



**SAVARe**

Pozavarovalnica Sava, d.d.

**HALF-YEARLY  
FINANCIAL  
REPORT 2010**





**UNAUDITED HALF-YEARLY FINANCIAL REPORT  
OF THE SAVA RE GROUP AND  
SAVA REINSURANCE COMPANY  
FOR THE SIX MONTHS TO 30 JUNE 2010**

**Ljubljana, 26 August 2010**



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## INTRODUCTION



## **1 INTRODUCTION**

In accordance with the Financial Instruments Market Act and the Rules of the Ljubljana Stock Exchange, Sava Reinsurance Company d.d. ("Sava Reinsurance Company"), with registered office at Ljubljana, Dunajska 56, hereby publishes the Unaudited Half-yearly Financial Report of the Sava Re Group and Sava Reinsurance Company for the Six Months to 30 June 2010.

Published data and interim financial statements for both the Sava Re Group and Sava Reinsurance Company for the six months to 30 June 2010 have been prepared in accordance with IAS 34 "Interim Financial Reporting" and need to be read together with the annual financial statements prepared for the financial year ended 31 December 2009. The interim financial statements have not been audited.

The Unaudited Half-yearly Financial Report of the Sava Re Group and Sava Reinsurance Company for the Six Months to 30 June 2010 will be available as a hardcopy for viewing at the registered office of Sava Reinsurance Company at Dunajska 56, 1000 Ljubljana on every workday between 9:00 and 15:00 hrs, and as a softcopy on the Company's website at [www.sava-re.si](http://www.sava-re.si) as from 31 August 2010.



## 1.1 Summary of key performance figures<sup>1</sup>

| (EUR)   | Sava Re Group      |                    | Sava Reinsurance Company |                    |
|---|--------------------|--------------------|--------------------------|--------------------|
|   | 1-6 2010           | 1-6 2009           | 1-6 2010                 | 1-6 2009           |
| <b>Gross premiums written</b>                                     | <b>141,824,962</b> | <b>141,192,608</b> | <b>81,174,521</b>        | <b>86,547,176</b>  |
| Year-on-year change   | 0.4%               | 20.5%              | -6.2%                    | 27.2%              |
| Gross premiums written - Slovenia                                 | 74,676,998         | 79,301,570         | 43,364,889               | 52,120,144         |
| Gross premiums written - international                            | 67,147,964         | 61,891,038         | 37,809,632               | 34,427,032         |
| International premium as % of total GPW                           | 47.3%              | 43.8%              | 46.6%                    | 39.8%              |
| <b>Gross claims paid</b>  | <b>62,413,665</b>  | <b>69,181,696</b>  | <b>36,931,553</b>        | <b>46,009,253</b>  |
| Year-on-year change   | -9.8%              | 29.5%              | -19.7%                   | 31.1%              |
| Net incurred loss ratio   | 61.7%              | 65.3%              | 67.0%                    | 74.0%              |
| <b>Operating expenses including reinsurance commission income</b> | <b>40,026,471</b>  | <b>36,568,737</b>  | <b>18,901,422</b>        | <b>18,653,524</b>  |
| Year-on-year change   | 9.5%               | 7.9%               | 1.3%                     | -3.4%              |
| Net expense ratio   | 36.6%              | 33.7%              | 33.4%                    | 30.2%              |
| <b>Net combined ratio</b>   | <b>98.3%</b>       | <b>99.0%</b>       | <b>100.5%</b>            | <b>104.2%</b>      |
| <b>Net investment income (inv. income less inv. expenses)</b>     | <b>8,421,419</b>   | <b>-9,539,464</b>  | <b>1,135,533</b>         | <b>-3,643,249</b>  |
| Year-on-year change   | 188.3%             | -202.6%            | 131.2%                   | -151.2%            |
| Realised investment return  | 4.6%               | -7.1%              | 0.7%                     | -2.7%              |
| <b>Profit/loss, net of tax</b>                                    | <b>2,734,450</b>   | <b>-15,117,413</b> | <b>1,282,168</b>         | <b>-6,516,930</b>  |
| Year-on-year change   | 118.1%             | -280.8%            | 119.7%                   | -213.7%            |
| Comprehensive income  | 3,290,818          | -6,702,878         | 1,606,042                | -1,335,338         |
|   | 30.06.2010         | 31.12.2009         | 30.06.2010               | 31.12.2009         |
| <b>Total assets</b>   | <b>594,592,725</b> | <b>560,711,611</b> | <b>432,926,596</b>       | <b>404,105,057</b> |
| Change on 31 December   | 6.0%               | 4.7%               | 7.1%                     | 1.2%               |
| <b>Shareholders' equity</b>                                       | <b>154,018,480</b> | <b>161,677,406</b> | <b>151,601,322</b>       | <b>149,995,279</b> |
| Change on 31 December   | -4.7%              | -7.1%              | 1.1%                     | -2.4%              |
| <b>Net technical provisions</b>                                   | <b>309,217,542</b> | <b>277,337,473</b> | <b>163,015,079</b>       | <b>144,578,495</b> |
| Change on 31 December   | 11.5%              | 22.2%              | 12.8%                    | 18.9%              |
| ROE (profit/loss for the period/average equity)                   | 1.7%               | -16.8%             | 0.9%                     | -8.3%              |
| Number of employees   | 1,914              | 1,757              | 69                       | 65                 |

<sup>1</sup> Calculation methodologies are explained in the appended glossary

## 1.2 Profile of Sava Reinsurance Company

|                                    |   |
|------------------------------------|---|
| Company name:                      | Pozavarovalnica Sava, d.d.<br>Reinsurance Company Sava d.d.   |
| Registered office:                 | Dunajska 56<br>1000 Ljubljana<br>Slovenia   |
| Telephone (switchboard):           | (01) 47 50 200  |
| Telefax:                           | (01) 47 50 264  |
| E-mail:                            | <a href="mailto:info@sava-re.si">info@sava-re.si</a>  |
| Website:                           | <a href="http://www.sava-re.si">www.sava-re.si</a>  |
| Company ID number:                 | 5063825   |
| Tax number:                        | 17986141  |
| Share capital:                     | EUR 39,069,099<br>(no. of no-par-value shares: 9.362.519)   |
| Date of entry into court register: | 28 Dec 1990 Ljubljana District Court  |
| Certified auditor:                 | KPMG, Slovenija,<br>podjetje za revidiranje, d.o.o.<br>Železna cesta 8a<br>1000 Ljubljana<br>Slovenia |
| Largest shareholder and holding:   | Slovenska odškodninska družba, d.d.<br>25.0% (no-par-value shares: 2,340,631)                         |
| The Company has no branches.       |   |

## 1.3 Governing bodies of the Company

### The Management Board

In accordance with the Articles of Association of Sava Reinsurance Company, the Company is managed and represented by a two-to-five member management board. In its business dealings, the Company is represented jointly by at least two members.

On 14 October 2008, the Supervisory Board elected Zvonko Ivanušič Chairman of the Management Board. The term of office of Zvonko Ivanušič and Jošt Dolničar started on 31 December 2008, while Srečko Čebren started his function of Board Member on 1 February 2009. In the first half of 2010 there were no changes in the composition of the Management Board.

#### Members of the Management Board as at 30 June 2010:

|                                   |                 |
|-----------------------------------|-----------------|
| Chairman of the Management Board: | Zvonko Ivanušič |
| Member of the Management Board:   | Jošt Dolničar   |
| Member of the Management Board:   | Srečko Čebren   |

## **Supervisory Board**

Pursuant to the Company's Articles of Association and the applicable legislation, the Supervisory Board is composed of six members, of which four (shareholder representatives) are elected by the Company's General Meeting, and two (employee representatives) are elected by the Workers' Council, which subsequently informs the General Meeting of its decision. Supervisory Board members are appointed for a term of up to four years and may be re-elected. In the first half of 2010 there were no changes in the composition of the Supervisory Board. Likewise, there were no changes in the composition of the Audit Committee of the Supervisory Board in this period.

### Supervisory Board Members as at 30 June 2010:

|                                   |                     |
|-----------------------------------|---------------------|
| Chairman:                         | Branko Tomažič      |
| Deputy Chairman:                  | Mateja Lovšin Herič |
| Member:                           | Mateja Treven       |
| Member:                           | Dr. Slaven Mičković |
| Member (employee representative): | Aleš Mirnik         |
| Member (employee representative): | Nada Zidar          |

### Members of the Supervisory Board Audit Committee as at 30 June 2010:

|                  |                     |
|------------------|---------------------|
| Chairperson:     | Mateja Treven       |
| Member:          | Dr. Slaven Mičković |
| External member: | Blanka Vezjak       |
| Deputy member:   | Mateja Lovšin Herič |

## **General Meeting of Shareholders**

There has been only one General meeting of shareholders called in the first half of 2010. The 23rd General Meeting was held in the conference room of the TR3 building at Trg republike 3, Ljubljana, on 30 June 2010. It was presented the annual report for 2009 with the auditor's opinion and written report of the Supervisory Board to the annual report and the annual report on internal auditing for 2009 with the opinion of the Supervisory Board. The General Meeting decided on the discharge for 2009 to the Management Board and the Supervisory Board, and on amendments to the Articles of Association and to the Meeting's General Rules of Procedure. The Auditor appointed for the 2010 financial year is KPMG Slovenija, podjetje za revidiranje d.o.o., Železna cesta 8a, Ljubljana. No challenging actions were announced in the meeting.

## **1.4 Significant events in the first half of 2010**

 In January 2010, Sava Reinsurance Company liquidated the Macedonian Company Slorest.

- S** On 31 January 2010, the newly acquired shares of the Kosovan company Dukagjini Life were transferred to Sava Reinsurance Company; the newly acquired shares of Dukagjini were transferred on 1 February 2010. Sava Reinsurance Company thus became sole owner of the companies.
  
- S** On 3 February 2010, the Board of Directors of the fund management company Sava Invest, Macedonia, adopted the decision to wind up the legal entity. This decision triggered the proceedings for the liquidation of the investment funds Sava Invest Rasteči and Sava Invest Balansirajući before the competent authorities in the Republic of Macedonia. The assets of the funds will, after settlement of any debts, be distributed among investors in proportion to their ownership interest.
  
- S** On 30 June 2010, the 23rd General Meeting was held. It was presented the annual report for 2009 with the auditor's opinion and written report of the Supervisory Board to the annual report and the annual report on internal auditing for 2009 with the opinion of the Supervisory Board. The General Meeting decided on the discharge for 2009 to the Management Board and the Supervisory Board, and on amendments to the Articles of Association and Meeting's General Rules of Procedure. The Auditor appointed for the 2010 financial year is KPMG Slovenija, podjetje za revidiranje d.o.o., Železna cesta 8a, Ljubljana. No challenging actions were announced in the meeting.

#### **1.5 Significant events after the statement of financial position date**

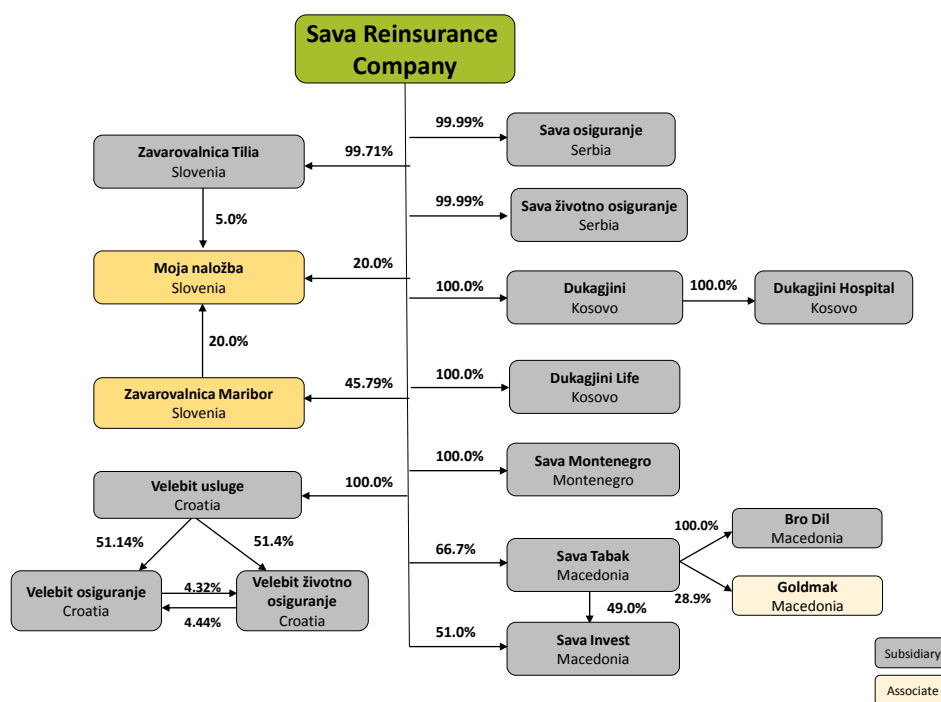
- S** On 7 July 2010, the Ljubljana District Court, by decision no. 847/2010, initiated bankruptcy proceedings over Poteza Naložbe d.o.o. Sava Reinsurance Company has a claim against Poteza naložbe d.o.o. based on commercial notes in the amount of EUR 359,321. Based on media reports, we estimate that Poteza skupina d.d. will declare bankruptcy or compulsory settlement in the second half of 2010. Sava Reinsurance Company holds Poteza bonds in the amount of EUR 1,528,615.



## 1.6 Sava Re Group structure including associated companies

Reinsurance Company Sava is the controlling company of the Sava Re Group. In addition to the controlling company, the Sava Re Group comprises nine insurers based in Slovenia and other countries of the former Yugoslavia. There are also two associated companies: one insurer and one pension company, both Slovenia-based.

*Sava Re Group structure including associated companies as at 30 June 2010*



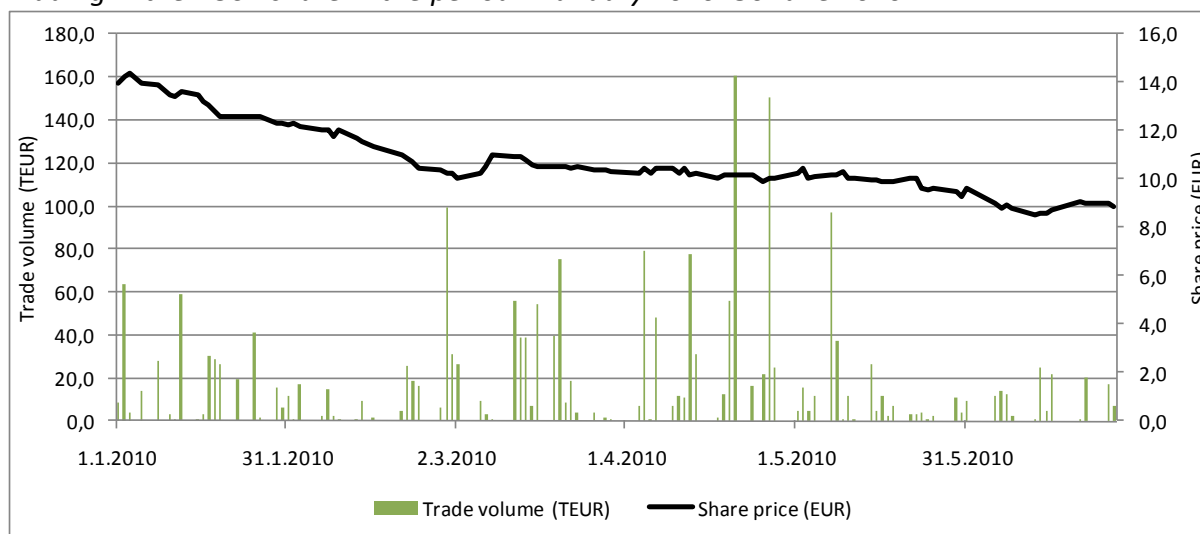
The Macedonian subsidiary Sava Invest is in liquidation proceedings.

## 2 SHAREHOLDERS AND SHARE PERFORMANCE

As at 30 June 2010, Sava Re's share capital amounted to EUR 39,069,099 and was divided into 9,362,519 non-par value shares. Shares, which are registered, were issued in a dematerialised form and entered in the central securities registry under the POSR symbol. All pertain to the same class and are freely transferable without restrictions. The Management Board of Sava Reinsurance Company is not aware of any shareholders' agreement restricting share transferability.

Sava Reinsurance Company shares are traded in the standard market of the Ljubljana Stock Exchange d.d., Ljubljana.

### *Trading in the POSR share in the period 1 January 2010–30 June 2010*



In the period 1 January 2010–30 June 2010, the weighted average POSR share price fell by 36% while total turnover volume reached EUR 2.1m.

At 30 June 2010, Sava Re had 5,654 shareholders; at 31 December 2009, 5,712 shareholders and at 30 June 2009, 5,759 shareholders.

As at 30 June 2010, Sava Reinsurance Company held 210 treasury shares, representing 0.002% of total shares outstanding. In the first half of 2010, the Company did not buy back any treasury shares.

The table below shows the top ten shareholders of Sava Reinsurance Company as at 30 June 2010.

*Top ten shareholders of Sava Reinsurance Company as at 30 June 2010*

| Shareholder                                  | No. of shares    | Holding (%)  |
|--|------------------|--------------|
| Slovenian Restitution Fund                   | 2,340,631        | 25.0%        |
| Abanka d.d.                                  | 655,000          | 7.0%         |
| Poteza naložbe d.o.o.                        | 468,125          | 5.0%         |
| Nova KBM d.d.                                | 435,925          | 4.7%         |
| Zavarovalnica Maribor d.d.                   | 416,433          | 4.4%         |
| Pišljar Marjan                               | 412,307          | 4.4%         |
| Kapitalska družba d.d. - ZVPSJU <sup>2</sup> | 320,346          | 3.4%         |
| KD Galileo, fleksibilna struktura naložb     | 250,000          | 2.7%         |
| Kapitalska družba d.d. - SODPZ <sup>3</sup>  | 238,109          | 2.5%         |
| NFD 1 delniški investicijski sklad d.d.      | 201,315          | 2.2%         |
| <b>Total</b>                                 | <b>5,738,191</b> | <b>61.3%</b> |

Source: Central securities register KDD d.d.

As at 30 June 2009, 98.5% of shareholders were Slovenian and 1.5% foreign.

*Shareholder Structure of Sava Reinsurance Company as at 30 June 2010*

|   | Domestic investors | Foreign investors |
|---|--------------------|-------------------|
| Banks                                     | 17.0%              | 1.1%              |
| Investment funds and mutual funds         | 12.5%              | 0.2%              |
| Insurers and pension companies            | 15.5%              | 0.0%              |
| Other financial institutions <sup>4</sup> | 33.9%              | 0.1%              |
| Individuals                               | 17.3%              | 0.1%              |
| Other commercial companies                | 2.3%               | 0.0%              |
| <b>Total</b>                              | <b>98.5%</b>       | <b>1.5%</b>       |

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

As at 30 June 2010, members of the Management Board and the Supervisory Board held 1,535 shares, representing 0.016% of total shares outstanding.

<sup>2</sup> Closed Mutual Pension Fund for Civil Servants.

<sup>3</sup> Compulsory Supplementary Pension Insurance Fund.

<sup>4</sup> Slovenian Restitution Fund, stock broking firms and such like.

*POSR shares held by Management/Supervisory Board members as at 30 June 2010*

|  | No. of shares | Holding (%)   |
|--|---------------|---------------|
| <b>Members of the Management Board</b> |               |               |
| Zvonko Ivanušič                        | 1,071         | 0.011%        |
| Jošt Dolničar                          | 357           | 0.004%        |
| <b>Supervisory Board members</b>       |               |               |
| Nada Zidar                             | 107           | 0.001%        |
| <b>Total</b>                           | <b>1,535</b>  | <b>0.016%</b> |

Source: Central securities register KDD d.d.

*Trading in the POSR share on the stock exchange in the period under report*

| (EUR)   |           |
|---|-----------|
| Share price at 30 June 2010 (EUR)                   | 8.89      |
| Trading volume in the period 1 January–30 June 2010 | 2,123,800 |
| Average share price 1 January–30 June 2010 (EUR)    | 10.76     |
| Period low 1 January–30 June 2010 (EUR)             | 8.52      |
| Period high 1 January–30 June 2010 (EUR)            | 14.35     |

The Company paid no interim dividend in 2010.

The Company has no conditional equity.

By decision of the 20th General Meeting of the controlling company of 14 April 2008, EUR 10,145,464 of the then authorised capital of EUR 16,404,853 is yet to be subscribed.

### **3 CREDIT RATING OF SAVA REINSURANCE COMPANY**

Sava Reinsurance Company has been rated "A–" with a stable outlook by rating agency Standard & Poor's.



|                               |
|-------------------------------|
| SAVA RE GROUP BUSINESS REPORT |
|-------------------------------|



## 4 SAVA RE GROUP BUSINESS RESULTS

### *Key financial data for the Sava Re Group*

| (EUR)  | 1-6 2010    | 1-6 2009    | Index |
|--|-------------|-------------|-------|
| Gross premiums written                                     | 141,824,962 | 141,192,608 | 100.4 |
| Net premiums earned  | 109,232,769 | 108,461,803 | 100.7 |
| Gross claims paid  | 62,413,665  | 69,181,696  | 90.2  |
| Net claims incurred  | 67,365,181  | 70,781,781  | 95.2  |
| Operating expenses including reinsurance commission income | 40,026,471  | 36,568,737  | 109.5 |
| Net investment income                                      | 8,421,419   | -9,539,464  | 288.3 |
| Profit/loss, net of tax                                    | 2,734,450   | -15,117,413 | 218.1 |
| Comprehensive income                                       | 3,290,818   | -6,702,878  | 249.1 |

### 4.1 Consolidated net earned premiums

#### *Consolidated net earned premiums*

| (EUR)                           | 1-6 2010    | 1-6 2009    | Index |
|---------------------------------|-------------|-------------|-------|
| Gross premiums written          | 141,824,962 | 141,192,608 | 100.4 |
| Net premiums written            | 126,656,444 | 124,274,946 | 101.9 |
| Change in net unearned premiums | -17,423,675 | -15,813,143 | 110.2 |
| Net premiums earned             | 109,232,769 | 108,461,803 | 100.7 |

In the first half 2010, the Sava Re Group wrote EUR 141.2m in gross premiums, an increase of 0.4% year-on-year. Premium growth on the Group level was only a marginal one largely as a result of a decrease in premiums collected by the parent. Sava Reinsurance Company generated 16.8% less premiums in the Slovenian market than in the first half of 2009 because the Company is lowering its participation in Slovenian proportional reinsurance business. This drop in premium had been planned and is part of the strategy of lowering Sava's double exposure on the Slovenian market. Foreign-sourced premium, on the other hand, grew by 9.8%. The gross non-consolidated non-life insurance premium recorded a 6% growth.

#### *Non-consolidated gross premiums written by Group insurer*

| (EUR)                      | 1-6 2010   | 1-6 2009   | Index   |
|----------------------------|------------|------------|---------|
| Sava Reinsurance Company   | 81,174,521 | 86,547,176 | 93.8    |
| Zavarovalnica Tilia        | 41,243,048 | 40,509,695 | 101.8   |
| Sava Tabak                 | 9,028,150  | 10,231,109 | 88.2    |
| Sava osiguranje            | 7,712,268  | 6,396,886  | 120.6   |
| Dukagjini                  | 6,641,693  | 6,693,803  | 99.2    |
| Velebit osiguranje         | 4,502,889  | -          | -       |
| Sava Montenegro            | 4,251,052  | 5,587,227  | 76.1    |
| Velebit životno osiguranje | 922,554    | -          | -       |
| Dukagjini Life             | 333,698    | 14,463     | 2,307.3 |
| Sava životno osiguranje    | 113,404    | 8,651      | 1,310.9 |

*Consolidated gross premiums written by region*

| (EUR)         | 1-6 2010           | 1-6 2009           | Index        |
|---------------|--------------------|--------------------|--------------|
| Slovenia      | 74,607,397         | 79,168,076         | 94.2         |
| International | 67,217,565         | 62,024,532         | 108.4        |
| <b>Total</b>  | <b>141,824,962</b> | <b>141,192,608</b> | <b>100.4</b> |

In the first half of 2010, 56.2% of the consolidated gross premium was written in the Slovenian market (1H 2009: 56.1%). The share of foreign-sourced premium as a percentage of the total premium increased by 3.5 percentage points year-on-year, mostly contributed by the growth in foreign-sourced premiums written by Sava Reinsurance Company and premiums written by both Croatian insurers, who had not been included in the consolidated statements in the first half of 2009.

*Consolidated gross premiums written by operating segment*

| (EUR)                | 1-6 2010           | 1-6 2009           | Index        |
|----------------------|--------------------|--------------------|--------------|
| Reinsurance business | 67,180,004         | 71,806,416         | 93.6         |
| Non-life business    | 68,075,555         | 64,209,121         | 106.0        |
| Life business        | 6,569,403          | 5,177,071          | 126.9        |
| <b>Total</b>         | <b>141,824,962</b> | <b>141,192,608</b> | <b>100.4</b> |

The decline in reinsurance premium<sup>5</sup> by 6.4% reflects the fall in reinsurance premium generated in the domestic market as commented on earlier. Gross premiums written generated by primary insurance grew by 7.6% year-on-year due to the inclusion of premium from two Croatian insurers that had not been included in the financial statements in the first half of 2009. The Group also reported large growth in the Serbian market. Certain Group insurance companies wrote less premium as a result of a planned restriction on writing certain classes of insurance in certain international markets that had incurred very high acquisition costs. Life premiums, on the other hand, grew by 26.9% year-on-year.

The change in consolidated net unearned premiums, which together with consolidated net premiums written form net premiums earned, in the 6 months to 2010 was an increase of EUR 17.4m. Since the gross premiums written are approximately on the same level as after the first half year of 2009, it needs to be noted that the change in consolidated net unearned premiums increased as non-life insurers changed dynamics in their writing of business and the parent wrote more business in the mid-year renewals. Ordinarily, reinsurance contracts renew as of 1 January. In some markets, renewals are made in spring or even in the summer, and it is the latter that Sava Reinsurance Company increased.

<sup>5</sup> Consolidated reinsurance premiums are calculated as the gross written premiums of Sava Re less premiums received from subsidiaries.



## 4.2 Consolidated net claims incurred

### *Consolidated net claims incurred*

| (EUR)  | 1-6 2010          | 1-6 2009          | Index       |
|--|-------------------|-------------------|-------------|
| Gross claims paid                                  | 62,413,665        | 69,181,696        | 90.2        |
| Net claims paid                                    | 55,820,307        | 54,024,137        | 103.3       |
| Change in the net provision for outstanding claims | 11,544,874        | 16,757,644        | 68.9        |
| <b>Net claims incurred</b>                         | <b>67,365,181</b> | <b>70,781,781</b> | <b>95.2</b> |

In the first half of 2010 the Sava Re Group recorded gross claims paid of EUR 62.4m, a decline of 9.8% year-on-year. The decline in consolidated gross premiums written is largely a result of the hail losses that impacted the domestic portfolio of Sava Reinsurance Company in the first half of 2009. The consolidated net claims paid rose by 3.3% year-on-year, while consolidated net claims incurred decreased by 4.8%.

### *Non-consolidated gross claims paid by Group insurer*

| (EUR)                      | 1-6 2010   | 1-6 2009   | Index |
|----------------------------|------------|------------|-------|
| Sava Reinsurance Company   | 36,931,553 | 46,009,253 | 80.3  |
| Zavarovalnica Tilia        | 18,482,235 | 19,044,768 | 97.0  |
| Sava osiguranje            | 3,101,426  | 2,447,612  | 126.7 |
| Sava Tabak                 | 3,062,786  | 3,217,485  | 95.2  |
| Dukagjini                  | 2,777,011  | 1,915,294  | 145.0 |
| Sava Montenegro            | 2,420,215  | 3,223,369  | 75.1  |
| Velebit osiguranje         | 1,428,194  | -          | -     |
| Velebit životno osiguranje | 212,477    | -          | -     |
| Dukagjini Life             | 202        | 0          | -     |
| Sava životno osiguranje    | 0          | 0          | -     |

### *Gross claims paid by region*

| (EUR)         | 1-6 2010          | 1-6 2009          | Index       |
|---------------|-------------------|-------------------|-------------|
| Slovenia      | 36,994,438        | 47,275,530        | 78.3        |
| International | 25,419,227        | 21,906,166        | 116.0       |
| <b>Total</b>  | <b>62,413,665</b> | <b>69,181,696</b> | <b>90.2</b> |

Consolidated gross claims paid relating to domestic business fell by 21.7% year-on-year. Both Sava Reinsurance Company and Zavarovalnica Tilia incurred less losses than in the first half of 2009 when Slovenia was hit by hail storms. The increase in gross claims paid on the international portfolio was contributed mostly by Sava Reinsurance Company (with growth also on the premium side) and by Velebit osiguranje, which had not been included in the consolidated accounts in the first half of 2009.

*Consolidated gross claims paid by operating segment*

| (EUR)                | 1-6 2010          | 1-6 2009          | Index       |
|----------------------|-------------------|-------------------|-------------|
| Reinsurance business | 30,933,971        | 39,107,959        | 79.1        |
| Non-life business    | 30,069,559        | 29,305,275        | 102.6       |
| Life business        | 1,410,135         | 768,462           | 183.5       |
| <b>Total</b>         | <b>62,413,665</b> | <b>69,181,696</b> | <b>90.2</b> |

Non-life gross claims paid rose 2.6% year-on-year; this growth was mainly contributed by Velebit osiguranje (newly consolidated), Dukagjini and Sava osiguranje. The 20.9% drop in reinsurance gross claims paid relates to the parent company. The growth in the life segment was large, but it relates mostly to newly established companies where a rising trend had been anticipated (and is to continue in the future).

Consolidated net claims paid rose by 3.3% year-on-year. The rise of net claims paid while gross claims paid were lower year-on-year is due to claims movements in Zavarovalnica Tilia and Sava Tabak. In both cases, the reasons are large losses in the first half of 2009 that exceeded retention levels and were partly covered by reinsurance. This year there were no losses of this order (at least not paid), reducing the share of reinsurer claims while increasing the percentage share of retained losses. As the debit amount is lower, the basis retained is higher so the movement of net claims goes in the opposite direction of gross claims paid.

The change in the consolidated net claims provision, which is used to calculate net claims incurred, was an increase of EUR 11.5m. The increase mainly relates to the growth in the net technical provisions of the controlling company (international business) and Zavarovalnica Tilia and Sava Tabak, which incurred one large loss (amount not exceeding the provision set aside). While net technical provisions of the Group grew compared to 31 December 2009, this increase was lower than in the prior period, when the increase was due to hail storms (especially in Sava Reinsurance Company).

Consolidated net claims incurred<sup>6</sup> decreased by 4.8% year-on-year.

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<sup>6</sup> Consolidated net claims incurred = consolidated net claims paid – change in consolidated net provisions for outstanding claims

### 4.3 Consolidated operating expenses

#### *Consolidated operating expenses*

| (EUR)   | 1–6 2010          | 1–6 2009          | Index        |
|---|-------------------|-------------------|--------------|
| <b>Acquisition costs</b>  | <b>23,201,336</b> | <b>22,849,263</b> | <b>101.5</b> |
| <b>Change in deferred acquisition costs</b>   | <b>-3,052,123</b> | <b>-2,877,275</b> | <b>106.1</b> |
| <b>Other operating expenses</b>   | <b>20,437,620</b> | <b>19,007,845</b> | <b>107.5</b> |
| Depreciation/amortisation of operating assets   | 1,034,727         | 846,425           | 122.2        |
| Labour costs  | 11,144,957        | 11,009,371        | 101.2        |
| Costs of services by natural persons not performing business, incl. of contributions    | 379,668           | 542,564           | 70.0         |
| Diverse other operating expenses  | 7,878,268         | 6,609,485         | 119.2        |
| <b>Income from reinsurance commission and reinsurance contract profit participation</b> | <b>-560,362</b>   | <b>-2,411,096</b> | <b>23.2</b>  |
| <b>Net operating expenses</b>   | <b>40,026,471</b> | <b>36,568,737</b> | <b>109.5</b> |

Consolidated net operating expenses, excluding income from reinsurance commission, increased 9.5% year-on-year. This increase in expenses is mainly due to the fact that the two insurers Velebit osiguranje and Velebit životno osiguranje were not consolidated in the first half year 2009. Another factor is a decrease in the parent's income from reinsurance commission relating to retrocession business: Sava Reinsurance Company received less commission on premiums retroceded abroad as a result of accounted sliding scale commission for prior periods.

### 4.4 Investment income and expenses, and the investment return

In the first half of 2010, the financial crisis continued to impact the investment return of the Sava Re Group.

The net investment income<sup>7</sup> of the Sava Re Group totalled EUR 8.4m, an improvement of EUR 18.0m year-on-year. In the consolidated net investment income, the largest weight is contributed by the profit of Zavarovalnica Maribor (net income from subsidiaries and associates), which is consolidated using the equity method. In the first half of 2010, net investment income from subsidiaries and associates amounted to EUR 3.7m. In the first half of 2009, this net investment income totalled EUR –9m. Zavarovalnica Tilja realised EUR 1.8m of net investment income, Sava Reinsurance Company EUR 1.4m.

The investment return for the interim period was 4.6%, an improvement of 6 percentage points compared to the 2009 interim period. The improved rate of return reflects a better performance by associated companies and higher returns on bonds and mutual funds.

<sup>7</sup> Investment income less investment expenses.

*Rates of investment return of the Sava Re Group*

|                  | 30.6.2010 | 31.12.2009 | 30.6.2009 |
|------------------|-----------|------------|-----------|
| Deposits and CDs | 4.5%      | 5.4%       | 5.3%      |
| Bonds            | 5.5%      | 2.5%       | 3.3%      |
| Shares           | -27.7%    | 4.0%       | 4.6%      |
| Mutual funds     | 2.2%      | -11.0%     | -29.2%    |
| Other            | 5.1%      | 4.1%       | 7.2%      |
| Strategic shares | 20.8%     | -23.6%     | -59.3%    |
| Total            | 4.6%      | -1.4%      | -7.1%     |

To calculate return on investments, Sava Reinsurance Company uses the arithmetic average of the total invested assets at different dates in the period under report. The net income relative to the amount so obtained represents the investment return of the Sava Re Group in the period.

## 5 FINANCIAL POSITION OF THE GROUP

### *Total assets*

| (EUR)   | 30.6.2010          | 31.12.2009         | Index        | Structure<br>30.6.2010 | Structure<br>31.12.2009 |
|---|--------------------|--------------------|--------------|------------------------|-------------------------|
| <b>ASSETS</b>   | <b>594,592,725</b> | <b>560,711,611</b> | <b>106.0</b> | <b>100.0%</b>          | <b>100.0%</b>           |
| Intangible assets   | 23,708,626         | 23,846,535         | 99.4         | 4.0%                   | 4.3%                    |
| Property and equipment  | 25,671,267         | 24,830,829         | 103.4        | 4.3%                   | 4.4%                    |
| Deferred tax assets   | 1,611,430          | 2,368,845          | 68.0         | 0.3%                   | 0.4%                    |
| Investment property   | 5,407,774          | 5,773,564          | 93.7         | 0.9%                   | 1.0%                    |
| Financial investments in associated companies                       | 41,868,327         | 37,646,479         | 111.2        | 7.0%                   | 6.7%                    |
| Financial investments   | 311,065,804        | 298,131,559        | 104.3        | 52.3%                  | 53.2%                   |
| Funds for the benefit of policyholders who bear the investment risk | 20,592,106         | 17,861,634         | 115.3        | 3.5%                   | 3.2%                    |
| Reinsurers' share of technical provisions                           | 28,046,873         | 28,899,410         | 97.0         | 4.7%                   | 5.2%                    |
| Receivables   | 108,846,103        | 96,209,971         | 113.1        | 18.3%                  | 17.2%                   |
| Deferred acquisition costs  | 18,659,990         | 17,404,467         | 107.2        | 3.1%                   | 3.1%                    |
| Other assets  | 2,896,729          | 1,130,971          | 256.1        | 0.5%                   | 0.2%                    |
| Cash and cash equivalents   | 5,300,525          | 5,617,457          | 94.4         | 0.9%                   | 1.0%                    |
| Non-current assets held for sale                                    | 917,169            | 989,887            | 92.7         | 0.2%                   | 0.2%                    |

### *Equity and liabilities*

| (EUR)   | 30.6.2010          | 31.12.2009         | Index        | Structure<br>30.6.2010 | Structure<br>31.12.2009 |
|---|--------------------|--------------------|--------------|------------------------|-------------------------|
| <b>EQUITY AND LIABILITIES</b>   | <b>594,592,725</b> | <b>560,711,611</b> | <b>106.0</b> | <b>100.0%</b>          | <b>100.0%</b>           |
| <b>Equity</b>   | <b>154,018,480</b> | <b>161,677,406</b> | <b>95.3</b>  | <b>25.9%</b>           | <b>28.8%</b>            |
| Share capital   | 39,069,099         | 39,069,099         | 100.0        | 6.6%                   | 7.0%                    |
| Share premium   | 25,120,791         | 33,003,756         | 76.1         | 4.2%                   | 5.9%                    |
| Profit reserves   | 79,607,352         | 80,277,970         | 99.2         | 13.4%                  | 14.3%                   |
| Fair value reserve  | 1,653,240          | 543,937            | 303.9        | 0.3%                   | 0.1%                    |
| Retained earnings   | 1,183,084          | 13,524,831         | 8.7          | 0.2%                   | 2.4%                    |
| Net profit/loss for the period  | 4,488,624          | -12,341,747        | -36.4        | 0.8%                   | -2.2%                   |
| Translation reserve   | -1,946,979         | -1,685,177         | 115.5        | -0.3%                  | -0.3%                   |
| <i>Equity attributable to the equity holders of the controlling company</i>                             | <i>149,175,211</i> | <i>152,392,668</i> | <i>97.9</i>  | <i>25.1%</i>           | <i>27.2%</i>            |
| <i>Non-controlling interest in equity</i>   | <i>4,843,268</i>   | <i>9,284,737</i>   | <i>52.2</i>  | <i>0.8%</i>            | <i>1.7%</i>             |
| <b>Subordinated liabilities</b>   | <b>31,150,790</b>  | <b>31,135,777</b>  | <b>100.0</b> | <b>5.2%</b>            | <b>5.6%</b>             |
| <b>Technical provisions</b>   | <b>316,734,058</b> | <b>288,282,904</b> | <b>109.9</b> | <b>53.3%</b>           | <b>51.4%</b>            |
| <b>Technical provision for the benefit of life insurance policyholders who bear the investment risk</b> | <b>20,530,357</b>  | <b>17,953,979</b>  | <b>114.3</b> | <b>3.5%</b>            | <b>3.2%</b>             |
| <b>Other provisions</b>   | <b>797,482</b>     | <b>872,101</b>     | <b>91.4</b>  | <b>0.1%</b>            | <b>0.2%</b>             |
| <b>Deferred tax liabilities</b>   | <b>301,201</b>     | <b>385,659</b>     | <b>78.1</b>  | <b>0.1%</b>            | <b>0.1%</b>             |
| <b>Other financial liabilities</b>  | <b>3,003,988</b>   | <b>3,173,918</b>   | <b>94.6</b>  | <b>0.5%</b>            | <b>0.6%</b>             |
| <b>Liabilities from operating activities</b>  | <b>34,972,048</b>  | <b>40,176,908</b>  | <b>87.0</b>  | <b>5.9%</b>            | <b>7.2%</b>             |
| <b>Diverse other liabilities</b>  | <b>33,084,327</b>  | <b>17,052,958</b>  | <b>194.0</b> | <b>5.6%</b>            | <b>3.0%</b>             |

## 5.1 Financial investments of the Sava Re Group

As at 30 June 2010, invested assets of the Sava Re Group stood at EUR 351.2m<sup>8</sup>. This is an increase of 4.6% compared to 31 December 2009. The growth in invested assets mainly came from positive cash flow in reinsurance operations (EUR 7.6m) and from a tax instalment refund (EUR 4.1m).

### *Invested assets of the Sava Re Group*

| (EUR)  | As at<br>30.6.2010 | Structure<br>30.6.2010 | As at<br>31.12.2009 | Structure<br>31.12.2009 | Index |
|--|--------------------|------------------------|---------------------|-------------------------|-------|
| Deposits and CDs                                     | 102,336,773        | 28.7%                  | 90,825,019          | 26.6%                   | 112.7 |
| Bonds  | 156,277,907        | 43.8%                  | 150,950,085         | 44.2%                   | 103.5 |
| Shares   | 14,069,360         | 3.9%                   | 17,052,682          | 5.0%                    | 82.5  |
| Mutual funds   | 27,879,684         | 7.8%                   | 30,627,902          | 9.0%                    | 91    |
| Strategic shares                                     | 41,868,327         | 11.7%                  | 37,646,480          | 11.0%                   | 111.2 |
| Other <sup>9</sup>                                   | 8,776,730          | 2.5%                   | 8,680,562           | 2.5%                    | 101.1 |
| Total investments                                    | 351,208,781        | 98.5%                  | 335,782,730         | 98.4%                   | 104.6 |
| Cash and cash equivalents                            | 5,300,526          | 1.5%                   | 5,617,457           | 1.6%                    | 94.4  |
| Total investments incl. cash<br>and cash equivalents | 356,509,307        | 100.0%                 | 341,400,187         | 100.0%                  | 104.4 |

The portfolio composition has been changed from the 2009 interim period due to the precarious situation in capital markets in the first half of 2010. Accordingly, Group members maintained a conservative investment policy, de-risking their portfolios while still seeking to earn acceptable returns.

Deposits and CDs grew from surplus liquidity generated by reinsurance operations and on account of income from the sale of part of the investments in mutual funds.

The amount invested in shares (excluding strategic shares) decreased mainly due to investment losses incurred on certain investments in the first half of 2010.

Strategic investments grew as a result of the addition of the net profit of equity accounted associates.

<sup>8</sup> Includes items of the statement of financial position: Investment property, Financial investments in associated companies and the item Financial investments. The latter does not include Sava Reinsurance Company deposits with cedants of EUR 7.1m.

<sup>9</sup> "Other" includes loans of Group companies granted to non-Group entities and investment property or land.

## 5.2 Movements in consolidated technical provisions

### *Movements in consolidated net technical provisions*

| (EUR)  | 30.6.2010          | 31.12.2009         | Index        |
|--|--------------------|--------------------|--------------|
| Net unearned premiums  | 99,287,341         | 82,697,482         | 120.1        |
| Net provision for outstanding claims   | 171,160,750        | 159,704,092        | 107.2        |
| Net mathematical provisions  | 14,408,098         | 13,363,438         | 107.8        |
| Net technical provisions for the benefit of policyholders who bear the investment risk | 20,530,357         | 17,953,979         | 114.3        |
| Other net technical provisions   | 3,830,996          | 3,618,482          | 105.9        |
| <b>Total net technical provisions</b>  | <b>309,217,542</b> | <b>277,337,473</b> | <b>111.5</b> |

Consolidated net unearned premiums increased by 20.1% from year-end 2009, which is ordinary interim movement as large risks are ordinarily written on 1 January and unearned premiums for these risks are reducing over the year.

The net provision for outstanding claims increased mainly due to growth in the parent's international portfolio and partly as a result of larger provisions of Group non-life insurers whose portfolios are growing.

Major changes in statement of financial position items are commented on in the summary financial statements with notes.

## 6 EMPLOYEES

### *No. of employees in the Sava Re Group<sup>10</sup>*

|                                     | 30.6.2010    | 31.12.2009   | Change     |
|-------------------------------------|--------------|--------------|------------|
| Zavarovalnica Tilia, Slovenia       | 398          | 398          | 0          |
| Sava osiguranje, Serbia             | 390          | 353          | 37         |
| Velebit osiguranje, Croatia         | 244          | 232          | 12         |
| Velebit životno osiguranje, Croatia | 208          | 198          | 10         |
| Sava životno osiguranje, Serbia     | 157          | 92           | 65         |
| Dukagjini, Kosovo                   | 139          | 159          | -20        |
| Sava Tabak, Macedonia               | 121          | 113          | 8          |
| Sava Montenegro, Montenegro         | 115          | 103          | 12         |
| Sava Reinsurance Company, Slovenia  | 69           | 65           | 4          |
| Dukagjini Life, Kosovo              | 66           | 36           | 30         |
| Bro-Dil, Macedonia                  | 5            | 5            | 0          |
| Sava Invest, Macedonia              | 2            | 3            | -1         |
| Dukagjini Hospital, Kosovo          | 0            | 0            | 0          |
| <b>Total</b>                        | <b>1,914</b> | <b>1,757</b> | <b>157</b> |

<sup>10</sup> No. of employees based on the number of employment contracts.

## 7 RISK MANAGEMENT

### 7.1 Insolvency risk

Sava Reinsurance Company and its subsidiaries all meet capital adequacy requirements as per local regulations. The surplus of available solvency margin of Sava Reinsurance Company over the required solvency margin was reduced by EUR 14,946,871 since 31 December 2009, as a result of additional investments made in subsidiaries (such investments are deducted from the available solvency margin. Despite this reduction, the available solvency margin is still well above (EUR 23,661,418) the required solvency margin of EUR 18,826,815. Also the sum of the available solvency margins of the Sava Re Group members is substantially larger than the sum of the required solvency margins, so that the risk of capital inadequacy is negligible.

#### *Statement of capital adequacy*

| (EUR)  |           | 30.06.2010         | 30.06.2009         |
|--|-----------|--------------------|--------------------|
| <b>CORE CAPITAL (Article 106 of the Insurance Act ("ZZavar"))</b>  |           |                    |                    |
| Subscribed capital other than share capital subscribed based on cumulative preference shares, or founding capital        | 1         | 39,069,099         | 39,069,099         |
| Share premium other than share premium related to cumulative preference shares   | 2         | 33,003,752         | 33,003,752         |
| Profit reserves other than reserve for treasury shares and credit risk equalisation & catastrophe equalisation reserves  | 3         | 74,553,329         | 86,949,040         |
| Fair value reserve relating to assets not financed by technical provisions   | 4         | -1,207,052         | -4,038,999         |
| Treasury shares  | 5         | 1,774              | 1,774              |
| Intangible assets  | 6         | 175,754            | 233,568            |
| Retained loss and loss for the year  | 7         | 0                  | 5,901,321          |
| <b>Core capital (1 + 2 + 3 + 4 – 5 – 6 – 7)</b>  | <b>8</b>  | <b>145,241,600</b> | <b>148,846,229</b> |
| <b>Minimum guarantee fund</b>  | <b>9</b>  | <b>6,275,605</b>   | <b>6,130,683</b>   |
| <b>Meeting the requirement under Article 106 of the ZZavar (8 – 9)</b>   | <b>10</b> | <b>138,965,995</b> | <b>142,715,546</b> |
| <b>ADDITIONAL CORE CAPITAL (Article 107 of the ZZavar)</b>   |           |                    |                    |
| Subordinated debt  | 11        | 4,706,703          | 4,598,012          |
| <b>Additional core capital (11), however not more than 50% of the lower of core capital and required solvency margin</b> | <b>12</b> | <b>4,706,703</b>   | <b>4,598,012</b>   |
| <b>AVAILABLE SOLVENCY MARGIN AND STATEMENT OF CAPITAL ADEQUACY (Article 108 of the ZZavar)</b>                           |           |                    |                    |
| Total of core and additional core capital (8 + 12)   | 13        | 149,948,303        | 153,444,241        |
| Participation according to Article 108, paragraph 1/1 of the ZZavar  | 14        | 105,947,363        | 87,185,079         |
| Participation according to Article 108, paragraph 1/2 of the ZZavar  | 15        | 1,512,707          | 3,139,932          |
| <b>Available solvency margin of insurer (13 – 14 – 15)</b>   | <b>16</b> | <b>42,488,233</b>  | <b>63,119,230</b>  |
| <b>Required solvency margin</b>  | <b>17</b> | <b>18,826,815</b>  | <b>18,392,049</b>  |
| <b>Surplus/deficit of available over/below required solvency margin (16 – 17)</b>  | <b>18</b> | <b>23,661,418</b>  | <b>44,727,181</b>  |

### 7.2 Underwriting risks

All subsidiaries assume risks from policyholders and transfer any excess risks to Sava Reinsurance Company. Sava Reinsurance Company also assumes risks from other cedants; any excess is retroceded to other reinsurers.



Due to underwriting process risk, losses could be incurred because of incorrect selection and approval of risks to be (re)insured. This risk is mainly mitigated by following established or prescribed underwriting procedures, underwriting guidelines and instructions, by having in place a system of powers, an adequate pricing and reinsurance policy, and through actuarial review.

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re)insurance contracts. In the Sava Re Group, pricing risk is mainly controlled by using actuarial analyses of loss ratios, monitoring their trends and by making adequate corrections.

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. This risk is managed by appropriate insurance conditions and pricing, adequate underwriting, controlling risk concentration, and especially adequate reinsurance programs for subsidiaries and an adequate retrocession programme for Sava Reinsurance Company.

Net retention risk is the risk that higher retention of insurance loss exposures result in losses due to catastrophic or concentrated claims experience. Sava Re Group members mitigate this risk by setting appropriate maximum net retention limits and by designing adequate reinsurance or retrocession programmes.

Reserving risk is the risk that technical provisions are inadequate. Sava Reinsurance Company manages reserving risk by comparing historic reserving figures with actual amounts, by applying the latest actuarial methods and by adopting a prudent approach in setting the levels of technical provisions.

### **7.3 Market, liquidity and credit risk**

Sava Re Group members are, in their business operations, exposed to various market risks. Interest rate risk is managed by asset-liability matching and by natural hedging<sup>11</sup>. Equity securities risk is mitigated mainly by diversification of investments in terms of issuer, industry and geographical area. Currency risk is mitigated by directly matching the currency structure of assets and liabilities. Concentration risk is mitigated through diversification of the investment portfolio. Assets are placed in different types of investments (time deposits, debt and equity securities, structured products, mutual funds, etc.). The bond portfolio is diversified by issuer. Issuers include: Slovenian and foreign government bonds, banks and corporations, as well as domestic and international issuers. The equity portfolio is diversified by issuer, credit rating and by geographical area; mutual funds are diversified directly and indirectly.

Sava Reinsurance Company mitigates the liquidity risk primarily through investing a large proportion of its funds in highly liquid marketable securities which can be converted to cash at any time. In the event of large losses, liquidity is safeguarded through the so-called "cash

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<sup>11</sup> Investments in variable-interest bonds

call<sup>12</sup> clauses incorporated within reinsurance treaties between a ceding company and Sava Reinsurance Company or Sava Reinsurance Company and its retrocessionaire. In addition, contracts are in place providing credit lines at call.

Members of the Sava Re Group may be exposed to credit risk in case of a default by issuers of securities and by reinsurers. Issuer risk is mitigated through investing funds only in (i) deposits with banks with high credit rating, (ii) debt securities issued exclusively by issuers with an adequate rating, and adequately liquid equity securities of companies with sufficient market capitalisation. In doing so, all relevant local laws and other regulations are complied with and local market features taken into account.

As a rule, insurance companies in the Group place reinsurance directly with Sava Reinsurance Company, unless their local regulator requires them to place reinsurance with local reinsurers. Therefore, the main exposure of the Sava Re Group to default risk relates to the retrocession of Sava Reinsurance Company. This risk is mitigated through building a diversified retrocession portfolio of established and adequately rated reinsurers.

#### **7.4 Operational risks**

Operational risk includes human capital risk, management control risk, system risk, process risk and legal risk and such like.

The Sava Re Group members mitigate operational risk by setting up adequate IT-supported procedures and controls in the most important areas of its operation. In addition, this risk is managed through the internal audit function and through staff training.

#### **7.5 Uncertainty risk up until the end of 2010**

We expect that in the remaining six months of the year, the exposure of Sava Reinsurance Company to risks will not change significantly. Due to the nature of its business, the main risks that the reinsurance company is exposed to are underwriting risks followed by market risks. The realisation of underwriting risks is fortuitous and only for certain classes of insurance seasonal. A larger realisation of risks could only be expected due to an increased frequency of storms with massive losses and due to unfavourable trends in financial markets.

On 7 July 2010, the Ljubljana District Court, by decision no. 847/2010, initiated bankruptcy proceedings over Poteza Naložbe d.o.o. Sava Reinsurance Company has a claim against Poteza naložbe d.o.o. based on commercial notes in the amount of EUR 359,321. Based on media reports, we estimate that Poteza skupina d.d. will declare bankruptcy or compulsory settlement in the second half of 2010. Sava Reinsurance Company holds Poteza bonds in the amount of EUR 1,528,615.

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<sup>12</sup> Settlement of claims by reinsurers before presentation of regular accounts aimed at ensuring liquidity in the event of large losses.

The required and the available solvency margin under point 7.1 above are calculated pursuant currently applicable regulations and in accordance with Solvency I.





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| <p>SUMMARY OF SAVA RE GROUP FINANCIAL<br/>STATEMENTS WITH NOTES</p> |
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## 8 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 8.1 Unaudited consolidated statement of financial position as at 30 June 2010

| (EUR)  | 30.6.2010          | 31.12.2009         |
|--|--------------------|--------------------|
| <b>ASSETS</b>  | <b>594,592,725</b> | <b>560,711,611</b> |
| Intangible assets  | 23,708,626         | 23,846,535         |
| Property and equipment   | 25,671,267         | 24,830,829         |
| Deferred tax assets  | 1,611,430          | 2,368,845          |
| Investment property  | 5,407,774          | 5,773,564          |
| Financial investments in associated companies  | 41,868,327         | 37,646,479         |
| Financial investments:   | 311,065,804        | 298,131,559        |
| - Loans and deposits   | 74,584,253         | 62,200,051         |
| - Held to maturity   | 37,211,957         | 34,674,131         |
| - Available for sale   | 193,067,222        | 194,438,455        |
| - At fair value through profit or loss   | 6,202,370          | 6,818,923          |
| Funds for the benefit of policyholders who bear the investment risk                              | 20,592,106         | 17,861,634         |
| Reinsurers' share of technical provisions  | 28,046,873         | 28,899,410         |
| Receivables  | 108,846,103        | 96,209,971         |
| Receivables arising out of primary insurance business  | 38,703,983         | 33,717,412         |
| Receivables arising out of reinsurance and co-insurance business                                 | 64,354,862         | 53,400,807         |
| Current tax assets   | 279,040            | 4,012,543          |
| Other receivables  | 5,508,218          | 5,079,209          |
| Deferred acquisition costs   | 18,659,990         | 17,404,467         |
| Other assets   | 2,896,729          | 1,130,971          |
| Cash and cash equivalents  | 5,300,525          | 5,617,457          |
| Non-current assets held for sale   | 917,169            | 989,887            |
| <b>EQUITY AND LIABILITIES</b>  | <b>594,592,725</b> | <b>560,711,611</b> |
| Equity   | 154,018,480        | 161,677,407        |
| Share capital  | 39,069,099         | 39,069,099         |
| Share premium  | 25,120,791         | 33,003,756         |
| Profit reserves  | 79,607,352         | 80,277,970         |
| Fair value reserve   | 1,653,240          | 543,937            |
| Retained earnings  | 1,183,084          | 13,524,831         |
| Net profit/loss for the period   | 4,488,624          | -12,341,747        |
| Translation reserve  | -1,946,979         | -1,685,177         |
| <i>Equity attributable to the equity holders of the controlling company</i>                      | <i>149,175,211</i> | <i>152,392,669</i> |
| <i>Non-controlling interest in equity</i>  | <i>4,843,268</i>   | <i>9,284,738</i>   |
| Subordinated liabilities   | 31,150,790         | 31,135,777         |
| Technical provisions   | 316,734,058        | 288,282,904        |
| Unearned premiums  | 105,330,762        | 86,012,274         |
| Mathematical provisions  | 14,408,370         | 13,363,461         |
| Provision for outstanding claims   | 192,240,952        | 184,313,617        |
| Other technical provisions   | 4,753,974          | 4,593,552          |
| Technical provision for the benefit of life insurance policyholders who bear the investment risk | 20,530,357         | 17,953,979         |
| Other provisions   | 797,482            | 872,101            |
| Deferred tax liabilities   | 301,201            | 385,659            |
| Other financial liabilities  | 3,003,988          | 3,173,918          |
| Liabilities from operating activities  | 34,972,048         | 40,176,908         |
| Liabilities from primary insurance business  | 3,403,935          | 5,122,163          |
| Liabilities from reinsurance and co-insurance business   | 31,342,574         | 34,399,199         |
| Current tax liabilities  | 225,539            | 655,546            |
| Diverse other liabilities  | 33,084,327         | 17,052,958         |

## 8.2 Unaudited consolidated income statement for the six months to 30 June 2010

| (EUR)   | 1.1.-30.6.2010     | 1.1.-30.6.2009     |
|---|--------------------|--------------------|
| <b>Net earned premiums</b>  | <b>109,232,769</b> | <b>108,461,803</b> |
| Gross premiums written  | 141,824,962        | 141,192,608        |
| Written premiums ceded to reinsurers and co-insurers  | -15,168,518        | -16,917,662        |
| Change in net unearned premiums   | -17,423,675        | -15,813,143        |
| <b>Income from investments in affiliates</b>  | <b>3,900,709</b>   | <b>216,287</b>     |
| Profit from investments in associated companies under the equity method                         | 3,900,709          | 216,287            |
| <b>Investment income</b>  | <b>9,572,585</b>   | <b>11,080,761</b>  |
| Interest income   | 5,314,344          | 5,173,775          |
| Other investment income   | 4,258,241          | 5,906,986          |
| <b>Other technical income</b>   | <b>3,286,663</b>   | <b>3,730,220</b>   |
| Commission income   | 560,362            | 2,411,096          |
| Other technical income  | 2,726,301          | 1,319,175          |
| <b>Other income</b>   | <b>293,084</b>     | <b>599,439</b>     |
| <b>Net claims incurred</b>  | <b>-67,365,181</b> | <b>-70,781,782</b> |
| Gross claims paid less income from recourse receivables   | -62,413,665        | -69,181,697        |
| Reinsurers' and co-insurers' share of claims paid   | 6,593,358          | 15,157,559         |
| Change in the net provision for outstanding claims  | -11,544,874        | -16,757,644        |
| <b>Change in other technical provisions</b>   | <b>-1,168,983</b>  | <b>-601,266</b>    |
| <b>Change in the technical provision for policyholders who bear the investment risk</b>         | <b>-2,576,377</b>  | <b>-3,396,972</b>  |
| <b>Expenses for bonuses and rebates</b>   | <b>-389,310</b>    | <b>-174,561</b>    |
| <b>Operating expenses</b>   | <b>-40,586,833</b> | <b>-38,979,833</b> |
| Acquisition costs   | -20,149,213        | -19,971,988        |
| Other operating expenses  | -20,437,620        | -19,007,845        |
| <b>Expenses from investments in affiliates</b>  | <b>0</b>           | <b>-10,571,491</b> |
| Losses from investments in associated companies under the equity method                         | 0                  | -9,245,748         |
| <b>Expenses from financial assets and liabilities</b>   | <b>-5,051,875</b>  | <b>-10,265,022</b> |
| Impairment losses on financial assets not measured at fair value through profit or loss         | -2,410,716         | -1,076,989         |
| Interest expense  | -804,767           | -1,003,137         |
| Other investment expenses   | -1,823,401         | -8,184,896         |
| <b>Other technical expenses</b>   | <b>-3,837,918</b>  | <b>-2,774,962</b>  |
| <b>Other expenses</b>   | <b>-1,209,710</b>  | <b>-849,508</b>    |
| Profit/loss before tax  | 4,099,624          | -14,306,885        |
| <b>Income tax expense</b>   | <b>-1,365,173</b>  | <b>-810,528</b>    |
| <b>Net profit/loss for the period</b>   | <b>2,734,450</b>   | <b>-15,117,413</b> |
| <b>Net profit/loss for the period attributable to equity holders of the controlling company</b> | <b>3,818,006</b>   | <b>-15,841,043</b> |
| <b>Net profit/loss for the period attributable to non-controlling interest</b>                  | <b>-1,083,556</b>  | <b>723,630</b>     |



### 8.3 Unaudited consolidated statement of comprehensive income for the six months to 30 June 2010

| (EUR)   | 1.1.-30.6.2010 | 1.1.-30.6.2009 |
|---|----------------|----------------|
| NET PROFIT/LOSS FOR THE PERIOD, NET OF TAX  | 2,734,450      | -15,117,413    |
| OTHER COMPREHENSIVE INCOME, NET OF TAX  | 845,841        | 8,414,535      |
| Net change in fair value of available-for-sale financial assets   | 951,146        | 10,262,969     |
| Net change recognised in the fair value reserve   | 3,068,216      | 6,803,812      |
| Net change transferred from fair value reserve to profit or loss  | -2,117,070     | 3,459,157      |
| Net gains/losses attributable to the Group recognised in the fair value reserve and retained profit/loss relating to investments in equity-accounted associated companies | 321,138        | 0              |
| Income tax on other comprehensive income  | -164,641       | -1,295,398     |
| Net gains/losses from translation of financial statements of non-domestic companies   | -261,802       | -553,036       |
| COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX   | 3,580,291      | -6,702,878     |
| COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE CONTROLLING   | 4,665,507      | -7,145,277     |
| COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTEREST  | -1,085,216     | 442,399        |

## 8.4 Unaudited consolidated statement of cash flows for the six months to 30 June 2010

| EUR   |  | 1.1.-30.6.2010   | 1.1.-30.6.2009    |
|---|--|------------------|-------------------|
| <b>A) Cash flows from operating activities</b>          |  |                  |                   |
| a)  | Items of the income statement  | 35,094,494       | 43,105,837        |
| 1.  | Net premiums written   | 126,656,444      | 124,274,946       |
| 2.  | Investment income (other than financial income), financed from:  | 8,015,854        | 11,080,761        |
|   | - technical provisions   | 3,479,503        | 8,547,962         |
|   | - other sources  | 4,536,351        | 2,532,799         |
| 3.  | Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables   | 3,579,747        | 5,165,471         |
| 4.  | Net claims paid  | -55,820,307      | -54,024,137       |
| 5.  | Expenses for bonuses and rebates   | -3,837,918       | -174,561          |
| 6.  | Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs  | -36,677,335      | -18,161,420       |
| 7.  | Investment expenses (excluding depreciation/amortisation and financial expenses),  | -4,247,108       | -20,620,225       |
|   | - technical sources  | -1,738,230       | -1,840,651        |
|   | - other sources  | -2,508,878       | -18,779,574       |
| 8.  | Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)  | -1,209,710       | -3,624,470        |
| 9.  | Tax on profit and other taxes not included in operating expenses   | -1,365,173       | -810,528          |
| b)  | Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the statement of financial position | -9,091,174       | -27,264,562       |
| 1.  | Change in receivables from primary insurance   | -11,116,483      | -13,329,829       |
| 2.  | Change in receivables from reinsurance   | -16,683,906      | -19,072,748       |
| 3.  | Change in other receivables from (re-)insurance business   | -1,024,482       | -4,756,304        |
| 4.  | Change in other receivables and other assets   | 6,459,516        | 1,949,314         |
| 5.  | Change in deferred tax assets  | 4,248,836        | 1,745,205         |
| 6.  | Change in inventories  | -49,575          | 60,310            |
| 7.  | Change in liabilities arising out of primary insurance   | -2,707,341       | -2,940,852        |
| 8.  | Change in liabilities arising out of reinsurance business  | -8,068,487       | -1,166,698        |
| 9.  | Change in other operating liabilities  | 18,330,541       | 4,895,447         |
| 10.   | Change in other liabilities (except unearned premiums)   | 1,279,752        | 5,322,853         |
| 11.   | Change in deferred tax liabilities   | 240,455          | 28,740            |
| c)  | Net cash from/used in operating activities (a + b)   | 26,003,320       | 15,841,275        |
| <b>B) Cash flows from investing activities</b>          |  |                  |                   |
| a)  | Cash receipts from investing activities  | 344,316,900      | 254,501,710       |
| 1.  | Interest received from investing activities and from:  | 5,314,345        | 5,759,180         |
|   | - investments financed from technical provisions   | 4,427,806        | 4,492,210         |
|   | - other investments  | 886,539          | 1,266,970         |
| 2.  | Cash receipts from dividends and from participation in the profit of others, relating to:  | 143,094          | 412,159           |
|   | - investments financed from technical provisions   | 45,279           | 55,933            |
|   | - other investments  | 97,815           | 356,225           |
| 3.  | Proceeds from sale of intangible assets, financed from:  | 24,238           | 46,136            |
|   | - other sources  | 24,238           | 46,136            |
| 3.  | Proceeds from sale of property and equipment, financed from:   | 9,315            | 2,298,489         |
|   | - other sources  | 9,315            | 2,298,489         |
| 4.  | Proceeds from sale of long-term financial investments, financed from:  | 54,091,988       | 102,115,713       |
|   | - technical provisions   | 34,656,999       | 40,533,417        |
|   | - other sources  | 19,434,989       | 61,582,296        |
| 5.  | Proceeds from sale of short-term financial investments, financed from:   | 284,733,920      | 143,870,033       |
|   | - technical provisions   | 218,344,526      | 110,467,784       |
|   | - other sources  | 66,389,394       | 33,402,249        |
| b)  | Cash disbursements in investing activities   | -369,878,754     | -269,046,488      |
| 1.  | Purchase of intangible assets  | -120,301         | -271,167          |
| 2.  | Purchase of property and equipment, financed from:   | -1,342,885       | -2,273,845        |
|   | - technical provisions   | -338,718         | -911,030          |
|   | - other sources  | -1,004,166       | -1,362,815        |
| 3.  | Purchase of long-term financial investments, financed from:  | -48,482,311      | -71,827,464       |
|   | - technical provisions   | -42,363,407      | -33,964,539       |
|   | - other sources  | -6,118,904       | -37,862,925       |
|   | Purchase of financial investments in subsidiaries, financed from:  | 0                | -13,621,717       |
|   | - other sources  | 0                | -13,621,717       |
| 4.  | Purchase of short-term financial investments, financed from:   | -319,933,256     | -181,052,294      |
|   | - technical provisions   | -229,315,505     | -129,130,066      |
|   | - other sources  | -90,617,751      | -51,922,228       |
| c)  | Net cash from/used in investing activities (a + b)   | -25,561,853      | -14,544,778       |
| <b>C) Cash flows from financing activities</b>          |  |                  |                   |
| a)  | Cash receipts from financing activities  | 0                | 0                 |
| b)  | Cash disbursements in financing activities   | -847,403         | -1,236,921        |
| 1.  | Interest paid  | -847,403         | -206,671          |
| 2.  | Repayment of long-term financial liabilities   | 0                | -1,012,379        |
| 3.  | Repayment of short-term financial liabilities  | 0                | -17,871           |
| c)  | Net cash from/used in financing activities (a + b)   | -847,403         | -1,236,921        |
| <b>C2) Closing balance of cash and cash equivalents</b> |  | <b>5,300,526</b> | <b>14,188,543</b> |
| x)  | Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)  | -405,935         | 59,576            |
| Opening balance of cash and cash equivalents            |  | 5,706,461        | 14,128,967        |

## 8.5 Unaudited consolidated statement of changes in equity for the six months to 30 June 2010

| (EUR)   | I. Share capital | II. Share premium | III. Profit reserves        |                      |                                  |                                  |            | IV. Fair value reserve | V. Retained earnings | VI. Net profit/loss for the period | VII. Treasury shares (deduction item) | VIII. Translation reserve | IX. Total Group equity | X. Non-controlling interest in equity | XI. Total (13+14) |
|---|------------------|-------------------|-----------------------------|----------------------|----------------------------------|----------------------------------|------------|------------------------|----------------------|------------------------------------|---------------------------------------|---------------------------|------------------------|---------------------------------------|-------------------|
|   |                  |                   | Legal reserves and reserves | Reserve for treasury | Credit risk equalisation reserve | Catastrophe equalisation reserve | Other      |                        |                      |                                    |                                       |                           |                        |                                       |                   |
|   | 1.               | 2.                | 3.                          | 4.                   | 5.                               | 6.                               | 7.         | 8.                     | 9.                   | 10.                                | 11.                                   | 12.                       | 13.                    | 14.                                   | 15.               |
| Opening balance in financial period   | 39,069,099       | 33,003,756        | 15,277,932                  | 1,774                | 1,217,874                        | 4,215,361                        | 59,566,803 | 543,937                | 13,524,831           | -12,341,747                        | -1,774                                | -1,685,177                | 152,392,669            | 9,284,738                             | 161,677,407       |
| Comprehensive income for the period, net of tax   | 0                | 0                 | 0                           | 0                    | 0                                | 0                                | 0          | 1,109,303              | 0                    | 3,818,006                          | 0                                     | -261,802                  | 4,665,507              | -1,085,216                            | 3,580,291         |
| Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve |                  | 0                 | 0                           | 0                    | -323,622                         | -346,996                         | 0          | 0                      | 0                    | 670,618                            | 0                                     | 0                         | 0                      | 0                                     | 0                 |
| Increase in shareholding  | 0                | 0                 | 0                           | 0                    | 0                                | 0                                | 0          | 0                      | 0                    | 0                                  | 0                                     | 0                         | 0                      | -3,356,254                            | -3,356,254        |
| Transfer of profit/loss   | 0                | 0                 | 0                           | 0                    | 0                                | 0                                | 0          | 0                      | -12,341,747          | 12,341,747                         | 0                                     | 0                         | 0                      | 0                                     | 0                 |
| Other   | 0                | -7,882,965        | 0                           | 0                    | 0                                | 0                                | 0          | 0                      | 0                    | 0                                  | 0                                     | 0                         | -7,882,965             | 0                                     | -7,882,965        |
| Closing balance in financial period   | 39,069,099       | 25,120,791        | 15,277,932                  | 1,774                | 894,252                          | 3,868,365                        | 59,566,803 | 1,653,240              | 1,183,084            | 4,488,624                          | -1,774                                | -1,946,979                | 149,175,211            | 4,843,268                             | 154,018,480       |

## 8.6 Unaudited consolidated statement of changes in equity for the six months to 30 June 2009

| EUR   | I. Share capital | II. Share premium | III. Profit reserves |                             |                      |                                  |                                  |            | IV. Fair value reserve | V. Retained earnings | VI. Net profit/loss for the period | VII. Treasury shares | VIII. Translation reserve | IX. Total Group equity | X. Non-controlling interest in equity | XI. Total (14 + 15) |
|---|------------------|-------------------|----------------------|-----------------------------|----------------------|----------------------------------|----------------------------------|------------|------------------------|----------------------|------------------------------------|----------------------|---------------------------|------------------------|---------------------------------------|---------------------|
|   |                  |                   | Contingency reserve  | Legal reserves and reserves | Reserve for treasury | Credit risk equalisation reserve | Catastrophe equalisation reserve | Other      |                        |                      |                                    |                      |                           |                        |                                       |                     |
|   | 1.               | 2.                | 3.                   | 4.                          | 5.                   | 6.                               | 7.                               | 8.         | 9.                     | 10.                  | 11.                                | 12.                  | 13.                       | 14.                    | 15.                                   | 16.                 |
| Opening balance in financial period   | 39,069,099       | 33,003,756        | 0                    | 14,986,525                  | 1,774                | 3,053,943                        | 2,493,505                        | 71,962,514 | -10,452,519            | 14,793,688           | -823,360                           | -1,774               | -1,004,335                | 167,082,816            | 7,004,238                             | 174,087,054         |
| Comprehensive income for the period, net of tax   | 0                | 0                 | 0                    | 0                           | 0                    | 0                                | 0                                | 0          | 8,967,571              | 0                    | -15,841,043                        | 0                    | -553,036                  | -7,426,508             | 723,630                               | -6,702,878          |
| Allocation of net profit to profit reserve  | 0                | 0                 | 7,249                | 412,510                     | 0                    | 0                                | 0                                | 0          | 0                      | -419,759             | 0                                  | 0                    | 0                         | 0                      | 0                                     | 0                   |
| Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve | 0                | 0                 | 0                    | 0                           | 0                    | -615,610                         | 47,014                           | 0          | 0                      | 0                    | 568,596                            | 0                    | 0                         | 0                      | 0                                     | 0                   |
| Transfer of profit/loss   | 0                | 0                 | 0                    | 0                           | 0                    | 0                                | 0                                | 0          | 0                      | -823,360             | 823,360                            | 0                    | 0                         | 0                      | 5,579,457                             | 5,579,457           |
| Closing balance in financial period   | 39,069,099       | 33,003,756        | 7,249                | 15,399,035                  | 1,774                | 2,438,333                        | 2,540,519                        | 71,962,514 | -1,484,948             | 13,550,569           | -15,272,447                        | -1,774               | -1,557,371                | 159,656,308            | 13,307,326                            | 172,963,634         |

## 9 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The selected notes to the half-yearly financial statements are significant to an understanding of the changes in financial position and performance of the Group in the first half year 2010 as compared to 2009.

### 9.1 Overview of major accounting policies

The half-yearly financial statements with notes have been prepared in compliance with IAS 34 – "Interim Financial Reporting"

Pursuant to IAS 34, notes are provided in relation to major business events that are required to understand the financial position and performance of the Company compared to the previous annual financial report prepared for 2009.

The half-yearly financial statements with notes have not been audited.

The interim financial statements at 30 June 2010 have been prepared using the same accounting policies and calculation methods as in the annual financial statements for 2009.

The changes to the International Financial Reporting Standards and to their interpretation effective for financial periods beginning on or after 1 January 2010 are:

➤ **IFRS 3 – "Business Combinations" (effective for annual periods beginning on or after 1 July 2009)**

The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognized in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
- The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The revised Standard affects the consolidated statement of financial position at 30 June 2010 due to acquisitions of additional interests in subsidiaries.

➤ **Revised IAS 27 – "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009)**

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-

controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

The amended standard affects the consolidated statement of financial position at 30 June 2010 due to acquisitions of additional interest in subsidiaries.

➤ **Amendment to IAS 32 – "Financial Instruments: Presentation – Classification of Rights Issues" (effective for annual periods beginning on or after 1 February 2010)**

The amendments to IAS 32 are not relevant to the Group as the Group has not issued such instruments at any time in the past.

➤ **Amendment to IAS 39 – "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2010)**

The amendments to IAS 39 are currently not relevant to the Company's financial statements.

➤ **IFRIC 12 – "Service Concession Arrangements" (effective for the first annual reporting period beginning on or after 1 April 2009)**

IFRIC 12 is not relevant to the Group's operations as none of the Group entities have entered into any service concession arrangements.

➤ **IFRIC 15 – "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2010)**

IFRIC 15 is not relevant to the Group's financial statements as the Group does not provide real estate construction services or develop real estate for sale.

➤ **IFRIC 16 – "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 July 2009)**

➤ **IFRIC 17 – "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 November 2009)**

As the note relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

➤ **IFRIC 18 – "Transfers of Assets from Customers" (effective for annual period beginning on or after 1 November 2009)**

IFRIC 18 is not relevant to the Group's financial statements as the Group normally receives contributions from customers.

## **9.2 Seasonality and cyclicity of interim operations**

There is no seasonality in the operations of the Group. Pursuant to technical rules, Group insurance companies defer costs/expenses and income that, by their nature, have to be deferred also at the year end.

### **9.3 The nature and amount of unusual items**

There were no unusual events – that by their nature, scope or manner of occurrence – would affect the assets, liabilities, equity, net profit or cash flows in the first half-year 2010.

### **9.4 Issuances, repurchases, and repayments of debt and equity securities**

The Group neither issued new debt securities nor repaid the existing subordinate debt.

No dividends have been paid out.

### **9.5 Key accounting estimates and judgements**

The Group is predominately composed of financial companies that invest their liability funds (assets supporting liabilities) in financial instruments. If the fair value of any financial instrument falls below its cost, the Group – pursuant to applicable accounting rules – considers whether the decrease is a significant and long-term one, in the event of which the financial instrument is impaired. In the first half year, the Group recognised an impairment loss of EUR 2.4m on equities (almost exclusively relating to capital funds – assets representing shareholders' funds).

## **9.6 Analysis of operating segments**

Operating segments disclosed and monitored were determined based on the various 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).

In view of the nature, scope and organisation of work, CODM is a group composed of Management Board members, director of finance and accounting, director of controlling, and director of risk management. 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 included in the quarterly report on performance submitted to the Management Board.

Operating segments include reinsurance, non-life business, life business, and other. Performance of these segments is monitored based on different indicators, the most important being net profit, calculated in accordance with IFRSs. The reinsurance segment mainly relates to the controlling company; the non-life segment relates to non-life business of Group companies and to the non-life business of Tilia, a composite insurance company; the life segment relates to life business of Group companies and to the life business of Tilia. The "other" segment relates to investment funds and the stock broking company. This segment does not meet the materiality threshold but is presented separately because of the large difference in the nature of activities carried on.

The reinsurance and non-life segments exceed the 10-percent threshold of total income, total assets and share in profit/loss, and are therefore presented separately. The life segment does not meet any recommended materiality threshold; however, life business is presented separately due to the nature of the business and its specific features that sets it apart from other business.

Statement of financial position by operating segment as at 30 June 2010

| (EUR)   | Reinsurance business |             | Non-life business |             | Life business |            | Other      |            | Consolidation adjustment |             | Total       |             |
|---|----------------------|-------------|-------------------|-------------|---------------|------------|------------|------------|--------------------------|-------------|-------------|-------------|
|   | 30.6.2010            | 31.12.2009  | 30.6.2010         | 31.12.2009  | 30.6.2010     | 31.12.2009 | 30.6.2010  | 31.12.2009 | 30.6.2010                | 31.12.2009  | 30.6.2010   | 31.12.2009  |
| <b>ASSETS</b>   | 432,926,597          | 404,105,056 | 201,899,746       | 183,588,153 | 52,846,188    | 49,389,904 | 12,305,404 | 11,780,104 | -105,385,210             | -88,151,612 | 594,592,723 | 560,711,611 |
| Intangible assets   | 175,754              | 181,818     | 1,450,964         | 1,649,314   | 378,605       | 309,135    | 19,546     | 22,510     | 21,683,757               | 21,683,758  | 23,708,626  | 23,846,535  |
| Property and equipment  | 1,850,134            | 1,808,628   | 17,557,039        | 17,065,908  | 4,508,071     | 4,186,642  | 1,756,023  | 1,769,651  | 0                        | 0           | 25,671,267  | 24,830,829  |
| Non-current assets held for sale                                    | 0                    | 0           | 917,169           | 989,887     | 0             | 0          | 0          | 0          | 0                        | 0           | 917,169     | 989,887     |
| Deferred tax assets   | 1,450,614            | 2,112,682   | 153,061           | 252,255     | 7,601         | 3,756      | 154        | 152        | 0                        | 0           | 1,611,430   | 2,368,845   |
| Investment property   | 1,236,174            | 1,244,886   | 4,171,600         | 4,528,678   | 0             | 0          | 0          | 0          | 0                        | 0           | 5,407,774   | 5,773,564   |
| Financial investments in associated companies                       | 104,787,509          | 89,436,603  | 2,953,243         | 3,025,940   | 391,925       | 395,300    | 10,084,622 | 9,271,851  | -76,348,970              | -64,483,213 | 41,868,327  | 37,646,479  |
| Financial investments:  | 212,216,108          | 207,913,774 | 79,383,206        | 70,435,458  | 24,818,852    | 24,887,396 | 347,638    | 594,931    | -5,700,000               | -5,700,000  | 311,065,804 | 298,131,559 |
| - Loans and deposits  | 48,126,184           | 36,865,091  | 22,722,801        | 21,454,990  | 9,435,268     | 9,579,970  | 0          | 0          | -5,700,000               | -5,700,000  | 74,584,253  | 62,200,051  |
| - Held to maturity  | 9,663,546            | 9,798,345   | 23,912,127        | 21,010,812  | 3,419,169     | 3,399,279  | 217,115    | 465,695    | 0                        | 0           | 37,211,957  | 34,674,131  |
| - Available for sale  | 151,354,528          | 157,854,127 | 30,555,327        | 25,611,380  | 11,026,844    | 10,843,712 | 130,523    | 129,236    | 0                        | 0           | 193,067,222 | 194,438,455 |
| - At fair value through profit or loss                              | 3,071,849            | 3,396,211   | 2,192,951         | 2,358,276   | 937,570       | 1,064,436  | 0          | 0          | 0                        | 0           | 6,202,370   | 6,818,923   |
| Funds for the benefit of policyholders who bear the investment risk | 0                    | 0           | 0                 | 0           | 20,592,106    | 17,861,634 | 0          | 0          | 0                        | 0           | 20,592,106  | 17,861,634  |
| Reinsurers' share of technical provisions                           | 23,975,438           | 25,148,351  | 32,320,650        | 29,517,146  | 27,157        | 22,845     | 0          | 0          | -28,276,372              | -25,788,932 | 28,046,873  | 28,899,410  |
| Receivables   | 74,946,012           | 65,638,370  | 49,757,738        | 43,461,178  | 866,978       | 954,452    | 19,001     | 19,197     | -16,743,626              | -13,863,226 | 108,846,103 | 96,209,971  |
| Receivables arising out of primary insurance business               | 0                    | 0           | 38,535,730        | 33,954,724  | 215,634       | 213,322    | 0          | 0          | -47,381                  | -450,634    | 38,703,983  | 33,717,412  |
| Insurance business  | 73,126,758           | 60,245,061  | 7,398,103         | 6,036,841   | 22,556        | 6,650      | 0          | 0          | -16,192,555              | -12,887,745 | 64,354,862  | 53,400,807  |
| Current tax assets  | 0                    | 3,500,244   | 178,251           | 403,544     | 99,202        | 107,068    | 1,587      | 1,687      | 0                        | 0           | 279,040     | 4,012,543   |
| Other receivables   | 1,819,254            | 1,893,065   | 3,645,654         | 3,066,069   | 529,586       | 627,412    | 17,414     | 17,510     | -503,690                 | -524,847    | 5,508,218   | 5,079,209   |
| Deferred acquisition costs  | 11,566,569           | 10,263,816  | 7,054,528         | 7,094,580   | 38,893        | 46,071     | 0          | 0          | 0                        | 0           | 18,659,990  | 17,404,467  |
| Other assets  | 321,302              | 225,688     | 2,429,696         | 770,673     | 85,730        | 74,362     | 60,001     | 60,248     | 0                        | 0           | 2,896,729   | 1,130,971   |
| Cash and cash equivalents   | 400,983              | 130,442     | 3,750,853         | 4,797,140   | 1,130,270     | 648,311    | 18,419     | 41,564     | 0                        | 0           | 5,300,525   | 5,617,457   |



| (EUR)  | Reinsurance business |                    | Non-life business  |                    | Life business     |                   | Other             |                   | Consolidation adjustment |                    | Total              |                    |
|--|----------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--------------------------|--------------------|--------------------|--------------------|
|  | 30.6.2010            | 31.12.2009         | 30.6.2010          | 31.12.2009         | 30.6.2010         | 31.12.2009        | 30.6.2010         | 31.12.2009        | 30.6.2010                | 31.12.2009         | 30.6.2010          | 31.12.2009         |
| <b>EQUITY AND LIABILITIES</b>  | <b>432,926,597</b>   | <b>404,105,056</b> | <b>201,899,746</b> | <b>183,588,153</b> | <b>52,846,188</b> | <b>49,389,904</b> | <b>12,305,404</b> | <b>11,780,104</b> | <b>-105,385,210</b>      | <b>-88,151,612</b> | <b>594,592,723</b> | <b>560,711,611</b> |
| Equity   | 151,601,320          | 149,995,279        | 28,584,660         | 25,977,488         | 16,287,462        | 16,814,712        | 12,210,251        | 11,689,382        | -54,665,214              | -42,799,454        | 154,018,477        | 161,677,406        |
| Share capital  | 39,069,099           | 39,069,099         | 35,851,597         | 35,220,738         | 21,219,205        | 21,219,205        | 12,300,327        | 11,492,556        | -69,371,129              | -67,932,499        | 39,069,099         | 39,069,099         |
| Share premium  | 33,003,752           | 33,003,752         | 839,313            | 28,495             | 56                | 56                | 0                 | 0                 | -8,722,330               | -28,547            | 25,120,791         | 33,003,756         |
| Profit reserves  | 78,917,439           | 79,639,568         | 1,404,979          | 5,092,441          | 0                 | 0                 | 98,336            | 98,336            | -813,402                 | -4,552,375         | 79,607,352         | 80,277,970         |
| Fair value reserve   | -1,393,266           | -1,717,140         | 2,353,741          | 1,977,700          | 175,496           | 81,097            | 9,828             | 9,828             | 507,441                  | 192,452            | 1,653,240          | 543,937            |
| Retained earnings  | 0                    | 0                  | -8,605,228         | -573,099           | -4,057,900        | -3,266,680        | -109,515          | 183,963           | 13,955,727               | 17,180,647         | 1,183,084          | 13,524,831         |
| Net profit/loss for the period   | 2,004,296            | 0                  | -1,641,657         | -14,472,194        | -493,580          | -791,221          | -83,558           | -85,453           | 4,703,123                | 3,007,121          | 4,488,624          | -12,341,747        |
| Translation reserve  | 0                    | 0                  | -1,618,085         | -1,296,593         | -555,815          | -427,745          | -5,167            | -9,848            | 232,088                  | 49,009             | -1,946,979         | -1,685,177         |
| Equity attributable to the equity holders of the controlling company                             | 151,601,320          | 149,995,279        | 28,584,660         | 25,977,488         | 16,287,462        | 16,814,712        | 12,210,251        | 11,689,382        | -59,508,482              | -52,084,192        | 149,175,210        | 152,392,668        |
| Non-controlling interest in equity   | 0                    | 0                  | 0                  | 0                  | 0                 | 0                 | 0                 | 0                 | 4,843,268                | 9,284,738          | 4,843,268          | 9,284,738          |
| <b>Subordinated liabilities</b>  | <b>31,150,790</b>    | <b>31,135,777</b>  | <b>0</b>           | <b>0</b>           | <b>0</b>          | <b>0</b>          | <b>0</b>          | <b>0</b>          | <b>0</b>                 | <b>0</b>           | <b>31,150,790</b>  | <b>31,135,777</b>  |
| <b>Technical provisions</b>  | <b>186,990,516</b>   | <b>169,726,846</b> | <b>143,169,048</b> | <b>130,566,625</b> | <b>14,850,866</b> | <b>13,778,365</b> | <b>0</b>          | <b>0</b>          | <b>-28,276,372</b>       | <b>-25,788,932</b> | <b>316,734,058</b> | <b>288,282,904</b> |
| Unearned premiums  | 57,718,982           | 44,042,916         | 59,221,936         | 51,197,580         | 285,117           | 255,074           | 0                 | 0                 | -11,895,273              | -9,483,296         | 105,330,762        | 86,012,274         |
| Mathematical provisions  | 0                    | 0                  | 0                  | 0                  | 14,408,370        | 13,363,461        | 0                 | 0                 | 0                        | 0                  | 14,408,370         | 13,363,461         |
| Provision for outstanding claims   | 127,440,274          | 123,869,342        | 80,841,633         | 76,397,588         | 157,379           | 159,830           | 0                 | 0                 | -16,198,334              | -16,113,143        | 192,240,952        | 184,313,617        |
| Other technical provisions   | 1,831,260            | 1,814,588          | 3,105,479          | 2,971,457          | 0                 | 0                 | 0                 | 0                 | -182,765                 | -192,493           | 4,753,974          | 4,593,552          |
| Technical provision for the benefit of life insurance policyholders who bear the investment risk | 0                    | 0                  | 0                  | 0                  | 20,530,357        | 17,953,979        | 0                 | 0                 | 0                        | 0                  | 20,530,357         | 17,953,979         |
| <b>Other provisions</b>  | <b>183,980</b>       | <b>170,448</b>     | <b>542,124</b>     | <b>630,293</b>     | <b>69,599</b>     | <b>69,599</b>     | <b>1,779</b>      | <b>1,761</b>      | <b>0</b>                 | <b>0</b>           | <b>797,482</b>     | <b>872,101</b>     |
| Deferred tax liabilities   | 207,375              | 323,814            | 49,952             | 41,570             | 43,874            | 20,275            | 0                 | 0                 | 0                        | 0                  | 301,201            | 385,659            |
| <b>Other financial liabilities</b>   | <b>2,900,963</b>     | <b>613</b>         | <b>5,380,069</b>   | <b>6,073,305</b>   | <b>0</b>          | <b>0</b>          | <b>50,920</b>     | <b>50,418</b>     | <b>-5,327,964</b>        | <b>-2,950,418</b>  | <b>3,003,988</b>   | <b>3,173,918</b>   |
| <b>Liabilities from operating activities</b>   | <b>33,457,329</b>    | <b>37,345,542</b>  | <b>15,589,760</b>  | <b>14,680,764</b>  | <b>78,879</b>     | <b>115,181</b>    | <b>10,200</b>     | <b>24,246</b>     | <b>-14,164,120</b>       | <b>-11,988,825</b> | <b>34,972,048</b>  | <b>40,176,908</b>  |
| Liabilities from primary insurance business  | 0                    | 0                  | 3,381,406          | 5,059,871          | 17,182            | 46,756            | 10,200            | 24,000            | -4,853                   | -8,464             | 3,403,935          | 5,122,163          |
| Liabilities from reinsurance and co-insurance business   | 33,421,972           | 37,345,542         | 12,041,890         | 8,982,217          | 37,979            | 51,801            | 0                 | 0                 | -14,159,267              | -11,980,361        | 31,342,574         | 34,399,199         |
| Current tax liabilities  | 35,357               | 0                  | 166,464            | 638,676            | 23,718            | 16,624            | 0                 | 246               | 0                        | 0                  | 225,539            | 655,546            |
| <b>Diverse other liabilities</b>   | <b>26,434,325</b>    | <b>15,406,738</b>  | <b>8,584,138</b>   | <b>5,618,114</b>   | <b>985,151</b>    | <b>637,793</b>    | <b>32,254</b>     | <b>14,296</b>     | <b>-2,951,541</b>        | <b>-4,623,983</b>  | <b>33,084,327</b>  | <b>17,052,958</b>  |

*Income statement for the six months to 30 June 2010 by operating segment*

| (EUR)  | Reinsurance business |                    | Non-life business  |                    | Life business     |                   | Other          |                 | Consolidation adjustment |                   | Total              |                    |
|--|----------------------|--------------------|--------------------|--------------------|-------------------|-------------------|----------------|-----------------|--------------------------|-------------------|--------------------|--------------------|
|  | 1-6 2010             | 1-6 2009           | 1-6 2010           | 1-6 2009           | 1-6 2010          | 1-6 2009          | 1-6 2010       | 1-6 2009        | 1-6 2010                 | 1-6 2009          | 1-6 2010           | 1-6 2009           |
| <b>Net earned premiums (1)</b>   | <b>56,533,941</b>    | <b>61,797,093</b>  | <b>46,216,439</b>  | <b>41,559,174</b>  | <b>6,539,015</b>  | <b>5,129,640</b>  | <b>0</b>       | <b>0</b>        | <b>-56,625</b>           | <b>-24,104</b>    | <b>109,232,770</b> | <b>108,461,803</b> |
| Gross premiums written   | 81,174,521           | 86,547,176         | 68,179,353         | 65,311,328         | 6,569,403         | 5,177,071         | 0              | 0               | -14,098,315              | -15,842,967       | 141,824,962        | 141,192,608        |
| - of this third-party clients  | 67,180,004           | 71,806,416         | 68,075,555         | 64,209,121         | 6,569,403         | 5,177,071         | 0              | 0               | 0                        | 0                 | 141,824,962        | 141,192,608        |
| Written premiums ceded to reinsurers and co-insurers                                 | -13,184,769          | -14,706,069        | -15,999,501        | -18,029,842        | -25,938           | -614              | 0              | 0               | 14,041,690               | 15,818,863        | -15,168,518        | -16,917,662        |
| Change in net unearned premiums  | -11,455,811          | -10,044,014        | -5,963,413         | -5,722,312         | -4,450            | -46,817           | 0              | 0               | 0                        | 0                 | -17,423,674        | -15,813,143        |
| <b>Net claims incurred (2)</b>   | <b>-37,888,793</b>   | <b>-45,743,021</b> | <b>-28,096,467</b> | <b>-23,977,991</b> | <b>-1,379,920</b> | <b>-760,769</b>   | <b>0</b>       | <b>0</b>        | <b>0</b>                 | <b>-300,000</b>   | <b>-67,365,180</b> | <b>-70,781,781</b> |
| Gross claims paid less income from subrogation receivables liquidated                | -36,931,553          | -46,009,253        | -30,074,411        | -28,780,066        | -1,410,135        | -768,462          | 0              | 0               | 6,002,435                | 6,376,085         | -62,413,664        | -69,181,696        |
| Reinsurers' and co-insurers' shares  | 6,006,860            | 14,450,119         | 6,588,573          | 7,383,525          | 360               | 0                 | 0              | 0               | -6,002,435               | -6,676,085        | 6,593,358          | 15,157,559         |
| Change in the net provision for outstanding claims                                   | -6,964,100           | -14,183,887        | -4,610,629         | -2,581,450         | 29,855            | 7,693             | 0              | 0               | 0                        | 0                 | -11,544,874        | -16,757,644        |
| <b>Change in other technical provisions (3)</b>                                      | <b>-16,673</b>       | <b>70,576</b>      | <b>-94,025</b>     | <b>-35,125</b>     | <b>-1,058,285</b> | <b>-636,717</b>   | <b>0</b>       | <b>0</b>        | <b>0</b>                 | <b>0</b>          | <b>-1,168,983</b>  | <b>-601,266</b>    |
| Change in the technical provision for policyholders who bear the investment risk (4) | 0                    | 0                  | 0                  | 0                  | -2,576,377        | -3,396,972        | 0              | 0               | 0                        | 0                 | -2,576,377         | -3,396,972         |
| <b>Operating expenses (5)</b>  | <b>-19,376,713</b>   | <b>-20,915,506</b> | <b>-20,568,832</b> | <b>-19,446,598</b> | <b>-3,347,772</b> | <b>-2,280,661</b> | <b>-98,338</b> | <b>-115,110</b> | <b>2,804,822</b>         | <b>3,778,042</b>  | <b>-40,586,833</b> | <b>-38,979,833</b> |
| Depreciation/amortisation  | 84,402               | 74,949             | 890,627            | 760,605            | 55,761            | 5,488             | 3,937          | 5,383           | 0                        | 0                 | 1,034,727          | 846,425            |
| <b>Other technical income (6)</b>  | <b>2,681,529</b>     | <b>3,013,887</b>   | <b>3,620,292</b>   | <b>4,347,446</b>   | <b>13,380</b>     | <b>2,372</b>      | <b>1,688</b>   | <b>0</b>        | <b>-3,030,226</b>        | <b>-3,633,484</b> | <b>3,286,663</b>   | <b>3,730,221</b>   |
| <b>Other technical expenses (7)</b>  | <b>-1,288,291</b>    | <b>-734,731</b>    | <b>-2,668,196</b>  | <b>-2,248,357</b>  | <b>-12,305</b>    | <b>-18,962</b>    | <b>0</b>       | <b>0</b>        | <b>130,874</b>           | <b>227,088</b>    | <b>-3,837,918</b>  | <b>-2,774,962</b>  |
| <b>A) Technical result (1 + 2 + 3 + 4 + 5 + 6 + 7)</b>                               | <b>645,000</b>       | <b>-2,511,702</b>  | <b>-1,590,789</b>  | <b>198,549</b>     | <b>-1,822,264</b> | <b>-1,962,069</b> | <b>-96,650</b> | <b>-115,110</b> | <b>-151,155</b>          | <b>47,542</b>     | <b>-3,015,858</b>  | <b>-4,342,790</b>  |
| <b>Income from investments in affiliates (8)</b>                                     | <b>0</b>             | <b>244,479</b>     | <b>209,341</b>     | <b>0</b>           | <b>0</b>          | <b>0</b>          | <b>0</b>       | <b>0</b>        | <b>3,691,368</b>         | <b>-28,192</b>    | <b>3,900,709</b>   | <b>216,287</b>     |
| Shares in profit/loss of equity accounted associates                                 | 0                    | 0                  | 0                  | 0                  | 0                 | 0                 | 0              | 0               | 3,900,709                | 216,287           | 3,900,709          | 216,287            |
| <b>Investment income (9)</b>   | <b>4,791,508</b>     | <b>6,753,031</b>   | <b>2,387,401</b>   | <b>1,873,620</b>   | <b>2,504,748</b>  | <b>2,460,299</b>  | <b>17,511</b>  | <b>101,822</b>  | <b>-128,583</b>          | <b>-108,011</b>   | <b>9,572,585</b>   | <b>11,080,761</b>  |
| - Interest income  | 2,964,797            | 3,266,338          | 1,901,936          | 1,556,259          | 547,778           | 426,643           | 9,066          | 13,196          | -109,233                 | -88,661           | 5,314,344          | 5,173,775          |
| <b>Expenses for investments in affiliates (10)</b>                                   | <b>0</b>             | <b>-1,325,743</b>  | <b>0</b>           | <b>0</b>           | <b>0</b>          | <b>0</b>          | <b>0</b>       | <b>0</b>        | <b>0</b>                 | <b>-9,245,748</b> | <b>0</b>           | <b>-10,571,491</b> |
| Shares in profit/loss of equity accounted associates                                 | 0                    | 0                  | 0                  | 0                  | 0                 | 0                 | 0              | 0               | 0                        | -9,245,748        | 0                  | -9,245,748         |
| <b>Expenses from financial assets and liabilities (11)</b>                           | <b>-3,655,974</b>    | <b>-9,315,016</b>  | <b>-513,462</b>    | <b>-735,570</b>    | <b>-1,077,054</b> | <b>-530,709</b>   | <b>-12,991</b> | <b>0</b>        | <b>207,606</b>           | <b>316,273</b>    | <b>-5,051,875</b>  | <b>-10,265,022</b> |
| - Interest expense   | -756,050             | -1,103,124         | -34,682            | 0                  | -14,035           | 0                 | 0              | 0               | 0                        | 99,987            | -804,767           | -1,003,137         |
| <b>B) Net investment income (8 + 9 + 10 + 11)</b>                                    | <b>1,135,534</b>     | <b>-3,643,249</b>  | <b>2,083,280</b>   | <b>1,138,050</b>   | <b>1,427,694</b>  | <b>1,929,590</b>  | <b>4,520</b>   | <b>101,822</b>  | <b>3,770,391</b>         | <b>-9,065,678</b> | <b>8,421,419</b>   | <b>-9,539,465</b>  |
| <b>Other income (12)</b>   | <b>1,809</b>         | <b>31,916</b>      | <b>282,468</b>     | <b>563,135</b>     | <b>0</b>          | <b>0</b>          | <b>8,804</b>   | <b>15,714</b>   | <b>0</b>                 | <b>-11,326</b>    | <b>293,081</b>     | <b>599,439</b>     |
| <b>Expenses for bonuses and rebates (13)</b>   | <b>0</b>             | <b>0</b>           | <b>-389,310</b>    | <b>-174,561</b>    | <b>0</b>          | <b>0</b>          | <b>0</b>       | <b>0</b>        | <b>0</b>                 | <b>0</b>          | <b>-389,310</b>    | <b>-174,561</b>    |
| <b>Other expenses (14)</b>   | <b>-158</b>          | <b>-659</b>        | <b>-1,205,218</b>  | <b>-848,849</b>    | <b>-4,334</b>     | <b>0</b>          | <b>0</b>       | <b>0</b>        | <b>0</b>                 | <b>0</b>          | <b>-1,209,710</b>  | <b>-849,508</b>    |
| <b>C) Result of other items (12 + 13 + 14)</b>                                       | <b>1,651</b>         | <b>31,257</b>      | <b>-1,312,060</b>  | <b>-460,275</b>    | <b>-4,334</b>     | <b>0</b>          | <b>8,804</b>   | <b>15,714</b>   | <b>0</b>                 | <b>-11,326</b>    | <b>-1,305,939</b>  | <b>-424,630</b>    |
| <b>D) Profit/loss before tax (A + B + C)</b>   | <b>1,782,185</b>     | <b>-6,123,694</b>  | <b>-819,569</b>    | <b>876,324</b>     | <b>-398,904</b>   | <b>-32,479</b>    | <b>-83,326</b> | <b>2,426</b>    | <b>3,619,236</b>         | <b>-9,029,462</b> | <b>4,099,622</b>   | <b>-14,306,885</b> |
| <b>E) Income tax expense</b>   | <b>-500,017</b>      | <b>-393,236</b>    | <b>-770,248</b>    | <b>-417,292</b>    | <b>-94,676</b>    | <b>0</b>          | <b>-232</b>    | <b>0</b>        | <b>0</b>                 | <b>0</b>          | <b>-1,365,173</b>  | <b>-810,528</b>    |
| <b>F) Net profit/loss for the period (D+E)</b>                                       | <b>1,282,168</b>     | <b>-6,516,930</b>  | <b>-1,589,817</b>  | <b>459,032</b>     | <b>-493,580</b>   | <b>-32,479</b>    | <b>-83,558</b> | <b>2,426</b>    | <b>3,619,236</b>         | <b>-9,029,462</b> | <b>2,734,449</b>   | <b>-15,117,413</b> |

## **9.7 Notes to significant changes in the statement of financial position**

### **9.7.1 Financial investments in associated companies**

In the consolidated financial statements, investments in associated companies are accounted for using the equity method. The increase is mainly due to the addition of the half-yearly profit of Zavarovalnica Maribor.

### **9.7.2 Financial investments**

In financial investments, a marked growth has been recorded with deposits. This trend is rooted in the fact that currently interest on time deposits is higher than the yield on long-term investments in highly rated bonds.

### **9.7.3 Receivables**

The largest increase in receivables was recorded in receivables arising out of reinsurance and co-insurance. These are receivables of the parent company who has significantly increased its business volume in international markets. The Group regularly reviews its receivables for impairment. While receivables have increased significantly in the first half of 2010, no impairments have been required pertaining to reinsurance operations.

### **9.7.4 Equity**

At the beginning of 2010, the controlling company acquired 49% of the subsidiaries Dukagjini and Dukagjini Life. Since in line with the changes in IFRS 3 and IFRS 27, the acquisition of additional shares in subsidiaries has no effect on the amount of goodwill, the difference between the fair value and the carrying amount of acquired shares is settled within equity. As a result, the group share premium fell by EUR 7.8m and non-controlling interest in equity by EUR 3.3m.

### **9.7.5 Technical provisions**

Compared to year-end 2009, the largest increase was in gross unearned premiums, which is ordinary interim movement. The increase in the provision for outstanding claims is largely due to the growth in foreign-sourced premium written by the parent.

### **9.7.6 Liabilities from operating activities**

For Slovenian cedants, the decrease in liabilities is due to payments in respect of earlier underwriting years and reduced liabilities arising out of claims by domestic cedants.

## **10 BUSINESS COMBINATIONS**

In January and February 2010, the controlling company acquired 49% of Dukagjini and Dukagjini Life, respectively, both Kosovo-based, emerging as sole owner of both companies. The consideration for the non-life insurer Dukagjini will be due at the beginning of 2011.

In the first half of 2010, three capital injections were undertaken in Group members, as follows:

- Sava Montenegro in the amount of EUR 3m,
- Sava osiguranje in the amount of EUR 0.3m, and
- Velebit usluge in the amount of EUR 0.8m.

Subsequent to capital injections, ownership relations remained unchanged in the above companies.

## **11 RELATED-PARTY DISCLOSURES**

### **Key management personnel**

Fixed considerations received by Members of the Management Board in the first half of 2010 amounted to EUR 255,581 (2009 annual fixed consideration: EUR 490,222), while bonuses and other income were EUR 14,419 (2009 annual amount: EUR 25.442). No variable considerations were paid out.

Considerations paid to Supervisory Board members and members of the Supervisory Board Audit Committee in the first half of 2010 amounted to EUR 47,065 (2009 annual consideration: EUR 64,764).

## Related-party transactions

### *Investments in and receivables due from Group companies*

| (EUR)  |                 | 30.6.2010         | 31.12.2009        |
|--|-----------------|-------------------|-------------------|
| Debt securities and loans granted to Group companies           | gross           | 5,750,000         | 5,750,000         |
|  | impairment loss | -50,000           | -50,000           |
|  | net             | 5,700,000         | 5,700,000         |
| Receivables for premiums arising out of reinsurance assumed    | gross           | 10,333,086        | 7,768,452         |
|  | impairment loss | 0                 | 0                 |
|  | net             | 10,333,086        | 7,768,452         |
| Short-term receivables arising out of investments              | gross           | 33,208            | 7,293             |
|  | impairment loss | 0                 | 0                 |
|  | net             | 33,208            | 7,293             |
| Other short-term receivables arising out of insurance business | gross           | 0                 | 69,060            |
|  | impairment loss | 0                 | 0                 |
|  | net             | 0                 | 69,060            |
| <b>Total</b>   |                 | <b>16,066,294</b> | <b>13,544,806</b> |

### *Liabilities to Group companies*

| (EUR)  | 30.6.2010        | 31.12.2009       |
|--|------------------|------------------|
| Liabilities for shares in reinsurance claims | 3,832,899        | 4,364,252        |
| Other short-term liabilities                 | 1,970,357        | 1,673,815        |
| <b>Total (excl. provisions)</b>              | <b>5,803,256</b> | <b>6,038,067</b> |

### *Income and expenses in respect of business with Group companies*

| (EUR)                              | 1. 1. - 30.6.2010 | 1. 1. - 30.6.2009 |
|------------------------------------|-------------------|-------------------|
| Gross premiums written             | 14,098,315        | 14,740,761        |
| Gross claims paid                  | -6,002,435        | -6,471,731        |
| Diverse other operating expenses   | -75,975           | -39,850           |
| Other investment income            | 19,350            | 19,350            |
| Interest income                    | 109,233           | 88,661            |
| Income from reinsurance commission | -2,728,847        | -2,821,308        |

Related party transactions were conducted on an arms-length basis.

## **12 SIGNIFICANT EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE**

On 7 July 2010, the Ljubljana District Court, by decision no. 847/2010, initiated bankruptcy proceedings over Poteza Naložbe d.o.o. Sava Reinsurance Company has a claim against Poteza naložbe d.o.o. based on commercial notes in the amount of EUR 359,321. Based on media reports, we estimate that Poteza skupina d.d. will declare bankruptcy or compulsory settlement in the second half of 2010. Sava Reinsurance Company holds Poteza bonds in the amount of EUR 1,528,615.



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|---|
| <p>FINANCIAL STATEMENTS OF<br/>SAVA REINSURANCE COMPANY</p> |
|---|





## 13 UNAUDITED SEPARATE FINANCIAL STATEMENTS

### 13.1 Unaudited statement of financial position as at 30 June 2010

| (EUR)   | 30.06.2010         | 31.12.2009         |
|---|--------------------|--------------------|
| <b>ASSETS</b>   | <b>432,926,596</b> | <b>404,105,057</b> |
| <b>Intangible assets</b>  | <b>175,754</b>     | <b>181,818</b>     |
| <b>Property and equipment</b>                                     | <b>1,850,133</b>   | <b>1,808,628</b>   |
| <b>Deferred tax assets</b>  | <b>1,450,614</b>   | <b>2,112,682</b>   |
| <b>Investment property</b>  | <b>1,236,174</b>   | <b>1,244,886</b>   |
| <b>Financial investments in Group companies and in associates</b> | <b>104,787,508</b> | <b>89,436,601</b>  |
| <b>Financial investments:</b>                                     | <b>212,216,108</b> | <b>207,913,774</b> |
| - Loans and deposits  | 48,126,184         | 36,865,091         |
| - Held to maturity  | 9,663,546          | 9,798,345          |
| - Available for sale  | 151,354,528        | 157,854,126        |
| - At fair value through profit or loss                            | 3,071,849          | 3,396,211          |
| <b>Reinsurers' share of technical provisions</b>                  | <b>23,975,438</b>  | <b>25,148,351</b>  |
| <b>Receivables</b>  | <b>74,946,011</b>  | <b>65,638,369</b>  |
| Receivables arising out of reinsurance and co-insurance business  | 73,126,757         | 60,245,061         |
| Current tax assets  | 0                  | 3,500,244          |
| Other receivables   | 1,819,255          | 1,893,064          |
| <b>Deferred acquisition costs</b>                                 | <b>11,566,569</b>  | <b>10,263,816</b>  |
| <b>Other assets</b>   | <b>321,302</b>     | <b>225,689</b>     |
| <b>Cash and cash equivalents</b>                                  | <b>400,983</b>     | <b>130,442</b>     |
| <b>EQUITY AND LIABILITIES</b>                                     | <b>432,926,596</b> | <b>404,105,057</b> |
| <b>Equity</b>   | <b>151,601,322</b> | <b>149,995,279</b> |
| Share capital   | 39,069,099         | 39,069,099         |
| Share premium   | 33,003,752         | 33,003,752         |
| Profit reserves   | 78,917,439         | 79,639,568         |
| Fair value reserve  | -1,393,266         | -1,717,140         |
| Net profit/loss for the period                                    | 2,004,296          | 0                  |
| <b>Subordinated liabilities</b>                                   | <b>31,150,790</b>  | <b>31,135,777</b>  |
| <b>Technical provisions</b>                                       | <b>186,990,517</b> | <b>169,726,846</b> |
| Unearned premiums   | 57,718,982         | 44,042,916         |
| Provision for outstanding claims                                  | 127,440,274        | 123,869,342        |
| Other technical provisions  | 1,831,261          | 1,814,588          |
| <b>Other provisions</b>   | <b>183,980</b>     | <b>170,448</b>     |
| <b>Deferred tax liabilities</b>                                   | <b>207,375</b>     | <b>323,814</b>     |
| <b>Other financial liabilities</b>                                | <b>2,900,963</b>   | <b>2,900,613</b>   |
| <b>Liabilities from operating activities</b>                      | <b>33,457,327</b>  | <b>37,345,543</b>  |
| Liabilities from reinsurance and co-insurance business            | 33,421,971         | 37,345,543         |
| Current tax liabilities   | 35,357             | 0                  |
| <b>Diverse other liabilities</b>                                  | <b>26,434,324</b>  | <b>12,506,736</b>  |

### 13.2 Unaudited income statement for the six months to 30 June 2010

| (EUR)   | 1.1.-30.6.2010     | 1.1.-30.6.2009     |
|---|--------------------|--------------------|
| <b>Net earned premiums</b>  | <b>56,533,941</b>  | <b>61,797,094</b>  |
| Gross premiums written  | 81,174,521         | 86,547,176         |
| Written premiums ceded to reinsurers and co-insurers                                    | -13,184,769        | -14,706,069        |
| Change in net unearned premiums   | -11,455,811        | -10,044,014        |
| <b>Investment income</b>  | <b>4,791,508</b>   | <b>6,997,510</b>   |
| Interest income   | 2,964,798          | 3,266,338          |
| Other investment income   | 1,826,710          | 3,731,173          |
| <b>Other technical income</b>   | <b>2,681,529</b>   | <b>3,013,886</b>   |
| Commission income   | 475,291            | 2,261,982          |
| Other income  | 2,206,238          | 751,905            |
| <b>Other income</b>   | <b>1,809</b>       | <b>31,916</b>      |
| <b>Net claims incurred</b>  | <b>-37,888,793</b> | <b>-45,743,021</b> |
| Gross claims paid less income from recourse receivables                                 | -36,931,553        | -46,009,253        |
| Reinsurers' and co-insurers' share of claims paid                                       | 6,006,860          | 14,450,119         |
| Change in the net provision for outstanding claims                                      | -6,964,100         | -14,183,887        |
| <b>Change in other technical provisions</b>   | <b>-16,673</b>     | <b>70,576</b>      |
| <b>Operating expenses</b>   | <b>-19,376,713</b> | <b>-20,915,506</b> |
| Acquisition costs   | -16,301,345        | -17,728,350        |
| Other operating expenses  | -3,075,368         | -3,187,156         |
| <b>Expenses from investments in affiliates</b>  | <b>0</b>           | <b>-1,325,743</b>  |
| <b>Expenses from financial assets and liabilities</b>                                   | <b>-3,655,975</b>  | <b>-9,315,016</b>  |
| Impairment losses on financial assets not measured at fair value through profit or loss | -2,410,716         | -1,076,989         |
| Interest expenses   | -756,050           | -1,103,124         |
| Diverse other expenses  | -489,209           | -7,134,903         |
| <b>Other technical expenses</b>   | <b>-1,288,291</b>  | <b>-734,731</b>    |
| <b>Other expenses</b>   | <b>-158</b>        | <b>-659</b>        |
| Profit/loss before tax  | 1,782,184          | -6,123,694         |
| <b>Income tax expense</b>   | <b>-500,017</b>    | <b>-393,236</b>    |
| <b>Net profit/loss for the period</b>   | <b>1,282,168</b>   | <b>-6,516,930</b>  |
| <b>Earnings/loss per share</b>  | <b>0.14</b>        | <b>-0.70</b>       |

### 13.3 Unaudited statement of comprehensive income for the six months to 30 June 2010

| (EUR)  | 1.1.-30.6.2010   | 1.1.-30.6.2009    |
|--|------------------|-------------------|
| <b>NET PROFIT/LOSS FOR THE PERIOD</b>                                  | <b>1,282,168</b> | <b>-6,516,930</b> |
| <b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>                          | <b>323,875</b>   | <b>5,181,592</b>  |
| <b>Net change in fair value of available-for-sale financial assets</b> | <b>404,843</b>   | <b>6,476,990</b>  |
| Net change recognised in the fair value reserve                        | 1,844,586        | 3,017,833         |
| Net change transferred from fair value reserve to profit or loss       | -1,439,743       | 3,459,157         |
| <b>Income tax on other comprehensive income</b>                        | <b>-80,969</b>   | <b>-1,295,398</b> |
| <b>COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>                 | <b>1,606,042</b> | <b>-1,335,338</b> |

### 13.4 Unaudited statement of changes in equity for the six months to 30 June 2010

| (EUR)   | I. Share capital | II. Share premium | III. Profit reserves  |                             |                                  |                                  |            | IV. Fair value reserve | V. Net profit/loss for the period | VI. Treasury shares (deduction item) | Total (1–10) |
|---|------------------|-------------------|---|-----------------------------|----------------------------------|----------------------------------|------------|------------------------|-----------------------------------|--------------------------------------|--------------|
|   |                  |                   | Legal reserves and reserves provided for in the articles of association | Reserve for treasury shares | Credit risk equalisation reserve | Catastrophe equalisation reserve | Other      |                        |                                   |                                      |              |
|   | 1.               | 2.                | 3.  | 4.                          | 5.                               | 6.                               | 7.         | 8.                     | 9.                                | 10.                                  | 11.          |
| As at 1 January 2010  | 39,069,099       | 33,003,752        | 14,986,525  | 1,774                       | 1,217,874                        | 3,868,365                        | 59,566,803 | -1,717,140             | 0                                 | -1,774                               | 149,995,280  |
| Comprehensive income for the period, net of tax   | 0                | 0                 | 0   | 0                           | 0                                | 0                                | 0          | 323,875                | 1,282,168                         | 0                                    | 1,606,043    |
| Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve | 0                | 0                 | 0   | 0                           | -722,129                         | 0                                | 0          | 0                      | 722,129                           | 0                                    | 0            |
| Settlement of loss  | 0                | 0                 | 0   | 0                           | 0                                | 0                                | 0          | 0                      | 0                                 | 0                                    | 0            |
| As at 30 June 2010  | 39,069,099       | 33,003,752        | 14,986,525  | 1,774                       | 495,746                          | 3,868,365                        | 59,566,803 | -1,393,265             | 2,004,296                         | -1,774                               | 151,601,323  |

### 13.5 Unaudited statement of changes in equity for the six months to 30 June 2009

| (EUR)   | I. Share capital | II. Share premium | III. Profit reserves  |                             |                                  |                                  |            | IV. Fair value reserve | V. Net profit/loss for the period | VI. Treasury shares (deduction item) | Total (1–10) |
|---|------------------|-------------------|---|-----------------------------|----------------------------------|----------------------------------|------------|------------------------|-----------------------------------|--------------------------------------|--------------|
|   |                  |                   | Legal reserves and reserves provided for in the articles of association | Reserve for treasury shares | Credit risk equalisation reserve | Catastrophe equalisation reserve | Other      |                        |                                   |                                      |              |
|   | 1.               | 2.                | 3.  | 4.                          | 5.                               | 6.                               | 7.         | 8.                     | 9.                                | 10.                                  | 11.          |
| As at 1 January 2009  | 39,069,099       | 33,003,752        | 14,986,525  | 1,774                       | 3,053,943                        | 2,235,231                        | 71,962,514 | -10,570,904            | 0                                 | -1,774                               | 153,740,160  |
| Comprehensive income for the period, net of tax   | 0                | 0                 | 0   | 0                           | 0                                | 0                                | 0          | 5,181,592              | -6,516,930                        | 0                                    | -1,335,338   |
| Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve | 0                | 0                 | 0   | 0                           | -615,609                         | 0                                | 0          | 0                      | 615,609                           | 0                                    | 0            |
| As at 30 June 2009  | 39,069,099       | 33,003,752        | 14,986,525  | 1,774                       | 2,438,334                        | 2,235,231                        | 71,962,514 | -5,389,312             | -5,901,321                        | -1,774                               | 152,404,822  |

### 13.6 Unaudited statement of cash flows for the six months to 30 June 2010

| (EUR)   |  | 1.1.-30.6.2010 | 1.1.-30.6.2009   |
|---|--|----------------|------------------|
| <b>A) Cash flows from operating activities</b>          |  |                |                  |
| a)  | Items of the income statement  | 15,664,434     | 15,540,232       |
|   | 1. Net premiums written  | 67,989,752     | 71,841,108       |
|   | 2. Investment income (other than financial income), financed from:   | 1,694,166      | 6,997,510        |
|   | - technical provisions   | 1,189,410      | 3,140,256        |
|   | - other sources  | 504,756        | 3,857,254        |
|   | 3. Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables  | 2,683,338      | 3,045,802        |
|   | 4. Net claims paid   | -30,924,693    | -31,559,134      |
|   | 5. Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs   | -21,089,738    | -23,192,026      |
|   | 6. Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:  | -2,899,925     | -10,464,401      |
|   | - technical sources  | -409,731       | -1,840,651       |
|   | - other sources  | -2,490,194     | -8,623,750       |
|   | 7. Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)   | -1,288,449     | -735,390         |
|   | 8. Tax on profit and other taxes not included in operating expenses  | -500,017       | -393,236         |
| b)  | Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the statement of financial position | 1,182,094      | -12,739,644      |
|   | 1. Change in receivables from reinsurance  | -12,881,696    | -19,182,691      |
|   | 2. Change in other receivables from (re-)insurance business  | -20,120        | -1,505,317       |
|   | 3. Change in other receivables and other assets  | 3,498,559      | 0                |
|   | 4. Change in deferred tax assets   | 662,068        | 1,688,634        |
|   | 5. Change in liabilities arising out of reinsurance business   | -3,923,573     | -3,587,555       |
|   | 6. Change in other operating liabilities   | 13,865,252     | 4,734,144        |
|   | 7. Change in other liabilities (except unearned premiums)  | 98,043         | 5,113,141        |
|   | 8. Change in deferred tax liabilities  | -116,439       | 0                |
| c)  | Net cash from/used in operating activities (a + b)   | 16,846,528     | 2,800,588        |
| <b>B) Cash flows from investing activities</b>          |  |                |                  |
| a)  | Cash receipts from investing activities  | 259,288,160    | 191,609,887      |
|   | 1. Interest received from investing activities and from:   | 2,964,798      | 3,409,981        |
|   | - investments financed from technical provisions   | 2,964,798      | 2,106,313        |
|   | - other investments  | 0              | 1,303,668        |
|   | 2. Cash receipts from dividends and from participation in the profit of others, relating to:   | 132,544        | 300,553          |
|   | - investments financed from technical provisions   | 34,729         | 32,954           |
|   | - other investments  | 97,815         | 267,599          |
|   | 3. Proceeds from sale of property and equipment, financed from:  | 870            | 0                |
|   | - other sources  | 870            | 0                |
|   | 4. Proceeds from sale of long-term financial investments, financed from:   | 48,232,007     | 102,115,713      |
|   | - technical provisions   | 31,744,775     | 40,533,417       |
|   | - other sources  | 16,487,232     | 61,582,296       |
|   | 5. Proceeds from sale of short-term financial investments, financed from:  | 207,957,941    | 85,783,640       |
|   | - technical provisions   | 151,964,485    | 58,645,180       |
|   | - other sources  | 55,993,456     | 27,138,460       |
| b)  | Cash disbursements in investing activities   | -275,108,096   | -183,916,628     |
|   | 1. Purchase of intangible assets   | -20,163        | -70,138          |
|   | 2. Purchase of property and equipment, financed from:  | -97,628        | -30,755          |
|   | - other sources  | -97,628        | -30,755          |
|   | 3. Purchase of long-term financial investments, financed from:   | -42,420,424    | -70,335,357      |
|   | - technical provisions   | -38,185,020    | -33,964,539      |
|   | - other sources  | -4,235,404     | -36,370,818      |
|   | 4. Purchase of financial investments in subsidiaries, financed from:   | -15,355,907    | -13,613,824      |
|   | - other sources  | -15,355,907    | -13,613,824      |
|   | 5. Purchase of short-term financial investments, financed from:  | -217,213,975   | -99,866,554      |
|   | - technical provisions   | -153,400,909   | -71,200,482      |
|   | - other sources  | -63,813,066    | -28,666,072      |
| c)  | Net cash from/used in investing activities (a + b)   | -15,819,936    | 7,693,259        |
| <b>C) Cash flows from financing activities</b>          |  |                |                  |
| a)  | Cash receipts from financing activities  | 0              | 0                |
| b)  | Cash disbursements in financing activities   | -756,050       | -1,103,124       |
|   | 1. Interest paid   | -756,050       | -1,103,124       |
| c)  | Net cash from/used in financing activities (a + b)   | -756,050       | -1,103,124       |
| <b>C2) Closing balance of cash and cash equivalents</b> |  | <b>400,984</b> | <b>9,402,177</b> |
| x)  | Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)  | 270,542        | 9,390,723        |
| <b>D) Opening balance of cash and cash equivalents</b>  |  | <b>130,442</b> | <b>11,454</b>    |

### 13.7 Net earnings/loss per share

The weighted average number of shares outstanding was 9,362,519.

#### *Earnings/loss per share*

| (EUR)                              | 30.6.2010   | 30.6.2009    |
|------------------------------------|-------------|--------------|
| Net earnings/losses for the period | 1,282,168   | -6,516,930   |
| Weighted number of shares          | 9,362,519   | 9,362,519    |
| <b>Earnings/loss per share</b>     | <b>0.14</b> | <b>-0.70</b> |

#### *Comprehensive income/loss per share*

| (EUR)                                      | 30.6.2010   | 30.6.2009    |
|--|-------------|--------------|
| Comprehensive income                       | 1,606,042   | -1,335,338   |
| Weighted number of shares                  | 9,362,519   | 9,362,519    |
| <b>Comprehensive income/loss per share</b> | <b>0.17</b> | <b>-0.14</b> |

## DECLARATION OF THE MANAGEMENT BOARD

"To the best of our knowledge, and in accordance with the applicable reporting principles, the summary financial statements with notes give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and the business report includes a fair review of transactions with related parties."

Ljubljana, 26 August 2010



Zvonko Ivanušič, Chairman of the Management Board



Jošt Dolničar, Member of the Management Board



Srečko Čebren, Member of the Management Board

## Appendix – Glossary of selected terms and calculation methodologies for indicators

$$\text{Administrative expenses ratio} = \frac{\text{operating expenses} - \text{acquisition costs}}{\text{gross premiums written}}$$

### **Affiliate**

An entity in which the investor has significant influence (through ownership of 20–100% of voting rights).

### **Associate**

In accordance with IAS 28, associates are entities in which the investor has significant influence on the financial and operating policy decisions and which are not a subsidiaries. If a shareholding corresponds to 20–50% of the voting rights, the entity is deemed to be an associate.

### **Capital fund**

Assets representing the capital of the Company.

### **Cedant, cede, cession**

A cedant is the client of a reinsurance company. To cede is to transfer part of any risk an insurer has underwritten to a reinsurer. The part thus transferred to any reinsurer is called a cession.

### **Claims incurred**

Claims paid in that period including loss adjustment expenses plus the change in the provision for outstanding claims and less recourse receivables during that period. Gross claims incurred are claims incurred, gross of reinsurance; net claims incurred are claims incurred, net of reinsurance.

### **Claims paid**

Claims and benefits liquidated during a given period for claims resolved either fully or in part including loss adjustment expenses. Gross claims paid are claims paid, gross of reinsurance; net claims paid are claims paid, net of reinsurance.

### **Combined ratio**

The aggregation of the loss ratio and the expense ratio.

$$\text{Net (incurred) combined ratio} = \frac{\text{net claims incurred} + \text{operating expenses} - (\text{reinsurance}) \text{commission income}}{\text{net premiums earned}}$$

### **Composite insurer**

Insurer that writes both life and non-life business.

### **Excess of loss reinsurance**

A type of reinsurance in which the insurer agrees to pay a specified portion of a claim and the reinsurer agrees to pay all or a part of the claim above that specified currency amount or "retention".

### **Expense ratio**

$$\text{(Net) expense ratio} = \frac{\text{operating expenses} - \text{commission income}}{(\text{net}) \text{premiums earned}}$$

### **Facultative reinsurance**

A type of reinsurance under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks of the underlying policy. Typically used to reinsure large individual risks or for amounts in excess of limits on risks already reinsured elsewhere.

$$\text{Gross expense ratio} = \frac{\text{operating expenses}}{\text{gross premiums written}}$$

### **Gross/net**

In insurance terminology, the terms gross and net usually denote figures before and after deduction of reinsurance.

IBNR – provision for claims that are **incurred but not reported**;

IBNER – provision for claims that are **incurred but not enough reported**;

RBNS – provision for claims that are **reported but not settled**;  
IBNS – provision for claims that are **incurred but not settled**;  
IBNS = RBNS + IBNR.

$$\text{Insurance density} = \frac{\text{gross premiums written}}{\text{number of inhabitants}}$$

$$\text{Insurance penetration} = \frac{\text{gross premiums written}}{\text{gross domestic product}}$$

#### **Liability fund**

Assets supporting technical provisions.

#### **Long-term business fund**

Assets supporting mathematical provisions.

#### **Loss ratio (Incurred loss ratio)**

$$\text{Gross (incurred) loss ratio} = \frac{\text{gross claims incurred}}{\text{gross premiums earned}}$$

$$\text{Net (incurred) loss ratio} = \frac{\text{net claims incurred}}{\text{net premiums earned}}$$

#### **Non-proportional reinsurance (excess reinsurance)**

A reinsurance arrangement whereby the reinsurer indemnifies a ceding company above a specified level (usually a monetary amount) of losses that the ceding company has underwritten. A deductible amount is set and any loss exceeding that amount is paid by the reinsurer.

#### **Paid loss ratio**

$$\text{Gross paid loss ratio} = \frac{\text{gross claims paid}}{\text{gross premiums written}}$$

$$\text{Net paid loss ratio} = \frac{\text{net claims paid}}{\text{net premiums written}}$$

#### **Premiums earned**

The portion of premiums written that relates to the expired portion of the policy period for a given period adjusted for change in unearned premiums. Gross premiums earned are premiums earned, gross of reinsurance; net premiums earned are earned premiums, net of reinsurance.

#### **Premiums written**

Gross premiums written are premiums written, gross of reinsurance; net premiums written are premiums written, net of reinsurance. The total premiums on all policies written or renewed during a given period regardless of what portions have been earned.

#### **Primary insurer**

Insurance company that has a direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

#### **Proportional reinsurance**

A reinsurance arrangement whereby the reinsurer indemnifies a ceding company for a pre-agreed proportion of premiums and losses of each policy that the ceding company has underwritten. It can be subdivided into two main types: quota-share reinsurance and surplus reinsurance.

#### **Required solvency margin**

The minimum solvency margin capital requirement calculated in accordance with the rules based on Solvency I. The capital level representing the first threshold that triggers measures related to the Insurance Supervision Agency in the event that it is breached.

$$\text{Retention ratio} = \frac{\text{net premiums written}}{\text{gross premiums written}}$$

#### **Retention**

The amount or portion of risk (loss) that a ceding company retains for its own account, and does not reinsure. Losses and



loss expenses in excess of the retention level are then paid by the reinsurer to the ceding company up to the limit of indemnity, if any, set out in the reinsurance contract. In proportional reinsurance, the retention may be a percentage of the original policy's limit. In non-proportional insurance, the retention is usually a monetary amount of loss, a percentage of loss or a loss-to-premium ratio.

***Retrocession***

The reinsurance bought by reinsurers; a transaction by which a reinsurer cedes risks to another reinsurer.

***Recourse receivables***

Amount of recourse claims which were recognised in the period as recourse receivables based on (i) any agreement with any third parties under recourse issues, (ii) court decisions, or (iii) for credit business – settlement of insurance claim.

***Subsidiary***

An entity that is controlled by an investor (through ownership of more than 50% of voting shares).

***Technical result***

The aggregation of underwriting result and insurance investment income.

***Underwriting result***

Profit or loss realised from insurance operations as opposed to that realised from investments. The excess of premiums over claims (losses) and expenses, calculated as net earned premiums less net claims incurred less net operating expenses.

***Unearned premium***

The portion of premiums written that applies to the unexpired portion of the policy period and is attributable to and recognised as income in future years.