



Pozavarovalnica Sava, d.d.

BUSINESS REPORT

JANUARY - SEPTEMBER 2009



UNAUDITED UNCONSOLIDATED REPORT OF
SAVA REINSURANCE COMPANY D.D.
FOR THE NINE MONTHS TO
30 SEPTEMBER 2009

Ljubljana, 16 November 2009

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1. INTRODUCTION

In accordance with the Financial Instruments Market Act and the Rules of the Ljubljana Stock Exchange, Sava Reinsurance Company d.d. ("Sava Re"), with registered office at Ljubljana, Dunajska 56, hereby announces the Unaudited Unconsolidated Report of Sava Reinsurance Company d.d. for 9 months to 30 September 2009.

The report of Sava Re for the 9 months to 30 September 2009 has been prepared in compliance with the requirements of the Ljubljana Stock Exchange for standard market issuers; added are unaudited financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS").

The Unaudited Unconsolidated Report of Sava Reinsurance Company d.d. for 9 months to 30 September 2009 will be available as a hardcopy for viewing at the registered office of the Company at Dunajska 56, 1000 Ljubljana on every workday between 9:00 hrs and 15:00 hrs, and as a softcopy on the Company website at www.sava-re.si from 30 November 2009 onwards.

The Unaudited Unconsolidated Report of Sava Reinsurance Company d.d. for 9 months to 30 September 2009 has been considered by the Supervisory Board at its regular meeting on 26 November 2009.

1.1. Performance highlights after three quarters of 2009

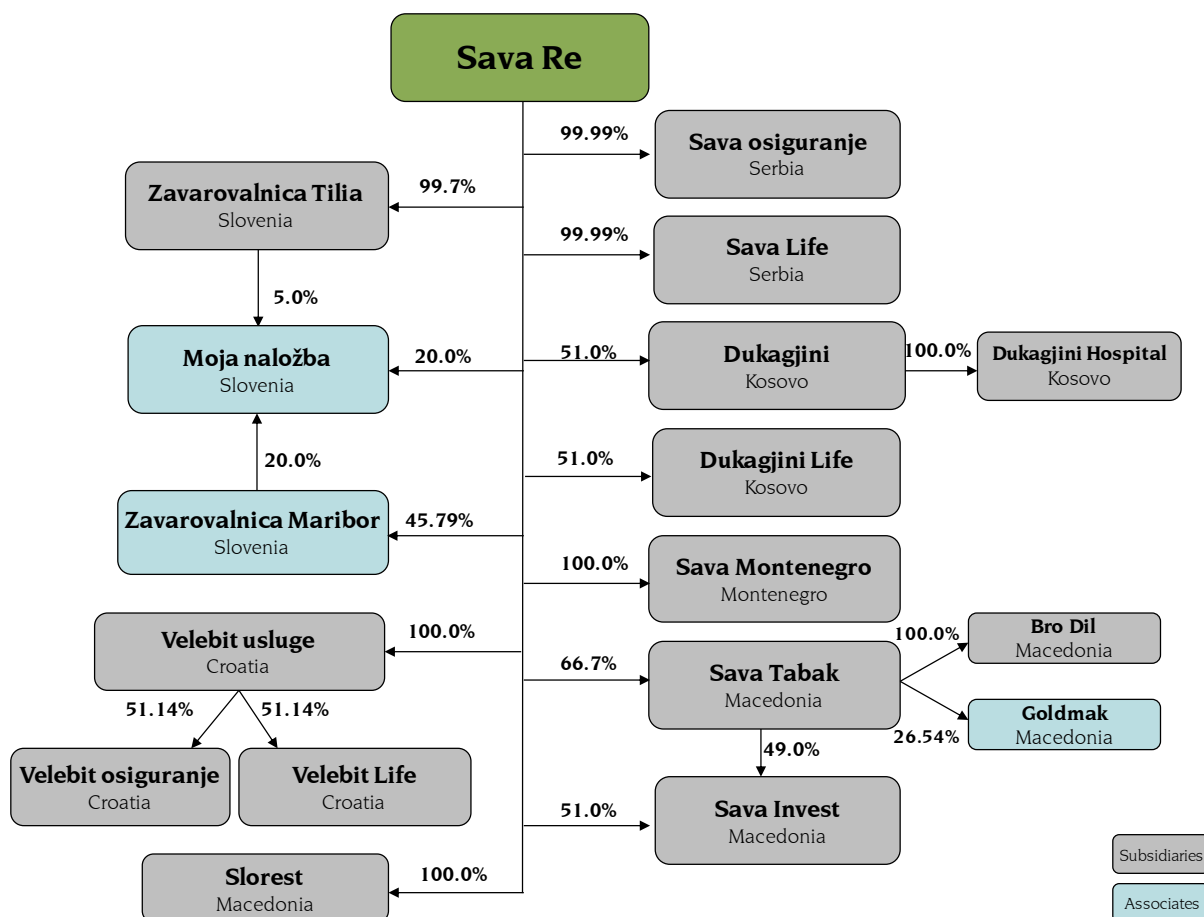
(EUR)	1-9 2009	1-9 2008
Gross premiums written	117,821,003	101,365,179
Year-on-year change	16.2%	12.4%
Gross premiums written – Slovenia	68,607,724	65,271,381
Gross premiums written – international	49,213,280	36,093,798
International premium as % of total GPW	41.8%	35.6%
Gross claims paid	75,565,494	83,060,441
Year-on-year change	–9.0%	61.7%
Net incurred loss ratio	73.9%	75.1%
Operating expenses less commission income	27,858,549	25,615,187
Year-on-year change	8.8%	20.2%
Net expense ratio	30.2%	32.2%
Net combined ratio	104.1%	107.3%
Profit/loss for the period	–6,603,763	4,614,267
Year-on-year change	–243.1%	–41.5%
Comprehensive income for the period, net of tax	2,992,057	–19,839,809
Year-on-year change	115.1%	n/a
	30. 9. 2009	31. 12. 2008
Total assets	419,563,861	399,152,651
Year-on-year change	5.1%	11.9%
Net technical provisions	139,501,257	121,618,337
Year-on-year change	14.7%	12.6%
Shareholders' equity	156,662,218	153,740,161
Year-on-year change	1.9%	5.6%
Return on equity	–4.3%	3.0%

Sava Re recorded a loss of EUR 6.6m for the 9 months to 30 September 2009. This is a result of the summer storms in 2009, which hit Slovenia's north-east. Hail storms have thus impacted the balance sheet for the second consecutive year, while financial markets are yet to stabilise and so the unfavourable technical result could not be offset by the investment result. It is important to underline that foreign-sourced reinsurance business posted a positive result and that it is this portfolio that the Company is strategically focused on. While the technical result was a loss, an improvement was recorded in the expense ratio.

1.2. About Sava Re

Sava Reinsurance Company d.d. ("Sava Re") is the parent company of the Sava Re Group, consisting of the parent and nine insurers based in the countries of former Yugoslavia and a fund management company based in Macedonia. There are also two associated companies: one insurer and one pension company, both Slovenia-based.

Chart 1: The Sava Re Group and associated companies as at 30 September 2009



The companies Velebit usluge, Dukagjini Hospital and Slorest have been established for specific projects of the Sava Re Group and do not carry on insurance business.

Sava Re Profile

1.	Company name:	Sava Reinsurance Company d.d.
2.	Registered office:	Dunajska 56, 1000 Ljubljana, Slovenia
3.	Telephone:	+386 (1) 47 50 200
4.	Facsimile:	+386 (1) 47 50 264
5.	E-mail:	info@sava-re.si
6.	Company ID number:	5063825
7.	Tax number:	17986141
8.	Court register of the Ljubljana District Court:	Entry no. 1/01413/00
9.	Company objects:	reinsurance business
10.	Business activity code:	65.200
11.	Year established:	1977
12.	Share capital:	EUR 39,069,099.48
13.	No. of non-par value shares:	9,362,519
14.	Share listing:	Ljubljana Stock Exchange – standard market

The Company has no branches.

1.3. Sava Re's governing bodies

Management Board

Members of the Management Board as at 30 September 2009:

Mag. Zvonko Ivanušič (Chairman)

Jošt Dolničar

Srečko Čebtron

In accordance with the Articles of Association of Sava Re, 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 Mag. Zvonko Ivanušič as Chairman of the Management Board. The term of office of Mag. Zvonko Ivanušič and Jošt Dolničar started on 31 December 2008, while Srečko Čebtron started his function of Board Member on 1 February 2009.

Supervisory Board

Supervisory Board Members as at 30 September 2009:

Chairman: **Branko Tomažič**

Deputy Chairman: **Mateja Lovšin Herič**

Member: **Mag. Mateja Treven**

Member: **Dr. Slaven Mičković**

Member (employee representative): **Mag. Aleš Mirnik**

Member (employee representative): **Nada Zidar**

Pursuant to its Articles of Association and the applicable legislation, Sava Re's 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.

The composition of the Supervisory Board saw some changes in the first nine months. In its correspondence session on 31 March 2009, the Supervisory Board of Sava Re was presented with the irrevocable resignation of Mag. Marko Pogačnik from the function of Chairman of the Supervisory Board and it elected from among its own numbers Dr. Timotej Jagrič, then Deputy Chairman of the Supervisory Board, new Chairman as from 31 March 2009. The Supervisory Board elected Dr. Edo Pirkmajer, then Member of the Supervisory Board, new Deputy Chairman of the Sava Re Supervisory Board. The term of office of all Supervisory Board members who were shareholder representatives expired on 13 July 2009.

On 3 July 2009, the General Meeting of Sava Re elected, for a four-year term of office, four members of the Supervisory Board – shareholder representatives – to start their term of office on 14 July 2009. The new members elected to the Supervisory Board – shareholder representatives – were Branko Tomažič, Mateja Lovšin Herič, Mag. Mateja Treven and Dr. Slaven Mičković. At its meeting on 20 July 2009, the new Sava Re Supervisory Board Members met in a constitutive meeting and elected Branko Tomažič as Chairman of the Supervisory Board and Mateja Lovšin Herič as Deputy Chairman. Furthermore, the Supervisory Board appointed from among its members two members to the Audit Committee: Mag. Mateja Treven as Chairman and Dr. Slaven Mičković as Member. The Supervisory Board appointed Mag. Blanka Vezjak the third – independent external – member of the Audit Committee.

General Meeting of Shareholders

The General Meeting of Sava Re Shareholders was convened twice in the nine months to 30 September 2009.

A General Meeting was convened on 13 February 2009 and was to be held on 16 March 2009, but was cancelled prior to the scheduled meeting date.

On 3 July 2009, the 22nd General Meeting of Sava Re was held at the conference hall of the TR3 office building, Trg republike 3, Ljubljana, in which the General Meeting elected, for a four-year term of office, four members of the Supervisory Board to start their term of office on 14 July 2009. Among other things, the General Meeting was presented the annual report for 2008 with the auditor's opinion and written report of the Supervisory Board to the annual report and the annual report on internal auditing for 2008 with the opinion of the Supervisory Board. The General Meeting decided on the discharge for 2008 to the Management Board and the Supervisory Board, on amendments to the Articles of Association, on amending the Meeting's General Rules of Procedure and on reducing attendance fees for the Chairman and members to the Supervisory Board. The General Meeting appointed KPMG Slovenija, podjetje za revidiranje d.o.o., Železna cesta 8a, Ljubljana as auditor for the 2009 financial year.

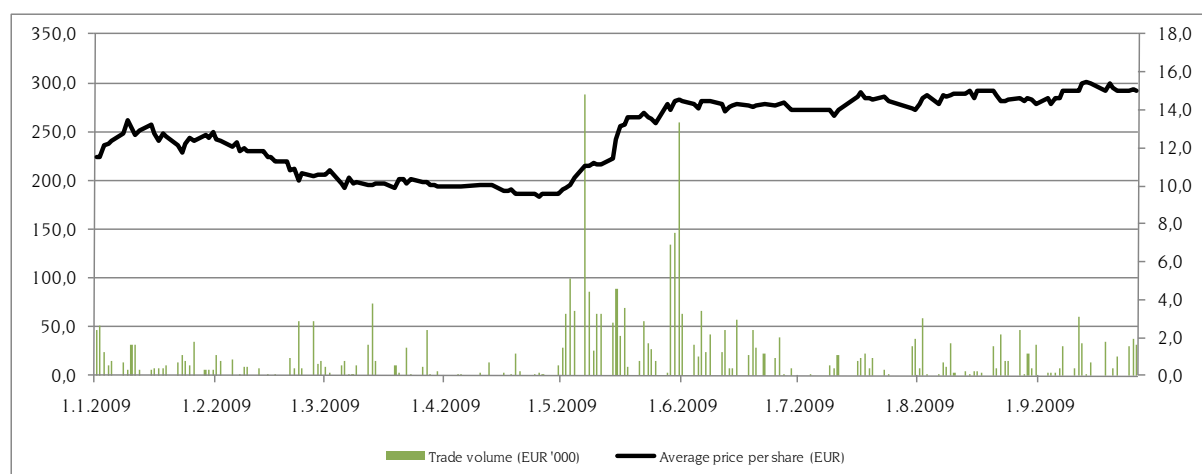
A challenging action was announced to agenda point 4 (Election of members to the Supervisory Board); the claim was filed with the Ljubljana District Court by shareholder Dr. Edo Pirkmajer upravljanje d.o.o., komanditna družba, Ljubljana, on 24 July 2009. On 23 September 2009, Sava Re was served the mentioned claim together with a request to submit its statement of defence within a term of 30 days of service. Sava Re submitted its statement of defence within the prescribed time limit.

1.4. Shareholders and share trading

As at 30 September 2009, Sava Re's share capital amounted to EUR 39,069,099.48, and was divided into 9,362,519 non-par value shares. Shares, which are registered, are 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 Sava Re Management Board is not aware of any shareholders' agreement restricting share transferability.

Sava Re shares are traded in the standard market of the Ljubljana Stock Exchange d.d. Ljubljana.

Chart 1: Trading in the POSR share in the 9 months to 30 September 2009



In the 9 months to 30 September 2009, the price of Sava Re shares moved considerably above the SBI20 stock index. In this period the price of the Sava Re share increased by 30.5%, while the SBI20 index went up by 17.5%.

At 30 September 2009, Sava Re had 5,765 shareholders; at 31 March 2009: 5,658 shareholders; at 31 December 2008: 5,678 shareholders and at 30 September 2008, it had 5,809 shareholders.

As at 30 September 2009, Sava Re held 210 treasury shares, which represented 0.002% of all shares outstanding. In the third quarter, the Company did not buy back any shares.

The table below shows the top ten shareholders of Sava Re as at 30 September 2009.

Table 1: Top ten Sava Re shareholders as at 30 September 2009

(EUR)	No. of shares	Holding
Slovenian Restitution Fund (SOD)	2,340,631	25.0%
Abanka d.d.	609,452	6.5%
Poteza naložbe d.o.o.	468,125	5.0%
Nova KBM d.d.	435,925	4.7%
Vuković Slaven	340,000	3.6%
Kapitalska družba d.d. - ZVPSJU ¹	320,346	3.4%
Zavarovalnica Maribor d.z.d. – KS ŽZ ²	255,088	2.7%
KD Galileo, subfund flexible structures	250,000	2.7%
Kapitalska družba d.d. - SODPZ ³	238,109	2.5%
NFD 1 delniški investicijski sklad d.d.	211,000	2.3%

Source: Central securities register KDD d.d.

At 30 September 2009, domestic shareholders accounted for 95.0% and foreign shareholders for 5.0% of the capital stock, which is unchanged from 30 June 2009.

Table 2: Sava Re Shareholders as at 30 September 2009 by type

	Domestic investors	Foreign investors
Banks	16,6%	0.8%
Investment and mutual funds	15,8%	0.3%
Insurers and pension companies	15,4%	0.0%
Other financial institutions ⁴	30,9%	0.0%
Individuals	13,4%	3.8%
Other commercial companies	2,9%	0.1%
Total	95,0%	5.0%

Source: Central securities register KDD d.d.

As at 30 September 2009, members of the Management and the Supervisory Board held 1,535 shares or 0.016% of all shares outstanding.

¹ Closed Mutual Pension Fund for Civil Servants

² Long-term business fund – life

³ Compulsory Supplementary Pension Insurance Fund

⁴ Slovenian Restitution Fund, investment companies, stock broking firms, etc.

Table 3: POSR shares held by Management/Supervisory Board members as at 30 September 2009

	No. of shares	Holding
Members of the Management Board:		
Mag. Zvonko Ivanušič	1,071	0.011%
Jošt Dolničar	357	0.004%
Supervisory Board member:		
Nada Zidar	107	0.001%
Total	1,535	0.016%

After three quarters of 2009, the net loss per share was EUR 0.70⁵.

As at 30 September 2009, the book value per share was EUR 16.73⁶. At 30 September 2009, the price to book value ratio was 0.89.

Table 4: Trading in the POSR share on the stock exchange

Share price as at 30 September 2009 (EUR)	15.00
Market capitalisation as at 30 September 2009 (EUR)	140,437,785
Turnover in 2009 (EUR)	4,176,000
Average price in 9 months to 30 September 2009 (EUR)	12.66
Period low in 9 months to 30 September 2009 (EUR)	9.40
Period high in 9 months to 30 September 2009 (EUR)	15.45

In 2009, the Company did not pay dividends.

The Company has no conditional equity.

⁵ Net profit/loss for the period / no. of shares (no. of shares excl. treasury shares 9,362,309)

⁶ Equity at 30 September 2009 / no. of shares (9,362,519)

1.5. Significant events in the 9 months to 30 September 2009

- At the beginning of the year, the Company launched a new corporate design. The new design will be used on the Group level.
- On 1 February 2009, Srečko Čebren started his function of Sava Re Board Member.
- On 17 February 2009 Sava Re acquired from Zavarovalnica Maribor d.d. 100% percent of Velebit usluge d.o.o. from Zagreb, who is the majority owner of Velebit osiguranje d.d. and Velebit životno osiguranje d.d. Velebit Life. The two insurers started operating in December 2007 and January 2008, respectively. Velebit osiguranje is a general insurer writing all non-life lines of business. In its first year of operation (2008), the Company wrote gross premiums of EUR 5.2m, representing a market share of 0.5 percent of the relatively well developed Croatian non-life insurance market. Velebit životno osiguranje (Velebit Life) writes exclusively life insurance, beginning with predominantly traditional life products. In its first year (2008), the life insurer wrote gross premiums of EUR 1.1m, corresponding to a market share of 0.3 percent of the Croatian life market. On 12 February 2009, the Croatian insurance supervision agency HANFA issued its licence for an indirect acquisition of 51.14 percent of Velebit osiguranje and Velebit Life. Sava Re already appointed representatives to the Supervisory Boards of the insurers and thus took control of both companies.
- In its correspondence session on 31 March 2009, the Supervisory Board of Sava Re was presented with the irrevocable resignation of Mag. Marko Pogačnik from the function of Chairman of the Supervisory Board, and elected from among its own numbers Dr. Timotej Jagrič, then Deputy Chairman of the Supervisory Board, new Chairman as from 31 March 2009. The Supervisory Board elected Dr. Edo Pirkmajer, then Member of the Supervisory Board, new Deputy Chairman of the Sava Re Supervisory Board.
- As in 2008, there have been hail storms in 2009 that caused extensive damage in north-eastern Slovenia. Our cedants incurred storm losses of EUR 24.7m, which impacted the half-yearly result of Sava Re by EUR 5.8m.
- On 3 July 2009, the 22nd General Meeting of Sava Re was held at the conference hall of the TR3 office building, Trg republike 3, Ljubljana, in which the General Meeting elected, for a new four-year term of office, four members of the Supervisory Board to start their term of office on 14 July 2009. The new members to the Supervisory Board – shareholder representatives – are Branko Tomažič, Mateja Lovšin Herič, Mag. Mateja Treven and Dr. Slaven Mičković.

Among other things, the General Meeting was presented the annual report for 2008 with the auditor's opinion and written report of the Supervisory Board to the annual report and the annual report on internal auditing for 2008 with the opinion of the Supervisory Board. The General Meeting decided on the discharge for 2008 to the Management Board and the Supervisory Board, on amendments to the Articles of Association, on amending the Meeting's General Rules of Procedure and on reducing attendance fees for the Chairman and members to the Supervisory Board. The Auditor appointed for the 2009 financial year was KPMG Slovenija, podjetje za revidiranje d.o.o., Železna cesta 8a, Ljubljana.

A challenging action was announced to agenda point 4 (Election of members to the Supervisory Board).

- At its meeting on 20 July 2009, the new Sava Re Supervisory Board Members met in a constitutive meeting and elected Branko Tomažič as Chairman of the Supervisory Board and Mateja Lovšin Herič as Deputy Chairman. Furthermore, the Supervisory Board appointed from among its members two members to the Audit Committee: Mag. Mateja Treven as Chairman and Dr. Slaven Mičković as Member. As the third, independent, external member of the Audit Committee, Mag. Blanka Vezjak was appointed in a correspondence session on 3 August 2009.
- On 27 August 2009, the rating agency Standard & Poor's published a new rating report for Sava Reinsurance Company and reaffirmed its long-term credit and financial strength rating of A– with a stable outlook.
- Sava Re received from the Ljubljana District Court an action challenging a GM resolution. The action was filed on 24 July 2009 by the shareholder Dr. Edo Pirkmajer, upravljanje d.o.o., komanditna družba, Cesta na Rožnik 19, Ljubljana, and challenges the resolution adopted under agenda point 4 ("Election of the Members of the Supervisory Board") adopted on 3 July 2009 at the 22nd regular General Shareholders Meeting of Sava Re. Sava Re will respond to the action within the prescribed time limit.
- In the third quarter 2009, Sava Re completed its reorganisation, thus setting a more transparent division between reinsurance activities and activities relating to the governance of controlled companies.

1.6. Important events after 30 September 2009

- Sava Re participated in the pre-emption offering by Zavarovalnica Maribor with the amount Sava Re was entitled to under its pre-emptive rights. Currently, Sava Re holds 45.79% of shares of Zavarovalnica Maribor.
- The Company started the procedure for acquiring the remaining 49% share of Dukagjini life, Kosovo, in which it already holds 51%. Thus in 2010, Dukagjini Life will be a wholly-owned Sava Re subsidiary.

2. REVIEW OF OPERATIONS AFTER THREE QUARTERS OF 2009

2.1. Developments in key financials

After three quarters of 2009, Sava Re recorded a negative net result of EUR –6,603,763.

Table 5: Net earned premiums

(EUR)	1–9 2009	1–9 2008	Index
Gross premiums written	117,821,003	101,365,179	116.2
Net premiums written	97,437,082	84,913,818	114.7
Change in net unearned premiums	–5,052,576	–5,368,315	94.1
Net premiums earned	92,384,506	79,545,503	116.1

Gross premiums written grew by 16.2% to EUR 117.8m. After three quarters of 2009, 84.0% of the annual budgeted premium was collected. Gross premiums written derived from Slovenian cedants grew by 5.1% year-on-year, while foreign-sourced gross premiums grew by 36.3%. After three quarters 2009, foreign-sourced gross premiums written accounted for 41.8% of the total premium, which is an increase by 6.2 percentage points year-on-year.

The growth in foreign premium is a result of successful implementation of the Sava Re strategy in international reinsurance markets. Like at the end of the half-year 2009, the growth in foreign-sourced premium is partly the result of a change in the premium recording system in the Sava Re financial statements which was introduced in the second quarter of 2008. The effect of the change in premium recording will diminish by the end of the 2009 financial year. If we used the method for estimating gross premiums applied in three quarters of 2008, gross premiums written would show a growth of 7.9%, while foreign-sourced premium would record growth of 16.6%.

Despite the financial crisis and the lowering of Sava Re's participation in quota share treaties of major domestic cedants, gross premiums written grew by 5.0% as a result of the portfolio growth in the Company's two largest Slovenian cedants, which was above the average growth in the Slovenian insurance market.

Thus **net premiums written** grew in line with gross premiums written compared to the same period last year, that is, by 14.8%. The ratio of net premiums to gross premiums after three quarters remained largely on the same level as in the same period last year (about 83.3%).

In the 9 months to 30 September 2009, **the change in net unearned premiums**, which together with net premiums written form net premiums earned, was an increase of EUR 5.0m.

Net earned premiums totalled EUR 92.4m, an increase by 16.1% year-on-year, and reached 78.5% of the annual budget. The change in premium recording, which affected gross premiums, had a similar effect on net premiums earned. This effect will diminish by the end of 2009.

Table 6: Net claims incurred

(EUR)	1–9 2009	1–9 2008	Index
Gross claims paid	75,565,494	83,060,441	91.0
Net claims paid	55,355,063	62,508,195	88.6
Change in the net provision for outstanding claims	12,913,190	–2,743,813	–470.6
Net claims incurred	68,268,253	59,764,382	114.2

Gross claims paid totalled EUR 75.6m, a decrease by 9.0% year-on-year, and reached 82.2% of the annual budget figure. Reinsurance claims incurred in relation to domestic cedants were 15.8% lower year-on-year, while reinsurance claims relating to foreign-sourced business were higher by 13.7%.

Despite lower claims on the domestic book year-on-year, it needs to be noted that 2008 was an extraordinary year and should therefore not be taken as a basis for comparison of results. Also in 2009 Slovenia was not spared as regards major loss events. Even though this year, storms caused somewhat less damage than in 2008, the impact of storm damage on the performance of Sava Re and its cedants was not at all negligible.

Gross claims paid relating to foreign-sourced business are in line with medium-term premium growth in this segment. The results of this business are relatively favourable.

Net claims paid totalled EUR 55.3m, a decrease by 11.4% year-on-year, and reached 75.2% of the annual budget figure.

The change in the net provision for outstanding claims is substantially larger on a year-on-year basis (by EUR 15.7m). The change in this provision is in line with the substantially different movement in the reinsurers' share of the claims provision (relating to outwards business). The net claims provision is calculated as the gross claims provision less the reinsurers' share of the provision. In the first three quarters 2008, the reinsurers' claims provision increased by 253%, while in the first three quarters of 2009, it decreased by 23%. This movement is a result of payments made by reinsurers for the extraordinary loss events in 2008, which were mostly settled in 2009. Due to the decrease in the reinsurers' share of the claims provision in 2009, the net claims provision increased by 16%, while the gross claims provision increased by 4%, in line with the increased business volume.

Net claims incurred totalled EUR 68.3m, an increase by 14.2% year-on-year and reached 87.2% of the annual budget figure. Net reinsurance claims incurred includes the change in the net claims provision.

Administrative expenses totalled EUR 4.6m and decreased by 3.5% year-on-year while reaching 68.2% of the budgeted expenses. After three quarters of 2009, the ratio of administrative expenses to gross premiums written was 3.9% (same period 2008: 4.7%).

Acquisition costs (commission) comprise the balance of commission expenses for business obtained and commission income relating to retroceded business. In the three quarters of 2009, these expenses totalled EUR 23.2m and increased by 11.6% year-on-year, which is primarily due to a larger business volume. A slower increase in these

expenses compared with the growth in net premiums earned (16.1%) indicates a relative lowering of commission in relation to premiums.

The ratio of gross expenses⁷ to gross premiums written decreased by one percentage point year-on-year and after three quarters of 2009 amounted to 26.4%.

The ratio of net expenses⁸ to net premiums earned decreased by two percentage points year-on-year and after three quarters of 2009 amounted to 30.2%.

Net investment income, which includes income from investments in affiliated companies (EUR –1.3m relating to badwill in Sava Montenegro) and the costs of the issued subordinate debt (EUR –1.4m), was a loss of EUR –2.8m. In the same period last year, investment income totalled EUR 11.9m. The large difference between the compared periods is the result of the conditions in financial markets and the impairment of some investments made by Sava Re, especially in the first half of 2009.

The net result of investment activities improved by EUR 0.8m compared to the first half-year and by EUR 2.6m compared to the first quarter 2009. For a more detailed account of the effects on the third-quarter 2009 result, see section 2.2.

At 30 September 2009 **total assets** were EUR 419.6m, an increase by 5.1% compared to the year-end 2008.

Of all asset categories, the largest increase was in **investments in Group companies and in associates**, which grew by EUR 12.5m compared to year-end 2008 as a result of the acquisition of Velebit usluge d.o.o. and the capital injected into Sava Montenegro. Other financial investments grew by EUR 13.2m, which is a result of the upturn in capital markets.

In addition, assets were also increased due to **receivables arising out of reinsurance business** (up EUR 8.2m). This growth relates primarily to the increased volume of business from abroad.

Equity at 30 September 2009 totalled EUR 156.7m and increased by 1.9% compared to year-end 2008. The debit item "revaluation surplus" was lower by EUR 9.6m compared to 31 December 2008, which had a positive impact on equity. However, equity was negatively affected by the loss for the year of EUR –6.6m.

Net technical provisions totalled EUR 139.5m after 9 months of 2009 and increased by 14.7% compared to year-end 2008 and exceeded the budgeted amount by 9.6%. The surplus over the budgeted amount in the first three quarters is in line with normal interim movement of unearned premiums: the surplus decreases after each quarter. *Net unearned premiums* rose by 12.9% compared to the beginning of the year; a decrease is expected by the year-end towards the planned amount. *The net provision for outstanding claims* increased by 15.8% this year (summer storms) so that at the end of the third quarter, the provision exceeded the amount budgeted.

⁷ Gross acquisition costs and administrative expenses

⁸ Net acquisition costs (gross costs less reinsurance commission income) and administrative expenses

2.2. The investment portfolio and its impact on the results after 3Q 2009

Structure of the investment portfolio

At 30 September 2009, invested assets totalled EUR 301.5m, which is by EUR 25.6m more than on 31 December 2008⁹. The net increase in investments relative to the end of 2008 is a result of both capital appreciation and positive cash-flows from reinsurance activities.

In the first nine months of 2009, the most significant relative increase compared to the end of 2008 was in deposits. Government bonds decreased on account of corporate bonds. Mutual funds decreased as a result of redemptions and sales. Strategic investments grew due to the acquisition of two Croatian insurers and an injection of capital in a Montenegrin subsidiary insurer, which the Company carried out in the first half of the year.

Table 7: Structure of the investment portfolio

(EUR)	As at 30.9.2009	Structure 30.9.2009	As at 31.12.2008	Structure 31.12.2008	Index
Deposits and CDs	52,477,097	17.4%	38,207,922	13.8%	137.3
Government bonds	46,888,832	15.6%	49,622,249	18.0%	94.5
Corporate bonds	59,993,009	19.9%	55,139,038	20.0%	108.8
Structured products	9,239,932	3.1%	10,225,740	3.7%	90.4
Shares	16,346,561	5.4%	14,693,075	5.3%	111.3
Mutual funds	24,190,177	8.0%	29,759,367	10.8%	81.3
Affiliated and associated companies	87,295,004	29.0%	74,999,030	27.2%	116.4
Loans	3,853,164	1.3%	2,003,663	0.7%	192.3
Land and buildings	1,249,242	0.4%	1,262,310	0.5%	99.0
Derivatives	-5,522	0.0%	-5,407	0.0%	102.1
Total	301,527,496	100.0%	275,906,987	100.0%	109.3

Investment return

In the first three quarters of 2009, the realised rate of return on the entire investment portfolio was -1.4%. In the same period last year, the realised investment return was 5.4%.¹⁰

The realised investment return on the liability fund was 2.2% (after three quarters of 2008: 3.5%); the realised investment return on the capital fund was -3.6% (after three quarters of 2008: 6.6%).

This year's negative realised investment return is mainly a result of capital losses realised with investments in mutual funds due to a downturn in capital markets in the first half of 2009 and a result of impairment of goodwill in Sava Montenegro. On the other hand, in

⁹ The Company disclosed receivables due from Zavarovalnica Maribor for the first instalment of the purchase price for Velebit usluge of EUR 6m. These receivables are not shown under investments. If they were, the growth of the investment portfolio at 30 September would be lower by EUR 6m, which is EUR 19.6m.

¹⁰ In the third quarter 2009, the Company adopted the *Rules on the impairment of financial investments*. For this reason, return figures are not comparable. On a comparable basis (including revaluation surplus) return on investments for the 3rd quarter 2009 was -1.99%, while the investment return for the 3rd quarter 2008 was -0.03%.

the same period last year (especially in the first half) the Company took advantage of the growth in capital markets and realised large capital gains with the stock portfolio.

In the first three quarters of 2009, the Company realised EUR 9.0m of investment income and EUR 11.8m of investment expenses. The major part of investment income relates to interest, while expenses mainly relate to the sale of mutual funds, impairment of these investments (EUR 1.3m) and payment of interest for subsidiary debt (EUR 1.4m).

Although capital markets remain volatile, the Company will continue its active policy of asset management to realise as many as possible market opportunities.

Table 8: Realised investment return¹¹

	30.9.2009	31.12.2008	31.9.2008
Deposits and CDs	4.2%	4.6%	4.2%
Government bonds	5.2%	5.6%	6.0%
Corporate bonds	0.0%	1.0%	3.0%
Structured products	1.8%	-7.9%	-10.8%
Shares	6.2%	20.4%	55.9%
Mutual funds	-24.5%	-15.4%	4.5%
Loans	4.5%	5.7%	5.7%
Land and buildings	9.5%	9.9%	10.2%
Strategic shares	-1.8%	-1.7%	2.1%
Total	-1.4%	-1.0%	5.4%

2.3. Major risk exposures

Insolvency risk

Sava Re's available solvency margin greatly exceeds the required solvency margin, that is, by EUR 49.1m.

Underwriting risks

Sava Re assumes risks from cedants; any excess is retroceded.

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 liabilities under (re)insurance contracts. Pricing risk is mainly controlled by using actuarial analyses of loss ratios, monitoring their trends and by making adequate corrections.

¹¹ Realised investment return is calculated based on the average amount of invested assets in the period and realised net investment income in the period.

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 Re.

Net retention risk is the risk that higher retention of insurance loss exposures result in losses due to catastrophic or concentrated claims experience. The mentioned risk is mitigated through adequate retrocession, especially through a catastrophe cover.

Reserving risk is the risk that technical provisions are inadequate. Sava Re 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.

Market, liquidity and credit risk

Interest rate risk is managed by asset-liability matching and by natural hedging. Equity securities risk is mitigated mainly by diversification of investments in terms of issuer, industry and geography. 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 Slovenian and foreign issuers. The equity portfolio is diversified by issuer, credit rating and by geographical area; mutual funds are diversified directly and indirectly.

Liquidity risk is primarily mitigated through investing a large proportion of 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 call” clauses incorporated within reinsurance treaties between a ceding company and Sava Re or Sava Re and its retrocessionaire. In addition, contracts are in place providing credit lines at call.

Sava Re is exposed to credit risk in case of 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 (iii) 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.

Credit risk due to default by reinsurers relates to retrocession of Sava Re. This risk is mitigated through building a diversified retrocession portfolio of established and adequately rated reinsurers.

Operational risk

Operational risk includes human capital risk, management control risk, system risk, process risk and legal risk. Sava Re is primarily exposed to risks arising from disruptions or inappropriate conduct of prescribed procedures and internal controls and disruptions in the management of the Company.

Operational risks are mitigated by setting up adequate IT-supported procedures and controls in the most important areas of its operation. In addition, such risks are managed through the internal audit function, through staff training and enhanced risk awareness.

Uncertainty risk up until the end of 2009

We expect that in the remaining three months of the year, the exposure of Sava Re 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.

There is a certain risk that in the medium term Sava Re will have insufficient capital to meet the capital adequacy requirements by Standard & Poor's. In the event of a significant growth in the reinsurance business, Sava Re may require additional capital to maintain its A– rating.

2.4. Employees

At 30 September 2009, Sava Re employed 66 people, 7 more than in 2008, which represents a year-on-year increase of 11%. The level of formal education remained very high: 46 employees (69%) hold a university degree (VII) (2008: 28 employees), of these 14 employees hold a master's degree (2008: 15%; 9 employees).

3. FINANCIAL STATEMENTS OF SAVA RE

3.1. Balance sheet as at 30 September 2009

(EUR)	30. 9. 2009	31. 12. 2008	Index
ASSETS	419,563,861	399,152,651	105.1
Intangible assets	222,840	189,498	117.6
Property and equipment	1,831,579	1,852,158	98.9
Deferred tax receivables	2,864,152	5,383,818	53.2
Investment property	1,249,242	1,262,310	99.0
Investments in Group companies and in associates	92,657,855	80,178,379	115.6
Financial investments:	213,880,665	199,773,234	107.1
- Loans and deposits	39,205,108	31,057,148	98.9
- held to maturity	6,121,185	6,187,618	103.7
- available for sale	166,250,455	160,393,911	107.9
- at fair value through profit or loss	2,303,918	2,134,557	126.2
Reinsurers' share of technical provisions	31,575,970	37,690,671	83.8
Receivables	63,582,976	56,451,138	112.6
Receivables arising out of reinsurance and co-insurance business	61,575,702	53,357,702	115.4
Tax receivables	0	846,920	-
Other receivables	2,007,275	2,246,517	89.4
Other assets	11,318,657	16,359,990	69.2
Cash and cash equivalents	379,926	11,454	3,317.0
LIABILITIES AND EQUITY	419,563,861	399,152,651	105.1
Equity	156,662,218	153,740,161	101.9
Share capital	39,069,099	39,069,099	100.0
Share premium	33,003,752	33,003,752	100.0
Profit reserves	19,205,727	20,275,699	94.7
Revaluation surplus	-1,045,085	-10,570,904	9.9
Retained earnings	73,032,486	71,962,514	101.5
Net profit/loss for the period	-6,603,762	0	-
Subordinated liabilities	31,123,754	31,139,605	99.9
Technical provisions	171,077,227	159,309,009	107.4
Unearned premiums	48,812,215	41,967,178	116.3
Provision for outstanding claims	121,465,009	116,458,980	104.3
Other technical provisions	800,003	882,851	90.6
Other provisions	227,681	226,667	100.4
Other financial liabilities	557	160	348.9
Operating liabilities	41,235,507	42,528,378	97.0
Liabilities from reinsurance and co-insurance business	40,780,580	42,528,378	95.9
Current income tax liabilities	454,926	0	-
Diverse liabilities	19,236,918	12,208,671	157.6

3.2. Income statement for the nine months to 30 September 2009

(EUR)	1-9 2009	1-9 2008	Index
Net earned premiums	92,384,506	79,545,503	116.1
Gross premiums written	117,821,003	101,365,179	116.2
Written premiums ceded to reinsurers and co-insurers	-20,383,921	-16,451,361	123.9
Change in unearned premiums	-5,052,576	-5,368,315	94.1
Income from investments in affiliates	478,944	223,926	213.9
Investment income	8,565,186	19,191,557	44.6
Other technical income, of this	4,157,413	2,285,909	181.9
- commission income	3,241,692	2,183,456	148.5
Other income	63,453	0	-
Net claims incurred	-68,268,253	-59,764,382	114.2
Gross claims paid less income from subrogation receivables liquidated	-75,565,494	-83,060,441	91.0
Reinsurers' and co-insurers' share of claims paid	20,210,431	20,552,246	98.3
Change in the provision for outstanding claims	-12,913,190	2,743,813	-470.6
Change in other technical provisions	82,849	-39,446	-210.0
Operating expenses, of this	-31,100,241	-27,798,643	111.9
- Acquisition costs	-26,472,364	-23,005,487	115.1
Expenses from investments in affiliates	-1,325,743	0	-
Investment expenses, of this	-10,532,857	-7,445,575	141.5
- impairment of financial assets not measured at fair value through profit or loss	-1,076,989	0	-
Other technical expenses	-970,148	-538,270	180.2
Other expenses	-660	-1,319	50.1
Profit before tax	-6,465,551	5,659,260	-114.2
Tax on profit	-138,211	-1,044,993	13.2
Profit for the period	-6,603,763	4,614,267	-143.1

3.3. Statement of comprehensive income for the nine months to 30 September 2009

(EUR)	1-9 2009	1-9 2008	Index
I. NET PROFIT/LOSS FOR THE YEAR, NET OF TAX	-6,603,763	4,614,267	-143.1
II. OTHER COMPREHENSIVE GAIN, NET OF TAX (I +2)	9,525,819	-24,454,075	-39.0
Net gain/loss from revaluation of financial assets available-for-sale	11,907,274	-27,897,923	-42.7
Gains/losses recognised in the revaluation surplus	20,369,487	-15,965,636	-127.6
Reclassification of gains/losses from revaluation surplus to net income	-8,462,213	-11,932,287	70.9
2. Tax on other comprehensive gain	-2,381,455	3,443,848	-69.2
Comprehensive income for the year, net of tax (I + II)	2,922,057	-19,839,809	-14.7

3.4. Statement of cash flows for the nine months to 30 September 2009

(EUR)		1-9 2009	1-9 2008
A	Cash flows from operating activities		
a)	Items of the income statement	7,049,254	5,191,072
	Net premiums written	97,437,082	84,913,818
	Investment income (other than financial income), financed from:	3,893,271	19,415,483
	- technical provisions	1,431,441	4,570,834
	- other sources	2,461,829	14,844,649
	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	4,220,866	2,285,909
	Net claims paid	-55,355,063	-62,508,195
	Net operating expenses excl. depreciation and change in deferred acquisition costs	-30,179,283	-27,682,664
	Investment expenses (excluding depreciation and financial expenses), financed from:	-11,858,600	-7,445,575
	- technical sources	-2,611,599	-1,849,556
	- other sources	-9,247,001	-5,596,019
	Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	-970,808	-539,589
	Tax on profit and other taxes not included in operating expenses	-138,211	-3,248,115
b)	Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax receivables/liabilities) of operating items of the balance sheet	6,164,933	-8,767,407
	Change in receivables from reinsurance	-8,217,998	-27,671,122
	Change in other receivables from reinsurance business	1,086,160	-408,591
	Change in other receivables and assets	5,041,333	-2,547,102
	Change in deferred tax receivables	2,519,666	-198,943
	Change in liabilities arising out of reinsurance business	-1,747,797	29,323,712
	Change in other operating liabilities	7,311,423	-3,770,057
	Change in other liabilities (except unearned premiums)	172,146	-51,456
	Change in deferred tax liabilities	0	-3,443,848
c)	Net cash from/used in operating activities (a + b)	13,214,187	-3,576,335
B	Cash flows from investing activities		
a)	Cash receipts from investing activities	412,567,286	210,914,712
	Interest received from investing activities and from:	4,665,300	1,731,934
	- investments financed from technical provisions	2,989,695	102,448
	- other investments	1,675,605	1,629,486
	Cash receipts from dividends and from participation in the profit of others, relating to	691,000	5,902,362
	- investments financed from technical provisions	77,049	3,066,795
	- other investments	613,951	2,835,567
	Proceeds from sale of long-term financial investments, financed from:	122,024,379	99,334,046
	- technical provisions	34,671,388	74,169,222
	- other sources	87,352,991	25,164,824
	Proceeds from sale of short-term financial investments, financed from:	285,186,608	103,946,370
	- technical provisions	188,941,151	57,555,778
	- other sources	96,245,456	46,390,592
b)	Cash disbursements in investing activities	-425,413,000	-247,105,291
	Purchase of intangible assets	-9,513	-70,063
	Purchase of property and equipment, financed from:	-64,255	-598,053
	- other sources	-64,255	-598,053
	Purchase of long-term financial investments, financed from:	-125,400,374	-214,929,544
	- technical provisions	-33,878,215	-156,942,621
	- other sources	-91,522,159	-57,986,923
	Purchase of short-term financial investments, financed from:	-299,938,858	-31,507,631
	- technical provisions	-199,139,550	-18,426,285
	- other sources	-100,799,309	-13,081,346
c)	Net cash from/used in investing activities (a + b)	-12,845,714	-36,190,579
C	Cash flows from financing activities		
a)	Cash receipts from financing activities	0	42,000,000
	Proceeds from paid-in capital	0	42,000,000
b)	Cash disbursements in financing activities	0	-2,014,258
	Interest paid	0	-2,014,258
c)	Net cash from/used in financing activities (a + b)	0	39,985,742
C2	Closing balance of cash and cash equivalents	379,926	357,882
x)	Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)	368,472	218,828
D	Opening balance of cash and cash equivalents	11,454	139,054

3.5. Statement of changes in equity for the nine months to 30 September 2009

(v EUR)	I. Share capital	II. Share premium	III. Profit reserves				IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares (deductible item)	Total (I to VII)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	for credit risks	for catastrophe losses					
Opening balance in financial period	39,069,099	33,003,752	14,986,525	1,774	3,053,943	2,235,231	-10,570,904	71,962,514	0	-1,774	153,740,160
Comprehensive income for the year, net of tax	0	0	0	0	0	0	9,525,819	0	-6,603,763	0	2,922,056
Additions/uses of credit risk equalization reserve and catastrophe equalization reserve	0	0	0	0	-1,069,972	0	0	1,069,972	0	0	0
Closing balance in financial period	39,069,099	33,003,752	14,986,525	1,774	1,983,971	2,235,231	-1,045,085	73,032,486	-6,603,763	-1,774	156,662,218

3.6. Statement of changes in equity for the nine months to 30 September 2008

(v EUR)	I. Share capital	II. Share premium	III. Rezerve iz dobička				IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares (deductible item)	Total (I to VII)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	for credit risks	for catastrophe losses					
Opening balance in financial period	32,809,710	106,162	14,986,525	1,774	3,669,552	1,028,204	12,491,698	62,513,085	18,032,498	-1,774	145,637,434
Comprehensive income for the year, net of tax	0	0	0	0	0	0	-24,454,075	0	4,614,267	0	-19,839,808
Subscription (payment) of new equity capital	6,259,389	32,950,380	0	0	0	0	0	0	0	0	39,209,769
Additions/uses of credit risk equalization reserve and catastrophe equalization reserve	0	0	0	0	-615,609	0	0	615,609	0	0	0
Other	0	0	0	0	0	0	0	18,032,498	-18,032,498	0	0
Closing balance in financial period	39,069,099	33,056,542	14,986,525	1,774	3,053,943	1,028,204	-11,962,377	81,161,192	4,614,267	-1,774	165,007,395

3.7. Statement of capital adequacy as at 30 September 2009

(EUR)		30. 9. 2009	30. 9. 2008
CORE CAPITAL (Article 106 of the Insurance Act)			
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	33,056,542
Profit reserves other than reserve for treasury shares and credit risk equalization & catastrophe equalization reserves	3	14,986,526	95,532,107
Retained earnings	4	73,032,486	615,610
Revaluation surplus relating to assets not financed by technical provisions	5	-1,119,225	-8,376,374
Treasury shares and own business shares	6	1,774	1,774
Intangible assets	7	210,231	198,404
Unsettled loss of the financial period plus deferred tax assets for unused tax losses, carried forward to the next tax period, or (unless there is an unsettled loss for the financial period) the balance of deferred tax assets for unused tax losses	8	6,603,762	0
Core capital (1+2+3+4+5-6-7-8)	9	152,156,871	159,696,806
Minimum guarantee fund	10	6,431,318	5,271,984
Meeting the requirement under Article 106 of the Insurance Act (9-10)	11	145,725,553	154,424,822
ADDITIONAL CORE CAPITAL (Article 107 of the Insurance Act)			
Subordinated debt	12	4,823,488	3,953,988
Additional core capital (not more than 50% of the lower of core capital and minimum guarantee fund)	13	4,823,488	3,953,988
AVAILABLE SOLVENCY MARGIN AND STATEMENT OF CAPITAL ADEQUACY (Article 108 of the Insurance Act)			
Total of core and additional core capital (9+13)	14	156,980,359	163,650,794
Participation according to Article 108, paragraph 1/1 of the Insurance Act	15	87,055,424	71,292,780
Participation according to Article 108, paragraph 1/2 of the Insurance Act	16	1,512,849	3,179,098
Available solvency margin of insurer (14-15-16)	17	68,412,086	89,178,916
Required solvency margin	18	19,293,954	15,815,951
Surplus/deficit of available solvency margin (17-18)	19	49,118,132	73,362,965

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of Sava Reinsurance Company d.d. hereby confirms that to the best of their knowledge the data in the Unaudited Unconsolidated Report of Sava Reinsurance Company d.d. for the nine months to 30 September 2009 is accurate.

Ljubljana, 16 November 2009



Mag. Zvonko Ivanušič, Chairman of the Management Board



Srečko Čebren, Member of the Management Board



Jošt Dolničar, Member of the Management Board