246,361
Exchange differences	273	9,324	9,597
31/12/2017	28,790	1,086,802	1,115,592
Carrying amount as at 01/01/2017	747,462	7,186,324	7,933,786
Carrying amount as at 31/12/2017	2,528,341	12,835,844	15,364,184

(€)	Land	Buildings	Total
Cost			
01/01/2016	702,158	8,019,892	8,722,050
Additions	282,258	156,952	439,210
Disposals	-208,324	-262,498	-470,822
Exchange differences	-113	-65,349	-65,462
31/12/2016	775,979	7,848,997	8,624,976
Accumulated depreciation and impairment losses			
01/01/2016	28,631	653,175	681,806
Additions	0	120,928	120,928
Disposals	0	-108,023	-108,023
Exchange differences	-114	-3,407	-3,521
31/12/2016	28,517	662,673	691,190
Carrying amount as at 01/01/2016	673,527	7,366,717	8,040,244
Carrying amount as at 31/12/2016	747,462	7,186,325	7,933,786

The increase in investment property is primarily the result of the above reclassification of property for own use in progress as investment property and a result of new recognised acquisitions of €0.7 million.

Impairment losses on buildings of €0.5 million recognised relate to recognised impairment after an independent valuation in Serbia.

In 2017 the Group generated income of €514,115 by leasing out its investment property (2016: €315,320). Maintenance costs associated with investment property are either included in the rent or charged to the lessee, in 2017 a total of €166,161 (2016: €145,877).

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

The fair values of investment property are disclosed in note 27 "Fair values of assets and liabilities".

5) Financial investments

(€)	Held-to-maturity	At fair value through P/L		Available-for-sale	Loans and receivables	Total
		Non-derivative	Designated to this category			
31/12/2017						
Debt instruments	106,232,327	4,998,211		849,482,348	22,197,196	982,910,082
Deposits and CDs	0	0		0	21,605,211	21,605,211
Government bonds	106,033,885	1,479,811		459,002,227	0	566,515,923
Corporate bonds	198,442	3,518,400		390,480,121	0	394,196,963
Loans granted	0	0		0	591,985	591,985
Equity instruments	0	1,219,659		48,162,931	0	49,382,590
Shares	0	561,191		16,963,643	0	17,524,834
Mutual funds	0	658,468		31,199,288	0	31,857,756
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0		0	5,832,347	5,832,347
Total	106,232,327	6,217,870		897,645,279	28,029,543	1,038,125,019

(€)	Held-to-maturity	At fair value through P/L		Available-for-sale	Loans and receivables	Total
		Non-derivative	Designated to this category			
31/12/2016						
Debt instruments	130,812,195	7,439,052		826,819,512	23,769,488	988,840,247
Deposits and CDs	1,580,825	0		0	23,156,483	24,737,308
Government bonds	129,016,305	1,644,648		417,668,768	0	548,329,721
Corporate bonds	215,065	5,794,404		409,150,744	0	415,160,213
Loans granted	0	0		0	613,005	613,005
Equity instruments	0	1,737,642		31,775,012	0	33,512,654
Shares	0	524,744		16,456,103	0	16,980,847
Mutual funds	0	1,212,898		15,318,909	0	16,531,807
Other investments	0	0		46,479		46,479
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants					7,835,859	7,835,859
Total	130,812,195	9,176,694		858,641,003	31,605,347	1,030,235,239

The Sava Re Group held 0.2% of financial investments constituting subordinated instruments for the issuer (31/12/2016: 0.3%).

No securities have been pledged as security by the Group.

Fair values of financial investments are shown in note 27.

6) Funds for the benefit of policyholders who bear the investment risk

(€) 31/12/2017	Held-to-maturity	At fair value through P/L		Available-for-sale	Loans and receivables	Total
		Non-derivative	Designated to this category			
Investments for the benefit of life-insurance policyholders who bear the investment risk	9,903,616	145,131,820		58,665,766	13,526,851	227,228,053

(€) 31/12/2016	Held-to-maturity	At fair value through P/L		Available-for-sale	Loans and receivables	Total
		Non-derivative	Designated to this category			
Investments for the benefit of life-insurance policyholders who bear the investment risk	9,935,635	136,616,498		53,580,945	24,041,998	224,175,076

Investments for the benefit of life-insurance policyholders who bear the investment risk are investments

placed by the Group insurer in line with requests of life insurance policyholders.

7) Reinsurers' share of technical provisions

(€)	31/12/2017	31/12/2016
From unearned premiums	8,826,773	7,203,576
From provisions for claims outstanding	21,960,468	21,241,052
Total	30,787,241	28,444,628

The reinsurers' and co-insurers' share of technical provisions increased by 8.2% or €2.3 million, with the largest absolute increase in unearned premiums.

The reinsurers' share of unearned premiums mostly moved in line with retroceded premiums. An increase of 22.5% in 2017 is primarily the result of the growth in facultative and assistance business with a higher reinsured share; due to the restructuring of non-proportional covers, some of these renew in mid-year,

resulting in a higher level of unearned premiums at the year-end. The reinsurers' share of claims provisions moves in line with the movement of large incurred claims and the schedule of their related claim payments. In 2017 retroceded claims provisions strengthened following large property claims on surplus reinsurance contracts for covering facultative property risks in the Group, while uses related to payments for Slovenian hail storm losses of 2016 and a large claim in Macedonia.

8) Investment contract assets and liabilities

At the end of 2015, the controlling company acquired the Sava pokojninska pension company, previously accounted for as an associate. The Group had €129.6 million (2016: €121.4 million) of investment contract assets and €129.5 million (2016: €121.2 million) of investment contract liabilities. The Group's investment contracts include a group of life cycle funds called MOJI skladi življenjskega cikla (MY life-cycle funds), relating to supplementary pension business of the company Sava pokojninska in the accumulation

phase. Sava pokojninska started managing the group of long-term business funds MOJI skladi življenjskega cikla on 1 January 2016. They comprise three funds: MOJ dinamični sklad (MY Dynamic Fund), and MOJ uravnoteženi sklad (MY Balanced Fund), and MOJ zjamčeni sklad (MY Guaranteed Fund). Further details on the risks associated with investment contracts are provided in section 17.7.2. "Investment contract risks".

Investment contract assets

(€)	31/12/2017	31/12/2016
Financial investments	114,570,149	115,156,806
Investment property	490,000	490,000
Receivables	9,525	8,041
Cash and cash equivalents	14,552,458	5,711,275
TOTAL	129,622,131	121,366,122

(€) 31/12/2017	Held-to-maturity	At fair value through P/L		Loans and receivables	Investment property	Total
		Non-derivative	Designated to this category			
Debt instruments	46,485,779	50,692,041	0	0	97,177,820	
Bonds	46,485,779	50,692,041	0	0	97,177,820	
Equity instruments	0	17,392,329	0	0	17,392,329	
Total financial investments	46,485,779	68,084,370	0	0	114,570,149	
Cash and receivables	0	0	14,561,982	0	14,561,982	
Investment property	0	0	0	490,000	490,000	
Total investment contract assets	46,485,779	68,084,370	14,561,982	490,000	129,622,131	

(€) 31/12/2016	Held-to-maturity	At fair value through P/L		Available-for-sale	Loans and receivables	Investment property	Total
		Non-derivative					
		Designated to this category					
Debt instruments	50,513,403	49,544,769	0	6,638,298	0	106,696,470	
Deposits and CDs	0	0	0	6,638,298	0	6,638,298	
Bonds	50,513,403	49,544,769	0	0	0	100,058,172	
Equity instruments	0	8,460,336	0	0	0	8,460,336	
Total financial investments	50,513,403	58,005,105	0	6,638,298	0	115,156,806	
Cash and receivables	0	0	0	5,719,316	0	5,719,316	
Investment property	0	0	0	0	490,000	490,000	
Total investment contract assets	50,513,403	58,005,105	0	12,357,614	490,000	121,366,122	

Investment contract assets by level of the fair value hierarchy

(€) 31/12/2017	Carrying amount (CA)	Fair value				Difference between FV and CA
		Level 1	Level 2	Level 3	Total fair value	
Investment contract assets measured at fair value	68,084,370	60,081,352	6,639,354	1,363,664	68,084,370	0
At fair value through P/L	68,084,370	60,081,352	6,639,354	1,363,664	68,084,370	0
Designated to this category	68,084,370	60,081,352	6,639,354	1,363,664	68,084,370	0
Deposits and CDs	50,692,041	42,901,893	6,426,484	1,363,664	50,692,041	0
Bonds	17,392,329	17,179,459	212,870	0	17,392,329	0
Investment contract assets not measured at fair value	61,047,762	47,017,167	21,720,548	0	68,737,715	7,689,954
Held-to-maturity assets	46,485,779	32,455,184	21,720,548	0	54,175,733	7,689,954
Debt instruments	46,485,779	32,455,184	21,720,548	0	54,175,733	7,689,954
Cash and receivables	14,561,982	14,561,982	0	0	14,561,982	0
Investment property	490,000	0	0	490,000	490,000	0
Total investment contract assets	129,622,132	107,098,519	28,359,902	1,853,664	137,312,085	7,689,954

(€) 31/12/2016	Carrying amount (CA)	Fair value				Total fair value	Difference between FV and CA
		Level 1	Level 2	Level 3			
Investment contract assets measured at fair value	58,005,105	47,817,121	8,756,352	1,431,632	58,005,105	0	
At fair value through P/L	58,005,105	47,817,121	8,756,352	1,431,632	58,005,105	0	
Designated to this category	58,005,105	47,817,121	8,756,352	1,431,632	58,005,105	0	
Debt instruments	49,544,769	39,545,699	8,567,438	1,431,632	49,544,769	0	
Equity instruments	8,460,336	8,271,422	188,914	0	8,460,336	0	
Investment contract assets not measured at fair value	62,871,017	50,193,496	21,377,240	0	71,570,735	8,699,718	
Held-to-maturity assets	55,776,719	44,474,180	20,002,258	0	64,476,437	8,699,718	
Debt instruments	55,776,719	44,474,180	20,002,258	0	64,476,437	8,699,718	
Loans and deposits	1,374,982	0	1,374,982	0	1,374,982	0	
Deposits	1,374,982	0	1,374,982	0	1,374,982	0	
Cash and receivables	5,719,316	5,719,316	0	0	5,719,316	0	
Investment property	490,000	0	0	490,000	490,000	0	
Total investment contract assets	121,366,122	98,010,617	30,133,591	1,921,632	130,065,840	8,699,718	

Investment contract liabilities

(€)	31/12/2017	31/12/2016
Net liabilities to pension policyholders	128,862,922	119,926,669
Other liabilities	759,210	1,439,561
TOTAL IN LIABILITY FUND OF VSPI BALANCE SHEET	129,622,132	121,366,230
Internal relations between the company and life ins. liability fund	-139,098	-136,556
TOTAL IN BALANCE SHEET	129,483,034	121,229,675

Movement in investments, and income and expenses relating to investment contract assets measured at fair value – Level 3

(€)	Debt instruments	
	31/12/2017	31/12/2016
Opening balance	1,431,632	8,155,551
Additions	1,363,664	1,431,632
Disposal	-316,429	-229,723
Maturity	-1,115,203	-1,993,919
Reclassification into other levels	0	-5,931,910
Closing balance	1,363,664	1,431,632
Income	17,410	390,761
Expenses	-163	-109,439

The pension company eliminates internal relations of the joint balance sheet, thus liabilities to pension policyholders exceed liabilities from investment contracts. Internal transaction between the VSPI liability fund and the pension company were eliminated in the balance sheet. These include entry charges and management fees for the current month, which may be recognised upon conversion or when credited to personal accounts.

In 2017, liabilities to the pension company relating to entry charges were €27,237 (2016: €29,347), exit charges €2,141 (2016: €1,757) and management

fees €106,595 (2016: €99,612), while liabilities for obligations paid for the company and subsequently charged to funds were €3,125 (2016: €5,840), in total €139,098 (2016: €136,556).

Liabilities in the balance sheet of the long-term liability fund of the voluntary supplementary pension insurance are mostly long-term. These are liabilities relating to the voluntary supplementary pension life liability fund for premiums paid, guaranteed return and the return in excess of guaranteed return (provisions).

which had an effect on the total increase of this item. The age structure shows an increase in not-past-due receivables arising out of primary insurance operations.

By contrast, receivables arising out of reinsurance and co-insurance business declined by €61.8 million. Had the change in the presentation of receivables for premiums arising out of reinsurance and co-insurance been made as at 31 December 2016, the balance of receivables arising out of reinsurance and co-insurance business would have been lower by €63.2 million and would have totalled €4.8 million. And the disclosed increase in these receivables in 2017 would have totalled €1.4 million as a result of the increase in receivables arising out of reinsurance business of Sava osiguruvanje (MKD) relating to one large claim. Current tax assets decreased by €0.1 million, while other receivables remained at the 2016 level.

Change in presentation of receivables for 2016

(€)	Gross amount	Allowance	Net amount
Receivables arising out of primary insurance business			
31/12/2016	80,407,179	-29,066,358	51,340,821
Reclassification	63,665,635	-427,794	63,237,841
31/12/2016 after reclassification	144,072,814	-29,494,152	114,578,662
Receivables arising out of co-insurance and reinsurance business			
31/12/2016	68,510,272	-504,690	68,005,582
Reclassification	-63,665,635	427,794	-63,237,841
31/12/2016 after reclassification	4,844,637	-76,896	4,767,741

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

Receivables by type

(€)	31/12/2017			31/12/2016		
	Gross amount	Allowance	Receivables	Gross amount	Allowance	Receivables
Receivables due from policyholders	148,688,925	-26,763,334	121,925,591	77,414,889	-28,295,242	49,119,647
Receivables due from insurance intermediaries	3,117,305	-897,079	2,220,226	2,759,399	-636,693	2,122,706
Other receivables arising out of primary insurance business	311,426	-132,696	178,730	232,891	-134,423	98,468
Receivables arising out of primary insurance business	152,117,656	-27,793,109	124,324,547	80,407,179	-29,066,358	51,340,821
Receivables for premiums arising out of reinsurance and co-insurance	0	0	0	63,665,635	-427,794	63,237,841
Receivables for reinsurers' shares in claims	6,013,897	-176,975	5,836,922	4,408,072	-76,896	4,331,176
Other receivables from co-insurance and reinsurance	360,795	0	360,795	436,565	0	436,565
Receivables arising out of co-insurance and reinsurance business	6,374,692	-176,975	6,197,717	68,510,272	-504,690	68,005,582
Current tax assets	17,822	0	17,822	124,720	0	124,720
Other short-term receivables arising out of insurance business	22,890,785	-20,605,169	2,285,616	24,635,936	-21,985,030	2,650,906
Receivables arising out of financing	2,047,648	-1,212,006	835,642	2,054,426	-1,136,608	917,818
Other receivables	6,231,887	-1,437,706	4,794,181	5,618,546	-1,249,866	4,368,680
Other receivables	31,170,320	-23,254,881	7,915,439	32,308,908	-24,371,504	7,937,404
Total	189,680,490	-51,224,965	138,455,525	181,351,079	-53,942,552	127,408,527

9) Receivables

Receivables increased by €11 million compared to year-end 2016.

Due to the change in the presentation of receivables from operating activities described in section 17.5 "Changes in accounting policies and presentation", receivables arising out of primary insurance business increased by €73.0 million. Had the change in the presentation of receivables for premiums arising out of reinsurance and co-insurance been made as at 31 December 2016, the balance of receivables arising out of primary insurance business would have been higher by €63.2 million and would have totalled €114.6 million. While the presented increase in these receivables in 2017 compared to the previous year would have amounted €9.8 million. This increase mostly related to the reinsurance segment because of growth in foreign-sourced gross premiums written,

Net receivables ageing analysis

(€) 31/12/2017	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	95,115,426	19,205,728	7,604,437	121,925,591
Receivables due from insurance intermediaries	910,753	1,269,562	39,911	2,220,226
Other receivables arising out of primary insurance business	106,151	66,590	5,989	178,730
Receivables arising out of primary insurance business	96,132,330	20,541,880	7,650,337	124,324,547
Receivables for reinsurers' shares in claims	2,734,526	2,580,876	521,520	5,836,922
Other receivables from co-insurance and reinsurance	343,008	17,787	0	360,795
Receivables arising out of co-insurance and reinsurance business	3,077,534	2,598,663	521,520	6,197,717
Current tax assets	17,822	0	0	17,822
Other short-term receivables arising out of insurance business	1,832,858	404,434	48,324	2,285,616
Short-term receivables arising out of financing	777,596	15,578	42,468	835,642
Other short-term receivables	4,369,177	341,327	83,677	4,794,181
Other receivables	6,979,631	761,339	174,469	7,915,439
Total	106,207,317	23,901,882	8,346,326	138,455,525

(€) 31/12/2016	Not past due	Past due up to 180 days	Past due more than 180 days	Total
Receivables due from policyholders	36,688,644	9,345,376	3,085,627	49,119,647
Receivables due from insurance intermediaries	1,146,175	939,073	37,458	2,122,706
Other receivables arising out of primary insurance business	86,029	6,013	6,426	98,468
Receivables arising out of primary insurance business	37,920,848	10,290,462	3,129,511	51,340,821
Receivables for premiums arising out of assumed reinsurance and co-insurance	51,162,568	9,624,769	2,450,504	63,237,841
Receivables for reinsurers' shares in claims	3,158,284	606,406	566,486	4,331,176
Other receivables from co-insurance and reinsurance	429,134	7,431	0	436,565
Receivables arising out of co-insurance and reinsurance business	54,749,986	10,238,606	3,016,990	68,005,582
Current tax assets	124,720	0	0	124,720
Other short-term receivables arising out of insurance business	1,810,502	823,955	16,449	2,650,906
Short-term receivables arising out of financing	777,099	68,724	71,995	917,818
Other short-term receivables	3,830,310	439,853	98,517	4,368,680
Other receivables	6,417,911	1,332,532	186,961	7,937,404
Total	99,213,465	21,861,600	6,333,462	127,408,527

All receivables are current. For all receivables that have already fallen due, allowances have been recognised relating to individual classes of similar risks into which receivables are classified. Major items of receivables have been tested individually and since

only minor indications of impairment have been found, these are included in collective impairment.

The Group's other short-term receivables arising out of insurance business comprise recourse receivables.

Movement in allowance for receivables

(€) 31/12/2017	01/01/2017	Transfer	Additions	Reversal	Write-offs	Exchange differences	31/12/2017
Receivables due from policyholders	-28,295,242	-427,794	-315,812	425,101	1,915,394	-64,981	-26,763,334
Receivables due from insurance intermediaries	-636,693	0	-271,945	17,670	7,897	-14,008	-897,079
Other receivables arising out of primary insurance business	-134,423	0	-3,343	6,341	0	-1,271	-132,696
Receivables arising out of primary insurance business	-29,066,358	-427,794	-591,100	449,112	1,923,291	-80,260	-27,793,109
Receivables for premiums arising out of reinsurance and co-insurance	-427,794	427,794	0	0	0	0	0
Receivables for reinsurers' shares in claims	-76,896	0	-100,000	0	0	-79	-176,975
Receivables arising out of co-insurance and reinsurance business	-504,690	427,794	-100,000	0	0	-79	-176,975
Other short-term receivables arising out of insurance business	-21,985,030	0	5,090	29	1,427,064	-52,322	-20,605,169
Receivables arising out of financing	-1,136,608	0	-36,212	0	0	-39,186	-1,212,006
Other short-term receivables	-1,249,866	0	-296,471	123,118	0	-14,487	-1,437,706
Other receivables	-24,371,504	0	-327,593	123,147	1,427,064	-105,995	-23,254,881
Total	-53,942,552	0	-1,018,693	572,259	3,350,355	-186,334	-51,224,965

(€) 31/12/2016	01/01/2016	Additions	Reversal	Write-offs	Exchange differences	31/12/2016
Receivables due from policyholders	-28,975,503	-1,480,382	235,150	1,885,662	39,831	-28,295,242
Receivables due from insurance intermediaries	-466,986	-188,539	15,212	70	3,550	-636,693
Other receivables arising out of primary insurance business	-140,676	-5,817	11,531	0	539	-134,423
Receivables arising out of primary insurance business	-29,583,165	-1,674,738	261,893	1,885,732	43,920	-29,066,358
Receivables for premiums arising out of reinsurance and co-insurance	-370,139	-155,959	100,720	0	-2,416	-427,794
Receivables for reinsurers' shares in claims	-75,004	-1,905	0	0	13	-76,896
Receivables arising out of co-insurance and reinsurance business	-445,143	-157,864	100,720	0	-2,403	-504,690
Other short-term receivables arising out of insurance business	-23,407,774	-685,658	827,388	1,258,776	22,238	-21,985,030
Receivables arising out of investments	-1,203,491	-5,567	54,150	0	18,300	-1,136,608
Other short-term receivables	-1,487,597	-40,293	271,322	910	5,792	-1,249,866
Other receivables	-26,098,862	-731,518	1,152,860	1,259,686	46,330	-24,371,504
Total	-56,127,170	-2,564,120	1,515,473	3,145,418	87,847	-53,942,552

10) Deferred acquisition costs

Deferred acquisition costs

(€)	31/12/2017	31/12/2016
Short-term deferred acquisition costs	11,896,165	11,118,421
Short-term deferred reinsurance acquisition costs	6,611,029	5,392,115
Total	18,507,194	16,510,536

Deferred acquisition costs comprise short-term deferred policy acquisition costs that are gradually taken to acquisition costs in 2018.

11) Other assets

Other assets

(€)	31/12/2017	31/12/2016
Inventories	77,765	48,886
Accrued interest and rent	0	41,555
Other short-term accrued income and deferred expenses	1,965,630	1,276,403
Total	2,043,395	1,366,844

The other short-term accrued income and deferred expenses item mainly includes prepaid costs of insurance licences, and other costs paid in advance.

12) Cash and cash equivalents

(€)	31/12/2017	31/12/2016
Cash in hand	25,546	55,067
Cash in bank accounts	10,759,226	6,967,730
Framework or overnight deposits	27,171,347	26,916,363
Total	37,956,119	33,939,160

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

13) Non-current assets held for sale

The amount of non-current assets held for sale declined compared to the previous year to a very small amount.

14) Share capital

As at 31 December 2017, the controlling company's share capital was divided into 17,219,662 shares (the same as at 31/12/2016). 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 2017, the Company's shareholders' register listed 4,061 shareholders (31/12/2016: 4,308 shareholders). The Company's shares are listed in the prime market of the Ljubljana Stock Exchange.

15) Capital reserves

A contra account of capital reserves includes the difference between market and book value of acquired non-controlling interests. As can be seen in the table

below, in 2017 the Group acquired non-controlling interests mainly in Zavarovalnica Sava.

Movement in capital reserves

(€)	31/12/2017	31/12/2016
As at 01/01	43,681,441	43,388,724
Acquisition of non-controlling interests by the Company	-645,493	-6,080
Velebit osiguranje	0	-2,500
Velebit životno osiguranje	0	-3,580
Sava osiguruvanje (MKD)	930	0
Zavarovalnica Sava	-646,423	0
Merger of insurance companies (effect of exchange ratio)	0	298,797
As at 31/12	43,035,948	43,681,441

16) Profit reserves

(€)	31/12/2017	31/12/2016	Distributable/
Legal reserves and reserves provided for by the articles of association	11,578,920	11,411,550	non-distributable
Reserve for treasury shares	24,938,709	24,938,709	non-distributable
Catastrophe equalisation reserve	11,225,068	11,225,068	non-distributable
Other profit reserves	114,805,380	98,318,285	distributable
Total	162,548,076	145,893,612	

Under the law of certain markets where the Group is present, equalisation provisions and catastrophe equalisation provisions are treated as technical provisions. As this is not IFRS-compliant, the Group carries these provisions within profit reserves, which is in line with IFRSs. Additions are made to these provisions by establishing other reserves from net profit for the year (subject to resolution of the management and the supervisory boards), while a dismantling or release of the provision is taken to retained earnings.

The credit risk equalisation reserve (part of equalisation provisions) was dismantled as of 1 January 2016 due to a change in the Slovenian Insurance Act, resulting in increased retained earnings in 2016.

In line with regulations, the management board or the supervisory board may, when adopting the annual report, allocate a part of net profit to other profit reserves, but not more than half of the net profit for the period. In 2017 other profit reserves increased on this basis. Other reserves are distributable. The management board has the power to propose the appropriation of reserves as part of distribution of distributable profit, which is subject to approval of the general meeting.

17) Treasury shares

At 31 December 2017, the Group held a total of 1,721,966 treasury shares (2016: 1,721,966) with ticker POSR (accounting for 10% less one share of

the issued shares) for a value of €24,938,709 (2016: €24,938,709).

Treasury shares represent a deduction item in equity.

18) Fair value reserve

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

(€)	2017	2016
As at 1 January	17,458,948	12,721,705
Change in fair value	2,804,458	5,245,968
Transfer of the negative fair value reserve to the IS due to impairment	-320,000	-594,025
Transfer from fair value reserve to the IS due to disposal	-1,633,218	1,564,433
Deferred tax	21,508	-1,479,133
Total fair value reserve	18,331,697	17,458,948

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

19) Net profit or loss and retained earnings

The net profit for 2017 attributable to owners of the controlling company totalled €31.1 million (2016: €32.8 million). The management and supervisory boards already allocated part of the net profit of

€16.5 million to other profit reserves. The remaining amount of €14.6 million is recognised as net profit for the financial year in the statement of financial position.

Net earnings or loss per share

(€)	31/12/2017	31/12/2016
Net profit/loss for the period	31,094,908	32,918,213
Net profit/loss attributable to owners of the controlling company	31,065,329	32,824,911
Weighted average number of shares outstanding	15,791,457	15,791,457
Net earnings/loss per share	1.97	2.08

Comprehensive income per share

(€)	31/12/2017	31/12/2016
Comprehensive income for the period	32,790,903	37,660,245
Comprehensive income for the owners of the controlling company	32,754,821	37,564,254
Weighted average number of shares outstanding	15,791,457	15,791,457
Comprehensive income per share	2.07	2.38

The weighted number of shares takes into account the annual average calculated on the basis of monthly averages of ordinary shares less the number of treasury shares. The weighted average number of shares outstanding in the financial period was 15,791,457 and the same as in 2016. The controlling company does not have potentially dilutive capital instruments, which is why basic earnings per share equal diluted earnings per share.

20) Non-controlling interests in equity

Non-controlling interests in equity

(€)	31/12/2017	31/12/2016
Sava osiguruvanje (MKD)	311,778	285,282
Sava Station	6,704	3,768
Zavarovalnica Sava	0	471,982
Vivus	0	358
ZS Svetovanje	0	-445
Ornatus KC	0	63
Total	318,482	761,008

21) Subordinated liabilities

In 2006 and 2007, the controlling company raised a subordinated loan in the nominal amount of €32 million scheduled to mature in 2027. Under the contractual provisions, the remaining nominal amount of €24 million could be early repaid as of 2017. After receiving the approval of the Slovenian Insurance Supervision Agency, the controlling company repaid the subordinated debt in the nominal amount of €24 million on 15 March 2017 and 14 June 2017.

Retained earnings as at 31 December 2017 decreased by €3.7 million from 31 December 2016.

Retained earnings were strengthened by the transferred net profit for the previous year of €9.0 million, but reduced by €12.4 million for dividend payments, €0.2 million due to a previous recalculation and €0.1 million allocated to legal reserves.

In 2017, the controlling company paid €0.7 million in interest on subordinated debt (2016: €0.8 million) and €14,455 in withholding tax on interest paid (2016: €40,160).

22) Technical provisions and the technical provision for the benefit of life insurance policyholders who bear the investment risk

Movement in gross technical provisions and the technical provision for the benefit of life insurance policyholders who bear the investment risk

(€)	01/01/2017	Additions	Uses and releases	Exchange differences	31/12/2017
Gross unearned premiums	157,678,496	141,550,030	-127,482,731	111,464	171,857,259
Technical provisions for life insurance business	269,762,815	27,224,792	-25,683,754	106,062	271,409,915
Gross provision for outstanding claims	475,157,985	222,075,488	-212,492,995	-5,667,896	479,072,582
Gross provision for bonuses, rebates and cancellations	1,831,422	1,190,679	-1,242,492	622	1,780,231
Other gross technical provisions	6,790,605	6,485,437	-6,013,852	16,185	7,278,375
Total	911,221,323	398,526,426	-372,915,824	-5,433,563	931,398,362
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	226,994,200	40,415,998	-40,882,305	0	226,527,893

(€)	01/01/2016	Additions	Uses and releases	Exchange differences	31/12/2016
Gross unearned premiums	156,039,680	127,232,565	-125,696,415	102,666	157,678,496
Technical provisions for life insurance business	262,052,426	32,458,752	-24,710,899	-37,464	269,762,815
Gross provision for outstanding claims	459,012,655	195,762,019	-180,753,729	1,137,040	475,157,985
Gross provision for bonuses, rebates and cancellations	1,132,456	1,787,642	-1,088,372	-304	1,831,422
Other gross technical provisions	8,831,283	6,515,647	-8,547,501	-8,824	6,790,605
Total	887,068,500	363,756,625	-340,796,916	1,193,114	911,221,323
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	207,590,086	41,259,406	-21,855,292	0	226,994,200

Movement in technical provisions

Consolidated gross technical provisions increased by 2.2% in 2017, with the largest rise relating to unearned premiums (€14.2 million of a total of €20.2 million).

- Unearned premiums grew by 9.0%, which is related to the growth in gross premiums written across the Group.
- Mathematical provisions increased by 0.6%, in line

with the movement of the traditional life insurance portfolio: Zavarovalnica Sava, the subsidiary with the bulk of the Group's mathematical provisions, has a mature portfolio. Provisions are made based on the expired policy terms and the payment dynamics relating to maturities and surrenders. Many policies matured in 2017 (as reflected in the amount of survival payments made on policies),

which led to a decline in the level of Zavarovalnica Sava's mathematical provisions. Consolidated mathematical provisions, by contrast, increased due to the growth and maturing of life portfolios abroad as well as owing to the growing volume of pension business of Sava pokojninska družba.

- The provision for outstanding claims increased by 0.8% with the increase in the parent and Zavarovalnica Sava (particularly following some large loss events) being offset by payments made for settling prior-year claims from claims provisions, through the release of IBNR provisions for prior years and because of the favourable impact of exchange differences on the parent's claims provision.

- The provision for bonuses, rebates and cancellations is a small part of technical provisions; the provision decreased in Zavarovalnica Sava.
- The provision for unexpired risks (shown under the other gross technical provisions item) decreased by 7.0%, primarily because of higher unearned premiums, constituting the basis for calculating these provisions.
- The provision for the benefit of life insurance policyholders who bear the investment risk decreased by 0.2% as Zavarovalnica Sava compensated for the loss of business following the winding up of the DWS funds already during the year.

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

(€) 31/12/2017	Primary insurance	Reinsurance business	
	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	383,534	91.6%	0
Health	160,216	128.3%	1,099
Land vehicles casco	1,629,518	98.6%	0
Railway rolling stock	0	41.8%	0
Aircraft hull	0	121.9%	9,168
Ships hull	55,003	127.3%	320,611
Goods in transit	23,616	78.5%	0
Fire and natural forces	3,887,561	90.8%	0
Other damage to property	309,943	60.1%	0
Motor liability	135,924	91.8%	0
Aircraft liability	0	59.5%	0
Liability for ships	5,823	73.1%	0
General liability	175,729	52.8%	0
Credit	1,187	-2.0%	0
Suretyship	0	180.3%	38,475
Miscellaneous financial loss	65,790	73.9%	0
Legal expenses	9,040	43.1%	0
Assistance	56,422	38.1%	0
Life insurance	0	58.1%	0
Unit-linked life	0	55.4%	0
Total	6,899,308	86.7%	369,353

(€) 31/12/2016	Primary insurance	Reinsurance business	
	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	434,716	91.7%	0
Health	483,497	134.0%	6,454
Land vehicles casco	1,784,779	94.3%	0
Railway rolling stock	0	20.9%	0
Aircraft hull	0	89.2%	0
Ships hull	58,470	121.1%	187,688
Goods in transit	28,574	79.6%	0
Fire and natural forces	2,395,612	92.8%	0
Other damage to property	427,054	67.9%	0
Motor liability	372,169	93.4%	0
Aircraft liability	0	77.0%	0
Liability for ships	2,336	67.3%	0
General liability	213,069	61.4%	0
Credit	0	5.8%	0
Suretyship	106,543	126.1%	16,602
Miscellaneous financial loss	138,922	68.9%	0
Legal expenses	0	62.3%	0
Assistance	134,119	62.7%	0
Life insurance	0	66.4%	0
Unit-linked life	0	61.7%	0
Total	6,579,861	87.0%	210,745

Combined ratios for primary insurance are not given as amounts relate to several Group members.

23) Other provisions

Other provisions mainly comprise provisions for long-term employee benefits of €6.9 million (2016: €7.3 million), as set out in section 17.4.27 "Other provisions". The provisions increased mainly because of additions for current service costs in line with the

method prescribed by IAS 19. Following is a separate presentation of changes in provisions for severance pay upon retirement arising from changes in actuarial assumptions that are recognised in equity.

Movement in the provision for severance pay upon retirement and jubilee benefits

(€)	Provision for severance pay upon retirement	Provision for jubilee benefits	Total
Balance as at 01/01/2017	4,331,830	2,988,983	7,320,813
Interest expense (IS)	709	1,281	1,990
Current service cost (IS)	324,231	224,070	548,301
Past service cost (IS)	-1,025	12,730	11,705
Payout of benefits (-)	-102,925	-211,067	-313,992
Actuarial losses (IS)	0	-232,707	-232,707
Actuarial losses (SFP)	-389,847	-1,975	-391,822
Exchange differences	1,975	1,168	3,143
Balance as at 31/12/2017	4,164,948	2,782,483	6,947,431

(€)	Provision for severance pay upon retirement	Provision for jubilee benefits	Total
Balance as at 01/01/2016	4,184,108	2,323,358	6,507,466
Interest expense (IS)	-15,846	-11,138	-26,984
Current service cost (IS)	358,023	304,515	662,538
Past service cost (IS)	254,479	277,408	531,887
Payout of benefits (-)	-58,439	-156,424	-214,863
Actuarial gains/losses (IS)	0	251,591	251,591
Actuarial gains/losses (SFP)	-389,548	0	-389,548
Exchange differences	-947	-327	-1,274
Balance as at 31/12/2016	4,331,830	2,988,983	7,320,813

In accordance with the standard, we present a sensitivity analysis for severance pay upon retirement.

Impact on the amount of provision for severance pay upon retirement (€)	31/12/2017	31/12/2016
Decrease in discount rate of 1%	589,909	647,528
Increase in discount rate of 1%	-490,130	-533,981
Increase in real income growth of 0.5%	-262,778	-286,399
Increase in real income growth of 0.5%	284,848	311,428
Decrease in staff turnover of 10%	132,770	144,432
Increase in staff turnover of 10%	-126,293	-137,242
Decrease in mortality rate of 10%	29,844	31,362
Increase in mortality rate of 10%	-29,391	-31,053

In addition to provisions for employees, other provisions include remaining provisions of €0.7 million (2016; €0.8 million) relating to provisions for litigation and the amounts recognised in accordance with the Vocational Rehabilitation and Employ-

ment of Persons with Disabilities Act from bonuses for exceeding the quota and amounts exempt from pension and disability insurance contributions. These may be used exclusively for disabled employees of the insurance company for the purpose set down by law.

(€)	01/01/2017	Additions	Uses and releases	Exchange differences	31/12/2017
Other provisions	760,064	63,497	-170,598	219	653,182

(€)	01/01/2016	Additions	Uses and releases	Exchange differences	31/12/2016
Other provisions	882,229	375,103	-497,133	-135	760,064

24) Other financial liabilities

Other financial liabilities comprise minor liabilities for unpaid dividends of the controlling company for the years 2014, 2015 and 2016.

25) Liabilities from operating activities**Liabilities from operating activities**

(€) 2017	Maturity		
	1-5 years	Up to 1 year	Total
Liabilities to policyholders	0	25,853,797	25,853,797
Liabilities to insurance intermediaries	301	2,697,612	2,697,913
Other liabilities from primary insurance business	0	26,159,579	26,159,579
Liabilities from primary insurance business	301	54,710,988	54,711,289
Liabilities for reinsurance and co-insurance premiums	1,756	5,110,717	5,112,473
Liabilities for shares in reinsurance claims	0	42,392	42,392
Other liabilities from co-insurance and reinsurance business	0	5,318	5,318
Liabilities from reinsurance and co-insurance business	1,756	5,158,427	5,160,183
Current tax liabilities	0	726,716	726,716
Total	2,057	60,596,131	60,598,188

(€) 2016	Maturity		
	1-5 years	Up to 1 year	Total
Liabilities to policyholders	0	2,198,192	2,198,192
Liabilities to insurance intermediaries	6,127	2,678,322	2,684,449
Other liabilities from primary insurance business	0	7,027,612	7,027,612
Liabilities from primary insurance business	6,127	11,904,126	11,910,253
Liabilities for reinsurance and co-insurance premiums	19,681	5,935,857	5,955,538
Liabilities for shares in reinsurance claims	0	14,629,538	14,629,538
Other liabilities from co-insurance and reinsurance business	105,320	15,602,302	15,707,622
Liabilities from reinsurance and co-insurance business	125,001	36,167,697	36,292,698
Current tax liabilities	0	587,695	587,695
Total	131,128	48,659,518	48,790,646

Liabilities increased by €11.8 million compared to year-end 2016.

Due to a change in the presentation of liabilities arising out of accepted business, liabilities from primary insurance business increased by €42.8 million. If the change in the presentation of liabilities had been made already on 31 December 2016, liabilities from primary insurance business would have been €30.3 million higher and would have amounted to €42.2

million. The increase in these liabilities would thus amount to €12.5 million. The major part relates to the increase in liabilities arising out of primary insurance business of Sava Re due to the increased liabilities for claim payments, while another reason is a large claim incurred by the Macedonian insurance company, the settlement of which has been approved but which has not yet been paid. Liabilities from reinsurance and co-insurance business declined by €0.9 million compared to year-end 2016.

Change in presentation of liabilities for 2016

(€)	
Liabilities from primary insurance business	
31/12/2016	11,910,253
Reclassification	30,337,160
31/12/2016 after reclassification	42,247,413
Liabilities from reinsurance and co-insurance business	
31/12/2016	36,292,698
Reclassification	-30,337,160
31/12/2016 after reclassification	5,955,538

Current tax liabilities are similar to the prior-year figure and their level is relatively low because during 2017, Group companies made advance payments of

tax of almost the amount actually assessed for the year 2017.

In 2017, most liabilities were current.

26) Other liabilities**Other liabilities by maturity**

(€) 2017	Maturity		
	Over 1 year	Up to 1 year	Total
Other liabilities	0	13,450,252	13,450,252
Deferred income and accrued expenses	0	17,146,131	17,146,131
Total	0	30,596,383	30,596,383

(€) 2016	Maturity		
	Over 1 year	Up to 1 year	Total
Other liabilities	0	15,883,399	15,883,399
Deferred income and accrued expenses	0	11,947,334	11,947,334
Total	0	27,830,733	27,830,733

Other liabilities and deferred income and accrued expenses are unsecured.

Other liabilities

(€)	31/12/2017	31/12/2016
Short-term liabilities due to employees	2,724,187	2,828,676
Diverse other short-term liabilities for insurance business	3,622,424	3,925,059
Short-term trade liabilities	3,690,369	5,654,075
Diverse other short-term liabilities	3,400,486	3,411,659
Other long-term liabilities	12,786	63,930
Total	13,450,252	15,883,399

Change in short-term provisions

(€)	01/01/2017	Additions	Uses	Releases	Exchange differences	31/12/2017
Short-term accrued expenses	3,163,857	4,335,018	-4,076,880	-79,320	-2	3,342,673
Other accrued expenses and deferred income	8,783,477	14,895,274	-9,900,423	-16,362	41,492	13,803,458
Total	11,947,334	19,230,293	-13,977,303	-95,682	41,490	17,146,131

(€)	01/01/2016	Additions	Uses	Releases	Exchange differences	31/12/2016
Short-term accrued expenses	3,570,704	3,304,624	-3,699,710	-16,756	4,995	3,163,857
Other accrued expenses and deferred income	7,883,069	31,364,962	-30,387,941	-59,815	-16,798	8,783,477
Total	11,453,773	34,669,586	-34,087,651	-76,571	-11,803	11,947,334

27) Fair values of assets and liabilities**Determination of fair values**

Asset class / principal market	Level 1	Level 2	Level 3
Debt securities			
OTC market	Debt securities measured based on CBBT prices in an active market.	Debt securities measured based on CBBT prices in an inactive market.	Debt securities measured using an internal model that does not consider level 2 inputs.
		Debt securities measured at the BVAL price if the CBBT price is unavailable.	
Debt securities are measured using an internal model based on level 2 inputs.			
Stock exchange	Debt securities measured based on stock exchange prices in an active market.	Debt securities measured based on stock exchange prices in an inactive market.	Debt securities measured using an internal model that does not consider level 2 inputs.
		Debt securities measured at the BVAL price when the stock exchange price is unavailable.	
		Debt securities are measured using an internal model based on level 2 inputs.	
Shares			
Stock exchange	Shares measured based on stock exchange prices in an active market.	Shares measured based on stock exchange prices in an inactive market.	Shares are measured using an internal model that does not consider level 2 inputs.
		Shares without available stock exchange prices and that are measured using an internal model based on level 2 inputs.	
Unquoted shares and participating interests			
			Unquoted shares measured at cost. Fair value for the purposes of disclosures calculated based on an internal model used for impairment testing mainly using unobserved inputs.
Mutual funds			
	Mutual funds measured at the quoted unit value on the measurement date.		
Depoziti in posojila			
- with maturity		Measured at amortized cost; for the purposes of disclosure fair value calculated using an internal model using level 2 inputs.	Measured at amortized cost; for the purposes of disclosure fair value calculated using an internal model not using level 2 inputs.

The Group measures the fair value of each financial instrument based on the methods shown above in line with its accounting policies.

Financial assets by level of the fair value hierarchy

(€) 31/12/2017	Carrying amount	Fair value				Difference between FV and CA
		Level 1	Level 2	Level 3	Total fair value	
Investments measured at fair value	903,863,149	693,779,164	195,278,191	14,805,794	903,863,149	0
At fair value through P/L	6,217,870	3,522,808	2,384,776	310,286	6,217,870	0
Designated to this category	6,217,870	3,522,808	2,384,776	310,286	6,217,870	0
Debt instruments	4,998,211	2,821,388	1,866,537	310,286	4,998,211	0
Equity instruments	1,219,659	701,420	518,239	0	1,219,659	0
Available-for-sale	897,645,279	690,256,356	192,893,415	14,495,508	897,645,279	0
Debt instruments	849,482,348	658,821,312	180,410,633	10,250,403	849,482,348	0
Equity instruments	48,162,931	31,435,044	12,482,782	4,245,105	48,162,931	0
Investments for the benefit of policyholders who bear the investment risk	203,797,586	192,098,788	11,698,798	0	203,797,586	0
Investments not measured at fair value	134,261,870	85,121,533	51,603,990	6,424,332	143,149,855	8,887,985
Held-to-maturity assets	106,232,327	85,121,533	29,118,080	0	114,239,613	8,007,286
Debt instruments	106,232,327	85,121,533	29,118,080	0	114,239,613	8,007,286
Loans and deposits	28,029,543	0	22,485,910	6,424,332	28,910,242	880,699
Deposits	21,605,211	0	22,485,910	0	22,485,910	880,699
Loans granted	591,985	0	0	591,985	591,985	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	5,832,347	0	0	5,832,347	5,832,347	0
Investments for the benefit of policyholders who bear the investment risk not measured at fair value	23,430,467	10,650,182	13,729,849	0	24,380,031	949,564

(€) 31/12/2016	Carrying amount	Fair value				Difference between FV and CA
		Level 1	Level 2	Level 3	Total fair value	
Investments measured at fair value	867,817,697	679,892,840	176,194,863	11,750,388	867,838,091	20,394
At fair value through P/L	9,176,694	2,841,687	6,133,045	207,834	9,182,566	5,872
Designated to this category	9,176,694	2,841,687	6,133,045	207,834	9,182,566	5,872
Debt instruments	7,439,052	1,590,145	5,646,945	207,834	7,444,924	5,872
Equity instruments	1,737,642	1,251,542	486,100	0	1,737,642	0
Other investments	0	0	0	0	0	0
Available-for-sale	858,641,003	677,051,153	170,061,818	11,542,554	858,655,525	14,522
Debt instruments	826,819,512	661,731,495	158,157,047	6,930,970	826,819,512	0
Equity instruments	31,775,012	15,319,658	11,904,771	4,565,105	31,789,534	14,522
Other investments	46,479	0	0	46,479	46,479	0
Investments for the benefit of policyholders who bear the investment risk	190,197,443	172,358,357	17,839,086	0	190,197,443	0
Investments not measured at fair value	162,417,542	135,383,592	32,156,239	8,539,017	176,078,848	13,661,306
Held-to-maturity assets	130,812,195	135,383,592	8,004,082	0	143,387,674	12,575,479
Debt instruments	130,812,195	135,383,592	8,004,082	0	143,387,674	12,575,479
Loans and deposits	31,605,347	0	24,152,157	8,539,017	32,691,174	1,085,827
Deposits	23,156,483	0	24,152,157	0	24,152,157	995,674
Loans granted	613,005	0	0	703,158	703,158	90,153
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,835,859	0	0	7,835,859	7,835,859	0
Investments for the benefit of policyholders who bear the investment risk not measured at fair value	33,977,633	11,208,926	24,058,706	0	35,267,632	1,289,999

Movements in investments, income and expenses measured at fair value – Level 3

(€)	Debt instruments		Equity instruments		Other investments	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Opening balance	7,138,804	7,892,260	4,565,105	4,565,104	46,479	46,479
Exchange differences	0	0	0	1	0	0
Additions	3,344,783	0	0	0	0	0
Impairment losses	0	0	-320,000	0	0	0
Maturity	-354,754	-753,456	0	0	-46,479	0
Revaluation to fair value	431,856	0	0	0	0	0
Closing balance	10,560,689	7,138,804	4,245,105	4,565,105	0	46,479
Income	87,103	95,535	190,180	276,106	0	0
Expenses	-40	0	0	0	0	0

Reclassification of assets and financial liabilities between levels

(€) 31/12/2017	Level 1	Level 2
At fair value through P/L	-170,282	170,282
Designated to this category	-170,282	170,282
Debt instruments	-170,282	170,282
Available-for-sale	-30,739,013	30,739,013
Debt instruments	-30,739,013	30,739,013
Total financial investments	-30,909,295	30,909,295

(€) 31/12/2016	Level 1	Level 2	Level 3
At fair value through P/L	-490,713	490,713	0
Designated to this category	-490,713	490,713	0
Debt instruments	-490,713	490,713	0
Available-for-sale	-22,905,624	20,034,205	2,871,419
Debt instruments	-22,662,867	19,791,448	2,871,419
Equity instruments	-242,757	242,757	
Total financial investments	-23,396,337	20,524,918	2,871,419

The Group primarily measures its OTC assets based on BID CBBT prices representing unadjusted quoted prices, thus meeting the criteria for classification into level 1. Level 1 also includes mutual fund assets and listed securities that satisfy the active market requirement.

As at 31 December 2017, level 1 investments represented 76.8% (31/12/2016: 78.3%) of financial investments measured at fair value.

The valuation model applied used directly and indirectly observable market inputs, such as the risk free interest rate curve, yield of similar financial instruments, and credit and liquidity risk premiums. Since

inputs used by the model meet level 2 criteria, investments valued using the internal model were classified into level 2.

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

31/12/2017	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Property				
Owner-occupied property	31/12/2017	39,539,952	37,093,592	market approach and income approach (weighted 50 : 50), new purchases by sales price
Investment property	31/12/2017	15,364,184	15,831,277	
Total		54,904,136	52,924,869	

31/12/2016	Date of fair value measurement	Carrying amount at reporting date	Fair value at reporting date	Determination of fair values
Property				
Owner-occupied property	31/12/2016	45,548,204	43,047,424	market approach and income approach (weighted 50 : 50), new purchases by sales price
Investment property	31/12/2016	7,933,786	8,100,146	
Total		53,481,990	51,147,570	

Movements in fair values of owner-occupied and investment property

2017 (€)	Opening balance	Acquisitions	Disposals	Reallocations	Change in fair value	Exchange differences	Closing balance
Owner-occupied property	43,047,424	3,139,500	-199,752	-7,429,088	-1,498,253	33,761	37,093,592
Investment property	8,100,146	673,412	0	7,355,635	-352,882	54,966	15,831,277
Skupaj	51,147,570	3,812,912	-199,752	-73,453	-1,851,135	88,727	52,924,869

2016 (€)	Opening balance	Acquisitions	Disposals	Change in fair value	Exchange differences	Closing balance
Owner-occupied property	37,048,744	8,406,073	195,942	-2,597,972	-5,363	43,047,424
Investment property	8,443,933	505,209	77,035	-873,306	-52,725	8,100,146
Total	45,492,677	8,911,282	272,977	-3,471,278	-58,088	51,147,570

Valuation techniques for all items described above are defined in accounting policies. For investment property, the method is described in section 17.4.13 “Investment property” and for financial investments

in section 17.4.14 “Financial investments and funds for the benefit of policyholders who bear the investment risk”.

17.9 Notes to the consolidated financial statements

– income statement

28) Net earned premiums

Net earned premiums

(€) 2017	Gross premiums written	Premiums written for assumed co-insurance	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)	Net premiums earned
Personal accident	27,485,491	4,040	-99,026	311,195	-3,860	27,697,840
Health	7,480,495	143	-594,628	26,129	-26,873	6,885,266
Land vehicles casco	95,190,755	0	-1,516,747	-6,012,754	30,511	87,691,765
Railway rolling stock	212,491	0	-4,248	-16,800	339	191,782
Aircraft hull	60,812	932	-13,976	120,028	-82	167,714
Ships hull	5,769,241	0	-347,656	-493,637	64,762	4,992,710
Goods in transit	6,352,928	687,892	-300,766	-401,104	3,425	6,342,375
Fire and natural forces	91,656,789	745,730	-12,835,690	-1,106,006	289,243	78,750,066
Other damage to property	37,679,775	319,208	-5,328,345	-371,347	399,130	32,698,421
Motor liability	107,378,633	0	-1,604,081	-3,377,452	90,852	102,487,952
Aircraft liability	391,893	1,014	-122,173	-7,559	-9,326	253,849
Liability for ships	988,883	0	-9,964	-36,221	1,571	944,269
General liability	20,414,990	263,553	-1,984,008	-355,283	314,282	18,653,534
Credit	5,588,902	0	-121,318	-1,141,736	0	4,325,848
Suretyship	394,971	0	-42,602	48,481	0	400,850
Miscellaneous financial loss	2,977,741	61,365	-649,591	-141,523	42,222	2,290,214
Legal expenses	746,920	8,701	-526,729	-3,668	-1,127	224,097
Assistance	13,984,936	0	-7,683,809	-919,774	446,200	5,827,553
Life insurance	42,244,687	0	-261,733	100,348	495	42,083,797
Unit-linked life	48,139,398	122	-196,206	12,918	-141	47,956,091
Total non-life	424,756,646	2,092,578	-33,785,357	-13,879,031	1,641,269	380,826,105
Total life insurance	90,384,085	122	-457,939	113,266	354	90,039,888
Total	515,140,731	2,092,700	-34,243,296	-13,765,765	1,641,623	470,865,993

(€) 2016	Gross premiums written	Premiums written for assumed co-insurance	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums, reinsurers' and co-insurers' shares (+/-)	Net premiums earned
Personal accident	29,046,669	37,875	-103,545	1,458,544	-6,963	30,432,580
Health	3,127,778	0	-661,878	217,927	244,377	2,928,204
Land vehicles casco	85,355,420	64,623	-1,601,849	-1,839,199	1,733	81,980,728
Railway rolling stock	112,622	0	0	-21,246	0	91,376
Aircraft hull	908,061	0	-7,676	-24,447	516	876,454
Ships hull	3,596,779	0	-160,245	211,827	42,130	3,690,491
Goods in transit	6,202,420	659,647	-276,336	-52,958	47,543	6,580,316
Fire and natural forces	90,883,620	964,879	-12,450,624	-473,076	239,493	79,164,292
Other damage to property	38,557,359	653,151	-4,319,756	990,703	137,588	36,019,045
Motor liability	101,405,826	26,188	-1,935,982	-598,121	-156,900	98,741,011
Aircraft liability	150,429	0	-135,798	151,286	1,632	167,549
Liability for ships	739,328	0	-6,183	23,475	74	756,694
General liability	18,423,116	384,692	-1,407,828	-178,540	-76,894	17,144,546
Credit	6,410,497	0	-53,320	-2,887,159	-14,028	3,455,990
Suretyship	317,394	0	-9,755	-3,241	-9,584	294,814
Miscellaneous financial loss	3,319,316	34,274	-535,850	1,467,560	28,472	4,313,772
Legal expenses	755,735	9,013	-527,175	-1,945	215,735	451,363
Assistance	11,654,186	0	-6,156,383	-599,945	286,437	5,184,295
Life insurance	38,799,112	0	-640,273	311,445	-13,049	38,457,235
Unit-linked life	47,605,072	73	-252,058	17,733	-49	47,370,771
Total non-life	400,966,555	2,834,342	-30,350,183	-2,158,555	981,361	372,273,520
Total life insurance	86,404,184	73	-892,331	329,178	-13,098	85,828,006
Total	487,370,739	2,834,415	-31,242,514	-1,829,377	968,263	458,101,526

29) Investment income and expenses**Investment income by IFRS categories**

2017 (€)	Interest income	Change in fair value and gains on disposal of FVPL assets	Gains on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Exchange gains	Other income	Total	Net unrealised gains on investments of life insurance policyholders who bear the investment risk
Held to maturity	5,146,343	0	0	0	51,099	0	5,197,442	348,079
Debt instruments	5,146,343	0	0	0	51,099	0	5,197,442	348,079
At fair value through P/L	119,782	229,386	0	26,450	4,890	103,915	484,423	16,006,180
Designated to this category	119,782	229,386	0	26,450	4,890	103,915	484,423	16,006,180
Debt instruments	119,782	116,337	0	0	4,890	1,835	242,844	1,145,080
Equity instruments	0	113,049	0	26,450	0	26,811	166,310	14,861,100
Other investments	0	0	0	0	0	75,269	75,269	0
Available-for-sale	12,673,321	0	3,121,822	1,114,983	3,981,586	14,170	20,905,882	468,816
Debt instruments	12,673,321	0	2,581,179	0	3,981,586	10,591	19,246,677	452,339
Equity instruments	0	0	493,505	1,114,983	0	3,579	1,612,067	16,477
Other investments	0	0	47,138	0	0	0	47,138	0
Loans and receivables	623,466	0	511	0	165,139	25,637	814,753	26,309
Debt instruments	593,129	0	511	0	109,733	25,637	729,010	26,309
Other investments	30,337	0	0	0	55,406	0	85,743	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	44,415	0	0	0	0	0	44,415	0
Total	18,607,327	229,386	3,122,333	1,141,433	4,202,714	143,722	27,446,915	16,849,384

Investment expenses by IFRS categories

2017 (€)	Interest expenses	Change in fair value and losses on disposal of FVPL assets	Losses on disposal of other IFRS asset categories	Impairment losses on investments	Exchange losses	Other	Total	Net unrealised losses on investments of life insurance policyholders who bear the investment risk
Held to maturity	0	0	0	0	110,620	0	110,620	0
Debt instruments	0	0	0	0	110,620	0	110,620	0
At fair value through P/L	0	79,645	0	0	107,922	35,748	223,315	8,237,919
Designated to this category	0	79,645	0	0	107,922	35,748	223,315	8,237,919
Debt instruments	0	3,322	0	0	104,380	8,554	116,256	556,481
Equity instruments	0	76,323	0	0	3,542	27,194	107,059	7,681,438
Available-for-sale	0	0	584,859	320,000	9,616,244	2,440	10,523,543	18,497
Debt instruments	0	0	515,698	0	9,616,244	2,018	10,133,960	18,397
Equity instruments	0	0	69,161	320,000	0	422	389,583	100
Loans and receivables	522	0	0	0	299,292	15,914	315,728	0
Debt instruments	0	0	0	0	72,849	15,914	88,763	0
Other investments	522	0	0	0	226,443	0	226,965	0
Subordinated liabilities	718,338	0	0	0	0	0	718,338	0
Total	718,860	79,645	584,859	320,000	10,134,078	54,102	11,891,544	8,256,416

Net investment income

2017 (€)	Interest income/ expenses	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Exchange gains/ losses	Other income/ expenses	Total	Net unrealised gains/losses on investments of life insurance policyholders who bear the investment risk
Held to maturity	5,146,343	0	0	0	0	-59,521	0	5,086,822	348,079
Debt instruments	5,146,343	0	0	0	0	-59,521	0	5,086,822	348,079
At fair value through P/L	119,782	149,741	0	26,450	0	-103,032	68,167	261,108	7,768,261
Designated to this category	119,782	149,741	0	26,450	0	-103,032	68,167	261,108	7,768,261
Debt instruments	119,782	113,015	0	0	0	-99,490	-6,719	126,588	588,599
Equity instruments	0	36,726	0	26,450	0	-3,542	-383	59,251	7,179,662
Other investments	0	0	0	0	0	0	75,269	75,269	0
Available-for-sale	12,673,321	0	2,536,963	1,114,983	-320,000	-5,634,658	11,730	10,382,339	450,319
Debt instruments	12,673,321	0	2,065,481	0	0	-5,634,658	8,573	9,112,717	433,942
Equity instruments	0	0	424,344	1,114,983	-320,000	0	3,157	1,222,484	16,377
Other investments	0	0	47,138	0	0	0	0	47,138	0
Loans and receivables	622,944	0	511	0	0	-134,153	9,723	499,025	26,309
Debt instruments	593,129	0	511	0	0	36,884	9,723	640,247	26,309
Other investments	29,815	0	0	0	0	-171,037	0	-141,222	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	44,415	0	0	0	0	0	0	44,415	0
Subordinated liabilities	-718,338	0	0	0	0	0	0	-718,338	0
Total	17,888,467	149,741	2,537,474	1,141,433	-320,000	-5,931,364	89,620	15,555,371	8,592,968

Investment income by IFRS categories

2016 (€)	Interest income	Change in fair value and gains on disposal of FVPL assets	Gains on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Exchange gains	Other income	Total	Net unrealised gains on investments of life insurance policyholders who bear the investment risk
Held to maturity	6,029,247	0	0	0	38,524	0	6,067,771	350,743
Debt instruments	6,029,247	0	0	0	38,524	0	6,067,771	350,743
At fair value through P/L	140,964	737,997	0	26,174	51,692	77,305	1,034,132	17,360,541
Designated to this category	140,964	737,997	0	26,174	51,692	77,305	1,034,132	17,360,541
Debt instruments	140,964	639,692	0	0	48,161	48,507	877,324	762,925
Equity instruments	0	98,305	0	26,174	3,531	28,798	156,808	16,597,616
Available-for-sale	14,208,416	0	2,314,629	1,258,226	6,671,747	81,031	24,534,049	241,284
Debt instruments	14,208,416	0	1,851,981	0	6,671,747	3,631	22,735,775	241,284
Equity instruments	0	0	462,648	1,258,226	0	3,589	1,724,463	0
Other investments	0	0	0	0	0	73,811	73,811	0
Loans and receivables	820,212	0	205	0	563,160	81,896	1,465,473	6,110
Debt instruments	807,669	0	205	0	563,160	81,896	1,452,930	6,110
Other investments	12,543	0	0	0	0	0	12,543	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	34,817	0	0	0	0	0	34,817	0
Total	21,233,656	737,997	2,314,834	1,284,400	7,325,123	240,232	33,136,242	17,958,678

Investment expenses by IFRS categories

2016 (€)	Interest expenses	Change in fair value and losses on disposal of FVPL assets	Losses on disposal of other IFRS asset categories	Impairment losses on investments	Exchange losses	Other	Total	Net unrealised losses on investments of life insurance policyholders who bear the investment risk
Held to maturity	0	0	0	0	37,784	3,331	41,115	0
Debt instruments	0	0	0	0	37,784	3,331	41,115	0
At fair value through P/L	0	653,939	0	0	5,417	111,716	771,072	11,256,348
Designated to this category	0	653,939	0	0	5,417	111,716	771,072	11,256,348
Debt instruments	0	450,150	0	0	5,417	102	455,669	334,253
Equity instruments	0	203,789	0	0	0	508	204,297	10,922,095
Other investments	0	0	0	0	0	111,106	111,106	0
Available-for-sale	0	0	498,683	398,186	5,448,690	6,246	6,351,805	0
Debt instruments	0	0	147,661	330,740	5,448,690	2,217	5,929,308	0
Equity instruments	0	0	351,022	67,446	0	4,029	422,497	0
Loans and receivables	2,292	0	0	195,839	342,682	11,776	552,589	0
Debt instruments	0	0	0	195,839	342,682	11,776	550,297	0
Other investments	2,292	0	0	0	0	0	2,292	0
Subordinated liabilities	839,834	0	0	0	0	0	839,834	0
Total	842,126	653,939	498,683	594,025	5,834,573	133,069	8,556,415	11,256,348

Net investment income

2016 (v EUR)	Income/expense for interest	Change in fair value and gains/losses on disposal of FVPL assets	Gains/losses on disposal of other IFRS asset categories	Income from dividends and shares – other investments	Impairment losses on investments	Exchange gains/exchange losses	Other income/expenses	Total	Net unrealised gains/losses on investments of life insurance policyholders who bear the investment risk
Held to maturity	6,029,247	0	0	0	0	740	-3,331	6,026,656	350,743
Debt instruments	6,029,247	0	0	0	0	740	-3,331	6,026,656	350,743
Other investments	0	0	0	0	0	0	0	0	0
At fair value through P/L	140,964	84,058	0	26,174	0	46,275	-34,411	263,060	6,104,193
Designated to this category	140,964	84,058	0	26,174	0	46,275	-34,411	263,060	6,104,193
Debt instruments	140,964	189,542	0	0	0	42,744	48,405	421,655	428,672
Equity instruments	0	-105,484	0	26,174	0	3,531	28,290	-47,489	5,675,521
Other investments	0	0	0	0	0	0	-111,106	-111,106	0
Derivatives	0	0	0	0	0	0	0	0	0
Available-for-sale	14,208,416	0	1,815,946	1,258,226	-398,186	1,223,057	74,785	18,182,244	241,284
Debt instruments	14,208,416	0	1,704,320	0	-330,740	1,223,057	1,414	16,806,467	241,284
Equity instruments	0	0	111,626	1,258,226	-67,446	0	-440	1,301,966	0
Other investments	0	0	0	0	0	0	73,811	73,811	0
Loans and receivables	817,920	0	205	0	-195,839	220,478	70,120	912,884	6,110
Debt instruments	807,669	0	205	0	-195,839	220,478	70,120	902,633	6,110
Other investments	10,251	0	0	0	0	0	0	10,251	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	34,817	0	0	0	0	0	0	34,817	0
Subordinated liabilities	-839,834	0	0	0	0	0	0	-839,834	0
Total	20,391,530	84,058	1,816,151	1,284,400	-594,025	1,490,550	107,163	24,579,827	6,702,330

In 2017, interest income from impaired investments totalled €1,002 (2016: €1,429).

Investment income and expenses by source of funds

The Group records investment income and expenses separately by source of funds, i.e. separately for own fund assets, non-life insurance register assets and life insurance register assets. Own fund investments support the Group's shareholder funds; non-life

insurance register assets support technical provisions relating to non-life business, while life insurance register assets support technical provisions relating to life insurance business.

Investment income – non-life insurance business

(€)	Non-life insurance register of assets	Non-life insurance register of assets
	2017	2016
Interest income	9,911,757	11,120,399
Change in fair value and gains on disposal of FVPL assets	81,976	113,132
Gains on disposal of other IFRS asset categories	1,799,602	1,626,842
Income from dividends and shares – other investments	580,806	691,688
Exchange gains	3,954,061	7,059,425
Other income	31,342	11,254
Total investment income – non-life insurance registers	16,359,544	20,622,740
	Capital fund	Capital fund
	2017	2016
Interest income	436,925	648,900
Change in fair value and gains on disposal of FVPL assets	0	51,326
Gains on disposal of other IFRS asset categories	450,329	279,431
Income from dividends and shares – other investments	286,723	311,347
Exchange gains	18,264	914
Other income	116	57,886
Total investment income - capital fund	1,192,357	1,349,804
Total investment income – non-life business	17,551,901	21,972,544

Investment income – life business

(€)	Life insurance register of assets	Life insurance register of assets
	2017	2016
Interest income	7,218,224	8,305,150
Change in fair value and gains on disposal of FVPL assets	19,297	46,976
Gains on disposal of other IFRS asset categories	686,270	191,551
Income from dividends and shares – other investments	270,970	277,855
Exchange gains	215,078	139,764
Other income	30,941	38,599
Total investment income – life insurance registers	8,440,780	8,999,895
	Capital fund	Capital fund
	2017	2016
Interest income	1,040,421	1,159,207
Change in fair value and gains on disposal of FVPL assets	128,113	526,563
Gains on disposal of other IFRS asset categories	186,132	217,010
Income from dividends and shares – other investments	2,934	3,510
Exchange gains	15,311	125,020
Other income	81,323	132,492
Total investment income - capital fund	1,454,234	2,163,802
Total investment income – life business	9,895,014	11,163,697
Total investment income	27,446,915	33,136,241

Expenses for financial assets and liabilities – non-life business

(€)	Non-life insurance register of assets	Non-life insurance register of assets
	2017	2016
Interest expenses	522	47
Change in fair value and losses on disposal of FVPL assets	76,271	222,740
Losses on disposal of other IFRS asset categories	383,567	367,698
Impairment losses on investments	0	381,041
Exchange losses	9,561,654	5,668,406
Other	9,030	8,162
Total investment expenses – non-life insurance registers	10,031,044	6,648,094
	Capital fund	Capital fund
	2017	2016
Interest expenses	718,338	842,079
Change in fair value and losses on disposal of FVPL assets	0	87,525
Losses on disposal of other IFRS asset categories	14,504	0
Impairment losses on investments	320,000	10,679
Exchange losses	5,933	7,972
Other	488	4,300
Total investment expenses – capital fund	1,059,263	952,555
Total investment expenses – non-life business	11,090,307	7,600,649

Expenses for financial assets and liabilities – life business

(€)	Life insurance register of assets	Life insurance register of assets
	2017	2016
Change in fair value and losses on disposal of FVPL assets	0	20,671
Losses on disposal of other IFRS asset categories	158,909	108,851
Impairment losses on investments	0	202,305
Exchange losses	356,046	157,507
Other	44,303	8,713
Total investment expenses – life insurance registers	559,258	498,047
	Capital fund	Capital fund
	2017	2016
Change in fair value and losses on disposal of FVPL assets	3,374	323,003
Losses on disposal of other IFRS asset categories	27,879	22,134
Exchange losses	210,445	688
Other	281	111,894
Total investment expenses – capital fund	241,979	457,719
Total investment expenses – life business	801,237	955,766

Total investment expenses	11,891,544	8,556,415
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Net investment income	15,555,371	24,579,827
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(€)	Life insurance register of assets	Life insurance register of assets
	2017	2016
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	16,849,384	17,958,678
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	8,256,416	11,256,348
Net investment income	8,592,968	6,702,330

Impairment losses on investments

(€)	2017	2016
Bonds and loans	0	533,045
Shares	320,000	60,980
Total	320,000	594,025

Net investment income from non-life and life business

(€)	2017	2016
Non-life insurance business	6,461,594	14,371,895
Life insurance business	9,093,777	10,207,932
Total	15,555,371	24,579,827

The 2017 net investment income totalled €15.6 million, a €9.0 million fall from the 2016 figure of €24.6 million. This is mainly due to higher negative exchange differences and lower interest income.

30) Other technical income

(€)	2017	2016
Income from reinsurance commission	2,870,868	3,732,607
Income on the realisation impaired receivables	2,326,977	2,375,769
Income from other insurance business	2,218,763	2,233,027
Exchange gains	4,043,120	5,483,403
Income from exit charges and management fees	2,700,784	2,249,629
Income from other services	1,269,208	1,872,734
Income from investment property	0	290,240
Total	15,429,720	18,237,409

The Group has presented income from investment property among other technical income starting in 2017.

In 2017 the Group continued to experience strong increases in both exchange gains and losses, primarily arising from reinsurance business.

Reinsurance commission income are a major part of other technical income. The following tables show reinsurance commission income by class of business.

Income from reinsurance commission

(€)	2017	2016
Personal accident	23,434	26,951
Health	618	33,119
Land vehicles casco	65,593	26,999
Railway rolling stock	190	0
Aircraft hull	767	163
Ships hull	2,390	1,128
Goods in transit	11,511	31,219
Fire and natural forces	1,632,544	2,113,786
Other damage to property	606,065	757,723
Motor liability	199,540	245,462
Aircraft liability	11,346	13,289
Liability for ships	279	7
General liability	161,206	145,337
Suretyship	0	546
Miscellaneous financial loss	74,254	108,087
Legal expenses	0	16,300
Assistance	19,652	24,234
Life insurance	33,795	166,421
Unit-linked life	27,684	21,836
Total non-life	2,809,389	3,544,350
Total life insurance	61,479	188,257
Total	2,870,868	3,732,607

31) Net claims incurred**Net claims incurred**

(€) 2017	Gross amounts		Reinsurers' share of claims (-)	Co-insurers' share of claims (-)	Change in the gross claims provision (+/-)	Change in the reinsurers' and co-insurers' share of the claims provision (+/-)	Net claims incurred
	Claims	Recourse receivables					
Personal accident	11,980,148	-1,132	-16,116	15,343	-587,439	-8,504	11,382,301
Health	4,934,881	-233	-1304	0	62,108	-188,551	4,806,901
Land vehicles casco	66,611,262	-1,194,184	-965,206	0	224,020	630,039	65,305,930
Railway rolling stock	91,017	0	-4	0	11,627	0	102,640
Aircraft hull	68,330	0	-11,911	31,517	273,438	-5,025	356,350
Ships hull	5,002,554	-6	-3,682	0	898,054	-145,551	5,751,369
Goods in transit	3,541,459	-6,225	-20,569	298,971	-415,075	13,105	3,411,666
Fire and natural forces	48,403,126	-31,178	-3,758,659	282,643	12,298,953	156,928	57,351,813
Other damage to property	18,500,727	-47,393	-3,507,086	196,233	2,007,004	-1,107,887	16,041,598
Motor liability	66,049,470	-3,144,820	-909,180	0	-9,282,149	-1,535,948	51,177,373
Aircraft liability	42,562	0	-40,395	0	5,413	-29,594	-22,014
Liability for ships	314,312	-360	-11	0	-14,837	-8	299,096
General liability	6,148,642	-32,066	-679,049	39,549	-897,593	1,238,286	5,817,769
Credit	2,443,175	-2,505,461	-269	0	-723,255	0	-785,810
Suretyship	191,318	-18	0	0	131,683	0	322,983
Miscellaneous financial loss	2,186,678	-35	-405,303	0	-556,391	99,930	1,324,879
Legal expenses	1,165	0	0	1,099	8,484	0	10,748
Assistance	7,574,113	-3,637	-6,266,352	0	-152,052	190,266	1,342,338
Life insurance	33,490,258	0	-61,794	0	-79,804	-55,855	33,292,805
Unit-linked life	39,118,711	0	-64,993	0	-280,229	39,097	38,812,586
Total non-life	244,084,939	-6,966,748	-16,585,096	865,355	3,291,993	-692,514	223,997,929
Total life insurance	72,608,969	0	-126,787	0	-360,033	-16,758	72,105,391
Total	316,693,908	-6,966,748	-16,711,883	865,355	2,931,960	-709,272	296,103,320

Net claims incurred

(€) 2016	Gross amounts		Reinsurers' share of claims (-)	Co-insurers' share of claims (-)	Change in the gross claims provision (+/-)	Change in the reinsurers' and co-insurers' share of the claims provision (+/-)	Net claims incurred
	Claims	Recourse receivables					
Personal accident	13,895,309	-1,334	-28,332	54,469	2,275,405	1,325	16,196,842
Health	1,979,157	-44,469	-170,121	0	672,326	-252,477	2,184,416
Land vehicles casco	61,364,262	-738,216	-160,430	17,343	1,275,958	-652,099	61,106,818
Railway rolling stock	13,970	0	0	0	606	0	14,576
Aircraft hull	310,494	0	-234,314	230,987	380,259	106,223	793,649
Ships hull	2,394,843	0	-3,408	0	3,108,513	807	5,500,755
Goods in transit	3,348,391	-931	-2,574	244,973	-981,446	-9,758	2,598,655
Fire and natural forces	50,615,273	-99,149	-6,868,415	58,341	7,326,287	-1,241,588	49,790,749
Other damage to property	19,465,751	-66,137	-1,084,029	219,516	-5,504,435	19,531	13,050,197
Motor liability	62,301,023	-3,872,467	-2,973,598	26,459	953,269	261,939	56,696,625
Aircraft liability	55,584	0	-1,136	0	-111,621	-14,779	-71,952
Liability for ships	105,846	0	-22	0	253,212	34	359,070
General liability	5,029,193	-40,784	-250,377	20,313	4,718,408	264,360	9,741,113
Credit	1,445,183	-1,231,640	0	0	-45,071	0	168,472
Suretyship	201,573	-245,500	-727	0	14,357	424	-29,873
Miscellaneous financial loss	3,463,399	0	-315,362	12,696	-747,375	-153,996	2,259,362
Legal expenses	648	0	0	872	1,567	0	3,087
Assistance	4,057,224	-974	-3,288,707	0	387,559	-433,634	721,468
Life insurance	29,420,166	0	-244,672	0	643,467	31,193	29,850,154
Unit-linked life	16,320,108	0	-79,399	0	1,211,649	7,235	17,459,593
Total non-life	230,047,123	-6,341,601	-15,381,552	885,969	13,977,778	-2,103,688	221,084,029
Total life insurance	45,740,274	0	-324,071	0	1,855,116	38,428	47,309,747
Total	275,787,397	-6,341,601	-15,705,623	885,969	15,832,894	-2,065,260	268,393,776

The above tables show gross claims incurred as including gross claims paid, gross recourse receivables and retrocession recoveries (including portions relating to recourse receivables). Net claims incurred addition-

ally include movements in the net claims provision; it increased net claims incurred by €2.2 million (2016: increase of €13.7 million).

32) Change in other technical provisions and change in the technical provision for policyholders who bear the investment risk

The change in other technical provisions relates to changes in the net provision for unexpired risks. The

change in gross technical provisions is described in note 22.

33) Operating expenses

The Group classifies operating expenses by nature. Compared to 2016, operating expenses decreased by 1.6%.

Operating expenses by nature

(€)	2017	2016
Acquisition costs (commissions)	51,949,127	51,882,550
Change in deferred acquisition costs	-2,389,002	1,474,454
Depreciation of operating assets	7,525,357	7,617,184
Personnel costs	68,429,957	64,387,463
Salaries	49,999,192	48,231,175
Social and pension insurance contributions	8,204,067	8,009,800
Other personnel costs	10,226,698	8,146,488
Costs of services by natural persons not performing business, incl. of contributions	457,816	491,431
Other operating expenses	30,989,073	33,710,404
Total	156,962,328	159,563,486

Audit fees

(€)	2017	2016
Audit of annual report	264,905	254,790
Other assurance services	14,640	16,592
Other audit services	12,200	29,880
Total	291,745	301,262

34) Other technical expenses and other expenses

(€)	2017	2016
Expenses for loss prevention activities and fire brigade charge	3,365,303	3,077,583
Contribution for covering claims of uninsured and unidentified vehicles and vessels	1,402,836	1,697,697
Exchange losses	7,491,929	7,870,882
Operating expenses from revaluation	2,026,597	1,611,096
Other expenses	3,199,415	3,053,679
Total	17,486,080	17,310,937

Other expenses of €2.8 million (2016: €2.5 million) include contributions relating to the costs of the supervisory authority, allowance for other receivables, health protection contributions and fees for access to electronic police records.

35) Income tax expense

Tax rate reconciliation

(€)	2017	2016
Profit/loss before tax	39,880,983	40,669,987
Income tax expenses at statutory tax rate (19%)	7,577,387	6,913,898
Adjustment to the actual rates	6,014,182	4,081,310
Tax effect of income that is deducted for tax purposes	-4,948,544	-4,462,457
Tax effect of expenses not deducted for tax purposes	1,011,587	1,799,048
Tax effect of income that is added for tax purposes	-88,891	148,968
Income or expenses relating to tax relief	-430,352	-377,991
Balance of expense for (income from) deferred tax due to change in tax rate	0	-215,559
Changes in temporary differences	-349,294	-135,443
Total income tax expense in the income statement	8,786,075	7,751,774
Effective tax rate	22.03%	19.06%

17.10 Notes to the consolidated financial statements – cash flow statement

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

The cash flow statement shown in section 16.4 “Consolidated statement of cash flows” 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).

(€)	2017	2016
Net profit/loss for the period	31,094,908	32,918,213
Non-monetary income statement items not included in cash flow:	17,923,953	38,582,796
- change in unearned premiums	12,124,142	861,114
- change in the provision for outstanding claims	-2,222,688	13,767,634
- change in other technical provisions	2,179,849	5,254,856
- change in technical provisions for policyholders who bear the investment risk	1,121,327	17,442,161
- operating expenses – amortisation/depreciation and change in deferred acquisition cost	5,136,355	9,091,638
- impairment losses on financial assets	-415,032	-7,834,607
Eliminated investment income items	-19,748,760	-22,518,056
- interest received disclosed under B. a) 1.	-18,607,327	-21,233,656
- receipts from dividends and shares in profit of others disclosed under B. a) 2.	-1,141,433	-1,284,400
Eliminated investment expense items	718,860	842,126
- interest paid disclosed under C. b) 1.	718,860	842,126
Cash flows from operating activities – income statement items	29,988,960	49,825,078

17.11 Contingent receivables and liabilities

The Group has contingent liabilities arising out of guarantees given. The estimated contingent liabilities in this regard total €3.0 million.

The Group has contingent liabilities from unrealised recourse receivables of €30.0 million and claims

against issuing banks for subordinated financial instruments of €38.0 million.

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

17.12 Related party disclosures

The Group makes separate disclosures for the following groups of related parties:

- owners and related enterprises;
- management board, supervisory boards including its committees and employees not subject to the tariff section of the collective agreement;
- subsidiary companies.

Owners and related enterprises

The Group’s largest shareholder is the Slovenian Sovereign Holding (formerly the Slovenian Restitution Fund) with a 17.7% share.

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 members of management and supervisory boards and of the audit committee, and of employees not subject to the tariff section of the collective agreement

(€)	2017	2016
Management board	620,246	655,175
Payments to employees not subject to the tariff section of the collective agreement	4,506,668	5,123,400
Supervisory board	111,606	128,283
Supervisory board committees	32,021	28,246
Total	5,270,541	5,935,104

Remuneration of management board members in 2017

(€)	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 Čebren	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

Remuneration of management board members in 2016

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premiums	Fringe benefits – use of company car	Total
Zvonko Ivanušič (up until 23/8/2016)	109,304	15,936	4,170	5,775	135,185
Srečko Čebren	152,592	14,340	5,338	3,620	175,890
Jošt Dolničar	146,866	14,340	5,554	3,874	170,635
Mateja Treven	144,600	14,340	5,186	9,339	173,465
Total	553,362	58,956	20,248	22,608	655,175

Liabilities to members of the management board based on gross remuneration

(€)	31/12/2017	31/12/2016
Marko Jazbec	13,280	0
Srečko Čebren	11,950	12,616
Jošt Dolničar	12,616	13,280
Mateja Treven	11,950	11,950
Total	49,796	37,846

As at 31 December 2017, the Group had no receivables due from the management board members. Management board members are not remunerated for their functions in subsidiary companies.

Remuneration of the supervisory board and its committees in 2017

(€)		Attendance fees	Remuneration for performing the function	Reimbursement of expenses and training	Fringe benefits	Total
Supervisory board members						
Mateja Lovšin Herič	chair of the SB	2,970	18,958	183	0	22,111
Slaven Mičkovič	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
Andrej Gorazd Kunstek	member of the SB	2,970	13,000	0	0	15,970
Mateja Živec	member of the SB	2,970	13,000	0	0	15,970
Davor Ivan Gjivoje	SB member (since 07/03/2017)	2,640	10,624	0	0	13,264
Andrej Kren	SB 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 Mičkovič	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 Dolensšek	external member		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 Mičkovič	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 Mičkovič	external member (since 24/08/2017)	0	1,988	0	0	1,988
Total risk committee members		836	4,600	0	0	5,436

Remuneration of the supervisory board and its committees in 2016

(€)		Attendance fees	Remuneration for performing the function	Expenses reimbursed	Fringe benefits	Total
Supervisory board members						
Branko Tomažič	SB chair (until 11/10/2016)	3,410	15,202	5,230	119	23,960
Mateja Lovšin Herič	SB chair (since 12/10/2016) / SB deputy chair (until 11/10/2016)	5,005	15,446	0	185	20,637
Slaven Mičković	deputy chairman (since 12/10/2016) / member (until 11/10/2016)	5,005	13,287	317	39	18,648
Andrej Gorazd Kunstek	member of the SB	5,005	13,000		175	18,180
Keith William Morris	member of the SB	4,235	13,000	13,254	200	30,690
Helena Dretnik	SB member (until 19/02/2016)	550	1,793	0	170	2,513
Mateja Živec	SB member (since 01/04/2016)	3,905	9,750	0	0	13,655
Total supervisory board members		27,115	81,477	18,802	0	128,283
Audit committee members						
Mateja Lovšin Herič	AC member (since 28/10/2016) / chair (until 27/10/2016)	2,376	4,591	0	0	6,967
Slaven Mičković	chair (since 28/10/2016) / member (until 27/10/2016)	2,376	3,534	7	0	5,917
Ignac Dolenšek	member of the AC		10,950	232	0	11,182
Total audit committee members		4,752	19,075	239	0	24,066
Nominations committee members						
Mateja Lovšin Herič	Chair of the committee	1,100	0	0	0	1,100
Branko Tomažič (until 11/10/2016)	member	660	0	0	0	660
Slaven Mičković	member	880	0	0	0	880
Keith William Morris	member	220	0	0	0	220
Total nominations committee members		2,860	0	0	0	2,860
Fit & proper committee members						
Mateja Lovšin Herič	Chair of the committee	660	0	0	0	660
Branko Tomažič	member (until 11/10/2016)	220	0	0	0	220
Nika Matjan	member	0	0	0	0	0
Mateja Živec	member	440	0	0	0	440
Total fit & proper committee members		1,320	0	0	0	1,320

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

(€)	31/12/2017	31/12/2016
Mateja Lovšin Herič	2,391	3,381
Slaven Mičković	788	2,971
Andrej Gorazd Kunstek	1,358	1,908
Keith William Morris	3,714	7,145
Mateja Živec	1,358	2,128
Davor Ivan Gjivoje	1,534	0
Andrej Kren	2,023	0
Ignac Dolenšek	844	544
Total	14,011	18,078

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

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	4,189,932	173,658	143,078	4,506,668

Employee remuneration not subject to the tariff section of the collective agreement for 2016

(€)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits and other benefits	Total
Individual employment contracts	4,687,613	298,061	137,726	5,123,400

Receivables due from the state and majority state-owned companies

(€)	31/12/2017	31/12/2016
Interests in companies	9,645,208	9,406,870
Debt securities and loans	203,987,529	281,292,477
Receivables due from policyholders	126,693	141,554
Total	213,759,429	290,840,901

Liabilities to the state and majority state-owned companies

(€)	31/12/2017	31/12/2016
Liabilities for shares in claims	19,478	4,263

18 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Income and expenses relating to majority state-owned companies

(€)	2017	2016
Dividend income	565,389	459,282
Interest income	7,992,652	9,758,691
Gross premiums written	12,986,211	13,317,626
Gross claims payments	-3,529,952	-2,946,450
Total	18,014,300	20,589,149

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	30/06/2018	2.90%
Sava osiguruvanje (MKD)	300,000	ordinary	11/07/2018	0.90%
Illyria Life	1,000,000	ordinary	11/07/2018	0.90%
Illyria Life	350,000	ordinary	31/05/2018	1.50%
Illyria Life	1,650,000	ordinary	30/06/2018	1.50%
Total	4,600,000			

- In January 2018, Polona Pirš Zupančič began her five-year term of office as a member of the management board. After this change, the Sava Re management board continued to operate as a four-member body, as at its meeting of 20 December 2017 the supervisory board of Sava Re took note of the notice of Mateja Treven on her early termination of her term as Sava Re management board member, and accepted Mateja Treven's proposal for a consensual termination of her employment contract as management board member. Mateja Treven concluded her role as management board member on 13 January 2018 and will continue her career as part of the Sava Re Group. **Marko Jazbec** as chairman of the management board is, following the aforementioned changes, responsible for the coordination of the work of the management board, finance, general affairs, human resources, organisation and legal affairs, public relations, compliance and internal audit. **Srečko Čebren** is – also in the new term of office – responsible for reinsurance operations, facultative reinsurance underwriting and actuarial affairs. **Jošt Dolničar** is – in the new term of office – responsible for the management of strategic investments in primary insurance subsidiaries, modelling, IT, technologies and innovation, and pension insurance. **Polona Pirš Zupančič** is responsible for corporate finance and controlling, accounting, shareholder relations and risk management.
- On 2 November 2017, Sava Re signed a contract for the acquisition of a 75% stake in TBS TEAM 24. TBS TEAM 24 provides assistance services relating to motor, health and homeowners insurance. Sava Re met all suspensive conditions on 31 January 2018.
- In December 2017, NLB d.d. Ljubljana and NLB banka AD Skopje, as the seller, and Sava Re, as the purchaser, signed a purchase contract for all the shares of NLB Nov penziski fond AD Skopje. Sava Re met all suspensive conditions on 13 March 2018.
- In accordance with article 171(7) of the Insurance Act (ZZavar-1; Official Gazette of the Republic of Slovenia, no. 93/15), Zavarovalnica Sava and Sava pokojninska družba signed an outsourcing contract for internal audit with Sava Re, transferring this key function to Sava Re as of 1 February 2018 for an indefinite period.
- In March 2018, Sava Re obtained approval from Serbia's central bank, as well as from other regulators to purchase a 92.94% stake in Energoprojekt Garant, a Serbian insurance undertaking. After the acquisition of this majority stake and subsequent steps towards attaining sole ownership, Sava Re intends to merge the target with its existing subsidiary, the Serbian non-life insurer Sava neživotno osiguranje (SRB), and then optimise the subsidiary's capital structure.