Pozavarovalnica Sava, d.d.

SAVA RE GROUP
ANNUAL REPORT 2009

Translation of the AUDITED ANNUAL REPORT OF THE SAVA RE GROUP 2009

Ljubljana, 21 April 2010

DECLARATION OF THE MANAGEMENT BOARD

"To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Sava Re Group business report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Mag. Zvonko Ivanušič, Chairman of the Management Board

Jošt Dolničar, Member of the Management Board

Srečko Čebron, Member of the Management Board

Ljubljana, 21 April 2010

CONTENTS

INTRODUCTION

BUSINESS REPORT

FINANCIAL STATEMENTS WITH NOTES

Pozavarovalnica Sava, d. d.

INTRODUCTION

SUMMARY OF KEY PERFORMANCE INDICATORS [1]

(EUR)	Sava Reinsurance Company		Sava Re Group	
	2009	2008	2009	2008
Gross premiums written	**147,082,330**	**134,743,719**	**251,416,588**	**229,606,927**
Year-on-year change	9.2 %	13.7 %	9.5 %	21.7 %
Gross premiums written - Slovenia	85,450,863	81,821,496	135,930,348	130,613,994
Gross premiums written - international	61,631,467	52,922,223	115,486,240	98,992,933
International premium as % of total GPW	41.9 %	39.3 %	45.9 %	43.1 %
Gross claims paid	**100,807,961**	**114,689,231**	**149,390,360**	**155,131,483**
Year-on-year change	-12.1 %	63.0 %	-3.7 %	56.0 %
Net incurred loss ratio	75.8 %	72.5 %	68.0 %	62.8 %
Operating expenses including reins. commission income	**35,438,665**	**36,332,598**	**76,532,093**	**70,841,502**
Year-on-year change	-2.5 %	25.3 %	8.0 %	32.7 %
Net expense ratio	29.8 %	33.3 %	35.2 %	36.5 %
Net combined ratio	**105.5 %**	**105.8 %**	**103.2 %**	**99.3 %**
Net investment income	**-6,394,407**	**-2,540,652**	**-1,350,736**	**-3,882,351**
Year-on-year change	-151.7 %	-111.5 %	65.2 %	-114.3 %
Realised investment return	-2.3 %	-1.0 %	-1.4 %	0.3 %
Profit/loss for the period	**-12,598,645**	**-7,991,648**	**-28,216,212**	**-8,472,644**
Year-on-year change	-57.6 %	-143.9 %	-233.0 %	-140.6 %
Comprehensive income	-3,744,882	-28,411,525	-17,691,584	-36,201,633
Total assets	**404,105,056**	**399,152,651**	**560,711,611**	**535,346,611**
Year-on-year change	1.2 %	11.9 %	4.7 %	11.8 %
Shareholders' equity	**149,995,279**	**153,740,161**	**161,677,406**	**174,087,055**
Year-on-year change	-2.4 %	5.6 %	-7.1 %	3.3 %
Net technical provisions	**144,578,495**	**121,618,337**	**277,337,473**	**226,914,678**
Year-on-year change	18.9 %	12.6 %	22.2 %	12.5 %
ROE[2]	-8.3 %	-5.3 %	-16.8 %	-4.9 %
Book value of shares	16.02	16.42	17.27	18.59
Net earnings/loss per share	-1.35	-0.91	-3.01	-0.96
Number of employees	65	58	1,757	1,153

[1] Calculation methodologies are explained in the glossary in the appendix
[2] Net profit/loss to average equity

1 SAVA RE – BASIC DETAILS

1.1 Sava Re Profile

Company name:	Pozavarovalnica Sava, d.d./ Sava Reinsurance Company, d.d.
Registered office:	Dunajska 56 1000 Ljubljana Slovenia
Telephone (switchboard):	(01) 47 50 200
Telefax:	(01) 47 50 264
E-mail:	info@sava-re.si
Website:	www.sava-re.si
Company ID number:	5063825
Tax number:	17986141
Share capital:	EUR 39,069,099 (no. of no-par-value shares: 9,362,519)
Date of entry into court register:	28 December 1990 Ljubljana District Court
Certified auditor	KPMG, Slovenija, podjetje za revidiranje, d.o.o. Železna cesta 8a 1000 Ljubljana Slovenia
Largest shareholder and holding:	Slovenska odškodninska družba, d.d. 25.0% (no-par-value shares: 2,340,631)

The Company has no branches.

1.2 Sava Re's governing bodies

Management Board

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

<u>Management Board members at 31 December 2009:</u>

Chairman of the Management Board:	Mag. Zvonko Ivanušič
Member of the Management Board:	Jošt Dolničar
Member of the Management Board:	Srečko Čebron

Supervisory Board

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 changed in 2009. In its correspondence session on 31 March 2009, the Supervisory Board of Sava Re was presented with the irrevocable resignation of the then 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, and elected Dr. Edo Pirkmajer, then Member of the Supervisory Board, new Deputy Chairman of the Sava Re Supervisory Board. Until the end of its term of office, the Supervisory Board had five members. The term of office of all Supervisory Board members who were shareholder representatives expired on 13 July 2009. The employee representatives Nada Zidar and Mag. Aleš Mirnik, both appointed in 2007, continue their four-year term of office.

On 3 July 2009, the General Meeting of Sava Reinsurance Company 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 Mićković. At its meeting on 20 July 2009, the new Sava Re Supervisory Board Members met in a constitutive meeting and elected Branko Tomažič Chairman of the Supervisory Board and Mateja Lovšin Herič 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 Mićković as Member. The Supervisory Board appointed Mag. Blanka Vezjak the third–independent external–member of the Audit Committee.

<u>Supervisory Board Members as at 31 December 2009:</u>

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

<u>Members of the Supervisory Board Audit Committee as at 31 December 2009:</u>

Chairperson:	Mag. Mateja Treven
Member:	Dr. Slaven Mićković
External member:	Mag. Blanka Vezjak
Deputy member:	Mateja Lovšin Herič

General Meeting of Shareholders

The General Meeting of Shareholders of Sava Reinsurance Company was convened twice in 2009.

The General Meeting convened on 13 February 2009 to be held on 16 March 2009 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 new 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 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); 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 Reinsurance Company was served the challenging action together with a request to submit its statement of defence. Sava Re submitted its statement of defence within the prescribed time limit and on 16 December 2009 was served a final ruling on the staying of the proceeding in this corporate case.

2 STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Partners, dear Shareholders,

For Sava Reinsurance Company, 2009 was another year of turbulent challenges, both in terms of the consequences of the global financial crisis and in terms of the loss experience, which was strongly impacted by natural catastrophes. The former affected the investment activities of Sava Reinsurance Company and its Group, while the latter mainly impacted the largest cedant of Sava Reinsurance Company, Zavarovalnica Maribor, which dominates the insurance market in north-east Slovenia. Developments in the Slovenian insurance market are of the greatest importance to Sava Reinsurance Company because our largest concentration of risks is in this region, which is becoming increasingly exposed to weather perils. This has negatively reflected on our operations. The last two years have therefore proven the correctness of our strategy to reduce exposure to the domestic insurance market. Thus, over the recent years, Sava Reinsurance Company managed to develop from a reinsurer operating exclusively in the domestic market to a reinsurer with as much as 42 percent of reinsurance premiums written abroad. In the period 2004–2009, foreign-sourced reinsurance premium grew at an annual average rate of 26 percent.

In 2009, the Sava Re Group made a net loss of EUR 28.2 million, of which EUR 12.6 million was contributed by Sava Reinsurance Company. In the first half of 2009, the controlling company had to make additional write downs and impairments on investments (in line with a policy adopted in 2008), which contributed EUR 7.5 million to the net loss. This was further increased by impairment of goodwill associated with strategic investments. While the net investment income in the income statement is lower than in 2008, the comprehensive income of Sava Reinsurance Company improved by EUR 24.7 million to EUR –3.7 million. The majority of Group subsidiaries operate in underdeveloped insurance markets which, we believe, have growth potential, as we expect both market players and regulators to develop further and insurance penetration to approach levels characteristic of fully-developed markets. We believe that in the long term, Group companies will contribute towards premiums and profits, and the controlling company is committed to continuing its support, providing training and assisting them in stream-lining operations, in offering high-quality services and a complete range of insurance products. These economies, which are closely connected to the developed economies, are most vulnerable to the repercussions of the global economic crisis. All our markets suffered from withdrawal of foreign capital, a decline in purchasing power and increased unemployment, leading to lower demand for services such as insurance. In addition, there was a marked deterioration in payment behaviour.

The business results of our subsidiaries were affected also by certain other, internal factors. Sava Reinsurance Company follows a reserving policy to comply with reserving standards used in the EU. This reserving policy was also consistently followed by all subsidiaries in 2009, which negatively affected their results of operations. In the long term, however, this policy ensures financial stability and better operating conditions.

Another major detrimental factor to the results of operations were the losses incurred by the subsidiary insurance companies established over the last two years. Insurance companies, in particular life insurers, ordinarily make a loss in the initial phase of operation; however, such losses need to be viewed as an investment for the future.

While the overall results of subsidiary operations were mostly poor, we still achieved several objectives. Gross premiums written by Group insurers grew by EUR 13.7 million or 11.7 percent in 2009, which represents solid growth in view of market conditions. Group insurers further expanded their sales networks, which is the basis of future growth, and rationalised costs by optimising the number of employees and business processes, which pushed down the Group net expense ratio. They also introduced new products, the development of which was enhanced through the intra-Group transfer of know-how and good practices. The majority of Group companies continued implementing information technology solutions in the areas of underwriting, policy processing, claims settlement and accounting, all aimed at obtaining standardised and complete data, thereby continuously improving the basis on which Group companies will be making decisions in the future. Sava Reinsurance Company also assisted in organising several seminars and workshops in 2009, thus contributing to intra-Group transfer of know-how.

As regards reinsurance business, 2009 was again a catastrophic year for the domestic market. Slovenia's insurance market did not suffer quite as much as in 2008, when the total amount of insured losses was higher. However, catastrophic events were more geographically concentrated and therefore affected certain insurers harder. In 2009, Sava Reinsurance Company suffered slightly more than in 2008, as more of the 2009 losses related to retained business. These loss events impacted the result by EUR 5.8 million.

In the Slovenian market, important measures were introduced, particularly in relation to crop business, the class in which we incurred the largest losses over the last two years. Given the very high exposure in this insurance class and the great difficulties in obtaining reinsurance coverage in international markets, it was vital that measures were taken aimed at the underwriting process.

In the year under report, the Management Board closely monitored performance and took a number of steps towards restructuring the reinsurance portfolio. Growth in foreign-sourced reinsurance business resulted in reduced exposure to the Slovenian insurance market. This allowed us to take advantage of the counter-cyclical nature of reinsurance and insurance business. Trends in international reinsurance markets were favourable in 2009 (the losses incurred by Sava Reinsurance Company were smaller than those in the domestic market), which is reflected in the loss ratio for foreign-sourced business of 96.5 percent (2008: 103.8 percent).

With reorganisation and cost optimisation, Sava Reinsurance Company reduced the net expense ratio by 3.5 percentage points compared to 2008. Investments were restructured in favour of shorter-term placements, which meant a step forward towards mitigating market risks. At year-end 2009, Sava Reinsurance Company also had more than 90 percent of its assets supporting technical provisions in fixed-income placements. Restructuring of the investment portfolio reflected positively also on equity, which remained almost at the same level, despite the significant loss. The negative fair value reserve (an equity item) decreased to EUR 1.7 million, from EUR 10.6 in 2008, which had a significant positive effect on equity and capital adequacy. This development is mainly attributable to investment valuation and unrealised capital gains and also related to the positive effects of restructuring the investment portfolio.

Last but not least: the 1,757 employees of the Sava Re Group are the most important factor of our future development, driving change and seeking opportunities. I believe that each one of them will contribute towards the implementation of our vision, and will be able to identify with the main Group goal, to provide quality services, and join in pursuing the Group's main values, client commitment, superior performance, integrity and loyalty.

Mag. Zvonko Ivanušič
Chairman of the Management Board

3 REPORT OF THE SUPERVISORY BOARD

COMPOSITION OF THE SUPERVISORY BOARD

In 2009, there were several changes in the composition of the Supervisory Board of Sava Reinsurance Company ("Sava Re"). In March 2009, Marko Pogačnik resigned as Chairman. Supervisory Board members elected from amongst the members were Dr. Timotej Jagrič as new Chairman and Dr. Edo Pirkmajer as new Deputy Chairman. Until expiry of its four-year term of office on 13 July 2009, the Supervisory Board had five members only: Dr. Timotej Jagrič, Chairman, Dr. Edo Pirkmajer, Deputy Chairman, Anton Sagadin, Member, and Nada Zidar and Mag. Aleš Mirnik, Members employee representatives.

On 3 July 2009, the General Meeting appointed four new members shareholder representatives for a four-year term of office starting 14 July 2009: Branko Tomažič, Chairman, Mateja Lovšin Herič, Deputy Chairperson, and Mag. Mateja Treven and Dr. Slaven Mićković, Members. The two employee representatives remained the same throughout 2009.

ACTIVITIES OF THE SUPERVISORY BOARD

In 2009, Sava Re's Supervisory Board held 19 sessions: 10 regular and two correspondence sessions with the old composition, and six regular sessions and one correspondence session with the new composition. The correspondence sessions were held in accordance with the Rules of Procedure of the Supervisory Board and with the consent of all members. During the course of the year, the Supervisory Board, within its statutory mandate, discussed all relevant aspects of Sava Re's performance and activities. Discussions were attended also by Management Board members, in certain cases also by other experts employed in Sava Re.

Early in 2009, the Supervisory Board approved the Sava Re's business policy and financial plan for 2009. It also approved the 2009–2013 strategic plan of the Sava Re Group, which serves as the basis for Sava Re and other Group members when preparing their annual business policies and financial plans. The Group has used the strategy plan-based dynamic planning model for quite some years now.

In 2009, the Supervisory Board, within its statutory mandate, supervised also Sava Re's internal audit. It approved the internal audit plan for 2009 and the internal audit report for 2008. It also considered the internal audit reports for the second half of 2008 and for the first half of 2009. All documents relating to internal audit were presented by Sava Re's internal auditor. The Supervisory Board considers that all internal audit reports were independent and objective, and that the comments and findings of the internal auditor were taken into consideration by the Management Board. It further notes that internal audits found no significant or material irregularities in the operations of Sava Re.

In addition to the above-mentioned documents, the Supervisory Board also considered the Unaudited Annual Report 2008 of Sava Re, as well as its interim reports for the periods January-June and January-September 2009. It also considered the Unaudited Interim Report 2009 of the Sava Re Group.

In 2009, the Supervisory Board adopted the Annual Report 2008 of Sava Re and presented it at the General Meeting together with the related auditor's opinion, its own report for 2009, and its own opinion on the internal audit report for 2009.

The Supervisory Board also considered certain acts prepared by the Audit Committee and the Group Internal Audit: it approved the Charter and the Rules of Procedure of the Audit Committee of the Supervisory Board, and approved the Charter of the Group Internal Audit and the Rules of Procedure of Internal Audit in the Sava Re Group.

Together with the Management Board, it proposed various resolutions to be adopted by the General Meeting. Alone, in accordance with the Companies Act, it proposed that the General Meeting adopt resolutions (i) appointing new Supervisory Board members – shareholder representatives, (ii) appointing a new external auditor, and (iii) lowering the Supervisory Board's attendance fees until 31 December 2010 as an anti-crisis measure.

The Supervisory Board closely monitored Sava Re's investing activity, in particular when capital market conditions worsened. The Management Board reported to it quarterly on Sava Re's investment portfolio.

The Supervisory Board monitored the operations of Group members, in particular those of the associated insurer Zavarovalnica Maribor and its raising of additional capital.

It also considered the acquisition of preference shares of the Hit company and of other non-marketable securities, both in its old and new composition, and engaged for this purpose first Sava Re's internal audit and then an external auditor, KPMG. The report prepared by the latter was first reviewed from the point of view of criminal law by Mag. Mitja Jelenič Novak. On the proposal of the Audit Committee of the Supervisory Board, a second opinion was then obtained also from the Ilić law firm, which focused also on various other legal aspects. Neither of the reviewers found any basis for criminal proceedings to be initiated against any of the persons responsible for the acquisitions. The Supervisory Board thus closed this matter at the end of 2009.

The Supervisory Board noted that all reports required by it and its Audit Committee, as prepared by the Management Board, were sufficient and appropriate for it to examine various information and comply with statutory requirements.

NOMINATION COMMITTEE

As its four-year term of office expired in 2009, the Supervisory Board appointed, in April 2009, a five-member Nomination Committee as a special body responsible for objectivity and transparency of the selection of candidate Supervisory Board members to be proposed to the General Meeting for election. Members of the Nomination Committee were Dr. Timotej Jagrič, Chairman of Sava Re's Supervisory Board, Mag. Tomaž Kuntarič, representative of the Slovenian Restitution Fund (SOD), Matjaž Kovačič, representative of the Nova kreditna banka Maribor (NKBM) Group, Borut Jamnik, representative of the Pension Fund Management (KAD), and Mag. Franc Jamšek, representative of the Staffing and Accreditation Council of the Slovenian Government, were named. The Committee met three times and eventually proposed to the Supervisory Board candidates. These consented to becoming candidates, and submitted written statements on the absence of circumstances that would contradict their election pursuant to the Companies Act and the Insurance Act, as well as on the absence of circumstances that could result in a conflict of interests pursuant to the Corporate Governance Code for Joint-Stock Companies.

AUDIT COMMITTEE

Already in 2008, in accordance with the amended Companies Act (which imposed the obligation of setting up an audit committee on public joint-stock companies), appointed a three-member Audit Committee consisting of: Dr. Edo Pirkmajer as Chairman, and Dr. Timotej Jagrič and Mag. Blanka Vezjak as Members. The term of office of the Audit Committee in this composition expired together with the term of office of the Supervisory Board, i.e. on 13 July 2009.

The new Supervisory Board appointed a new Audit Committee consisting of: Mag. Mateja Treven as Chairman, and Dr. Slaven Mićković and Mag. Blanka Vezjak as Members. Mag. Blanka Vezjak is an external member with extensive experience in auditing: she was appointed certified auditor in 1993, certified internal auditor in 1996, certified accountant in 2000, and government auditor and government internal auditor in 2004.
The Audit Committee met 11 times in 2009, at six regular sessions with the old composition, and at five regular and one correspondence session with the new composition. The Audit Committee considered all the matters within its terms of reference, and provided expert support to the Supervisory Board in the form of opinions and proposals. The Supervisory Board considers that the Audit Committee had an adequate composition and appropriate work conditions in 2009.

ANNUAL REPORT

Within its statutory mandate, the Supervisory Board examined the Annual Report 2009 of Sava Re and its Group. It noted that it was clear and transparent, as well as fully compliant with contents and disclosure requirements under the Companies Act, International Financial Reporting Standards and specific regulations or implementing regulations adopted on the basis of such specific regulations.

The Supervisory Board also took note of the related auditor's opinion. The auditor, KPMG Slovenija, audited the Annual Report 2009 of Sava Re and its Group and carried out several audits in Group members. Based on its examination of the Annual Report 2009, as well as based on the related auditor's opinion and the Audit Committee's opinion, the Supervisory Board considers that the Annual Report 2009 gives a true and fair view of the assets and liabilities, financial position and results of Sava Re and the Sava Re Group. The Supervisory Board thus approves the Annual Report 2009 of Sava Re and the Sava Re Group.

CONCLUSION

The difficult financial market conditions coupled with the large loss burden made the year 2009 one of the most difficult in the history of Sava Re. The Supervisory Board thus focused on reviewing strategy, and believes that the objectives pursued and the measures adopted by Sava Re, together with the business excellence model, represent a guarantee of its future success.

This report was prepared in accordance with Article 282 of the Companies Act.

Tomažič

Branko Tomažič
Chairman of the Sava Re Supervisory Board

4 SIGNIFICANT EVENTS IN 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 Čebron 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. 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% of the relatively well developed Croatian insurance market. Velebit životno osiguranje writes exclusively life insurance, having begun 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% of the Croatian life market. On 12 February 2009, the Croatian insurance supervision agency HANFA issued its licence for an indirect (via Velebit usluge) acquisition of 51.14% of Velebit osiguranje and Velebit životno osiguranje. Sava Reinsurance Company 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 Reinsurance Company was presented with the irrevocable resignation of Mag. Marko Pogačnik from the function of Chairman and Member 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 Reinsurance Company 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 Mićković.

  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 Chairman of the Supervisory Board and Mateja Lovšin Herič 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 Mićković 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 Reinsurance Company 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 challenged 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. Sava Re responded to the action within the prescribed time limit.

- In the third quarter 2009, Sava Re completed its reorganisation, thus setting a clear division between reinsurance activities and activities relating to the governance of subsidiaries.

- Sava Reinsurance Company participated in the pre-emption offering by Zavarovalnica Maribor with the amount it was entitled to under its pre-emptive rights. Currently, Sava Reinsurance Company holds 45.79% of shares of Zavarovalnica Maribor.

- The Company started the procedure for acquiring the remaining 49% share of Dukagjini life, Kosovo and Dukagjini, Kosovo, in both of which it already holds 51%. Thus in 2010, Dukagjini and Dukagjini Life will be a wholly-owned Sava Re subsidiaries.

- On 15 December 2009, Sava Reinsurance Company was notified by Zavarovalnica Maribor that on 7 December 2009, the District Court of Maribor entered the increase in the share capital of Zavarovalnica Maribor based on the stock offering carried out on 30 October 2009. The decision on the entering of the increase in share capital into the Court Register having become final, the put option contract on "new" shares of Zavarovalnica Maribor acquired by Sava Reinsurance Company entered into force, the contract being made between Sava Reinsurance Company and Nova KBM on 23 October 2009. The subject of the put option contract is the right of Sava Reinsurance Company to sell Zavarovalnica Maribor shares, however, up to the number of shares acquired in the recapitalisation, i.e. 1.558.048 shares. The strike price of the put option was EUR 4.1729 (the stock offering price) plus 10.5% per annum, starting to accrue as of the date of entering the capital increase in the court register. Sava Reinsurance Company has the right to sell from 1 April 2010 up until three years after the registering of ownership on the shares.

- On 16 December 2009, Sava Re was served a final ruling from the District Court of Ljubljana ref. no. V Pg 2329/2009 on the staying of the proceeding in the corporate case of challenging a general meeting resolution.

5 SIGNIFICANT EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

- On 3 February 2010 the Board of Directors of the fund management company Sava Invest, a.d., 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 Balansirajuči 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 investments.

- On 31 January 2010, the newly acquired shares of the Kosovan companies 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.

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

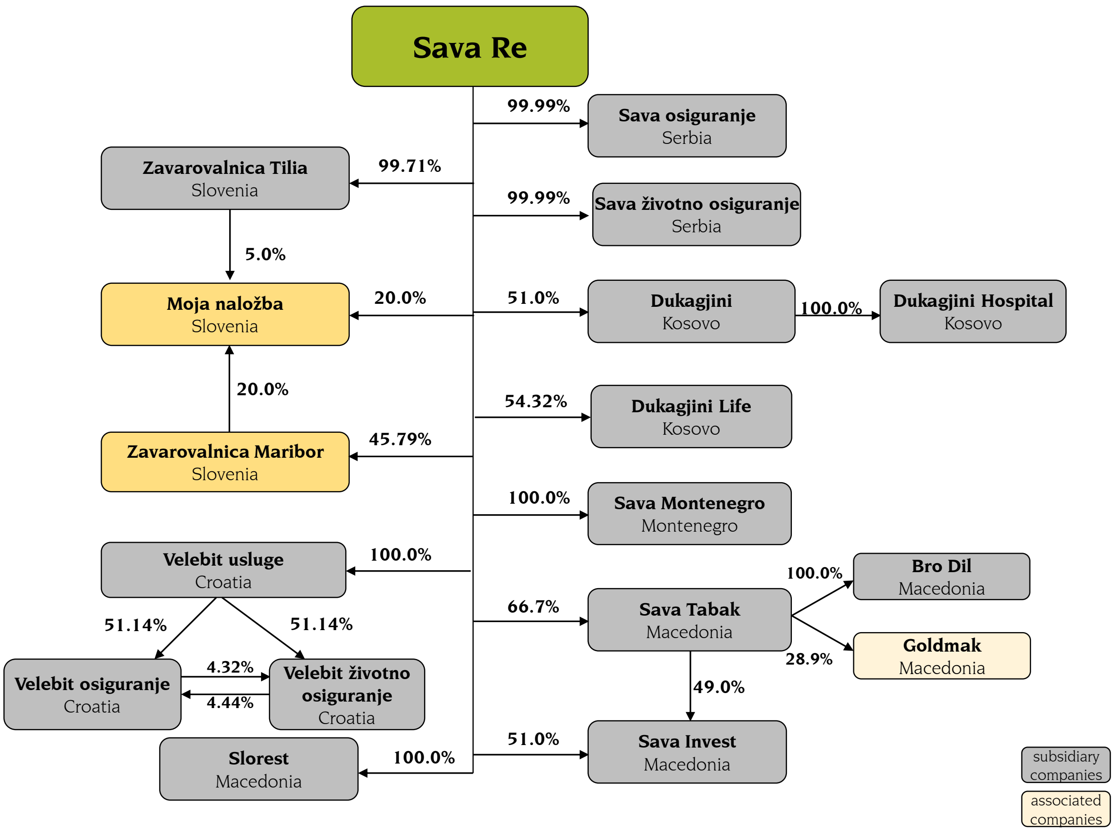
- In January 2010, the controlling company carried out a recapitalisation in Sava Montenegro in the amount of EUR 3m.

6 SAVA RE GROUP AND ASSOCIATED COMPANIES

The period 2006–2009 was one of rapid growth for the Sava Re Group. On 31 December 2009, the Group was present in the markets of Slovenia, Serbia, Montenegro, Kosovo and Croatia, and worldwide through its reinsurance operations. In addition to reinsurance and insurance business, the Group also manages investment funds.

6.1 Sava Re Group structure including associated companies

Sava Re Group structure including associated companies as at 31 *December* 2009.



6.2 Company profiles of Sava Re Group members and associates as at 31 December 2009

At year-end 2009, the following companies were members of the Sava Re Group or associated companies:

1. Pozavarovalnica Sava, d.d., Ljubljana (Reinsurance Company Sava d.d., Ljubljana/Sava Re d.d.)
2. Zavarovalnica Maribor, d.d., Maribor
3. Zavarovalnica Tilia, d.d., Novo mesto
4. Moja naložba pokojninska družba, d.d., Maribor
5. Sava osiguranje, a.d.o., Belgrade
6. Dukagjini, sh.a., Pristina
7. Sava Tabak, a.d.o., Skopje
8. Sava Montenegro, a.d., Podgorica
9. Sava Invest, a.d., Skopje
10. Bro-Dil, a.d., Skopje
11. Sava životno osiguranje, a.d.o., Belgrade
12. Dukagjini Life, sh.a., Pristina
13. Velebit usluge, d.o.o., Zagreb
14. Velebit osiguranje, d.d., Zagreb
15. Velebit životno osiguranje, d.d., Zagreb
16. Slorest, d.o.o., Skopje
17. Dukagjini Hospital, sh.p.k., Pristina

I.

Company name:	**Pozavarovalnica Sava, d.d., Ljubljana (Reinsurance Company Sava d.d.)**
Registered office:	Dunajska cesta 56, 1000 Ljubljana, Slovenia
Company ID number:	5063825
Business activity:	65.200 reinsurance business
Share capital:	EUR 39,069,099
Stakes (voting rights) held by Group members	*Zavarovalnica Maribor*: 4.45 %
Governing bodies:	Management Board Chairman: Mag. Zvonko Ivanušič Member: Jošt Dolničar Member: Srečko Čebron Supervisory Board Chairman: Branko Tomažič
Position in the Group:	*parent, reinsurer*

II.

Company name:	**Zavarovalnica Maribor, d.d., Maribor**
Registered office:	Cankarjeva ulica 3, 2507 Maribor, Slovenia
Company ID number:	5063400
Main business activity:	65.120 insurance business other than life business
Share capital:	EUR 42,626,092
Par value of equity interest:	EUR 19,518,487
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 45.79%
Governing bodies:	<u>Management Board</u> Chairman — Drago Cotar Members: David Kastelic, Marko Planinšec Member/Labour Director: Srečko Čarni <u>Supervisory Board</u> Chairman: Matjaž Kovačič
Position in the Group:	*associated insurance company*

III.

Company name:	**Zavarovalnica Tilia, d.d., Novo mesto**
Registered office:	Seidlova cesta 5, 8000 Novo mesto, Slovenia
Company ID number:	5063426
Main business activity:	65.120 insurance business other than life business
Share capital:	EUR 14,317,673
Par value of equity interest:	EUR 14,276,152
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 99.71%
Governing bodies:	<u>Management Board</u> Chairman: Andrej Kavšek Member: Mag. Tadej Avsec <u>Supervisory Board</u> Chairman: Mag. Zvonko Ivanušič
Position in the Group:	*subsidiary insurance company*

IV.

Company name:	**Moja naložba pokojninska družba, d.d., Maribor**
Registered office:	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia
Company ID number:	1550411
Business activity:	65.300 pension fund business
Share capital:	EUR 6,301,109
Par value of equity interest:	EUR 2,148,678
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 20.0% *Zavarovalnica Maribor*: 20.0% *Zavarovalnica Tilia*: 5.0%
Governing bodies:	Management Board Chairman: Lojze Grobelnik Member: Dr. Igor Pšunder Supervisory Board Chairman: Mag. Andrej Plos
Position in the Group:	*associated company*

V.

Company name:	**Sava osiguranje, a.d.o., Belgrade**
Registered office:	Sremska 6, 11000 Beograd, Serbia
Company ID number:	17407813
Business activity:	non-life insurance business
Share capital:	EUR 6,164,490
Par value of equity interest:	EUR 6,163,873
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 99.99%
Governing bodies:	Board of Directors Chairman: Duško Jovanović Member: David Kastelic, Mag. Maja Krumberger, Goran Miličević, Dr. Goran Pitić, Filip Šramel Supervisory Board Chairman: Dušan Čeč
Position in the Group:	*subsidiary insurance company*

VI.

Company name:	**Dukagjini, sh.a., Pristina**
Registered office:	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo
Company ID number:	70152892
Business activity:	non-life insurance business
Share capital:	EUR 3,228,050
Par value of equity interest:	EUR 1,646,305
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 51.0%
Governing bodies:	<u>Managing Director</u> Mag. Fatmir Gashi <u>Board of Directors</u> Chairman: Sergej Simoniti Deputy Chairman: Ekrem LLuka Member: Rok Moljk, Mag. Tomaž Oplotnik, Mag. Fatmir Gashi
Position in the Group:	*subsidiary insurance company*

VII.

Company name:	**Sava Tabak, a.d.o., Skopje**
Registered office:	III Makedonske brigade b.b., 1000 Skopje, Macedonia
Company ID number:	4778529
Business activity:	non-life insurance business
Share capital:	EUR 2,982,323
Par value of equity interest:	EUR 1,989,209
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 66.7%
Governing bodies:	<u>Executive Director</u> Rok Moljk <u>Managing Director</u> Blaže Srbinovski, Peter Skvarča <u>Board of Directors</u> Chairman: Jošt Dolničar Member: Rok Moljk, David Kastelic, Zagorac Tumbovski
Position in the Group:	*subsidiary insurance company*

VIII.

Company name:	**Sava Montenegro, a.d., Podgorica**
Registered office:	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro
Company ID number:	02303388
Business activity:	non-life insurance business
Share capital:	EUR 4,829,694
Par value of equity interest:	EUR 4,829,694
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 100.0%
Governing bodies:	Executive Director Nebojša Ščekić Board of Directors Chairman: Mag. Tomaž Oplotnik Member: Jošt Dolničar
Position in the Group:	*subsidiary insurance company*

IX.

Company name:	**Sava Invest, a.d., Skopje**
Registered office:	Partizanski odredi br. 43 b/1 – 03, Skopje, Macedonia
Company ID number:	6369103
Business activity:	fund management
Share capital:	EUR 202,684
Par value of equity interest:	EUR 169,646
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 51.0% *Sava Tabak*: 49.0%
Governing bodies:	Director — Velko Velkovski Board of Directors Chairman: Uroš Lorenčič Member: Velko Velkovski, Trajče Nikolovski, Peter Skvarča
Position in the Group:	*subsidiary for fund management*

X.

Company name:	**Bro-Dil, a.d., Skopje**
Registered office:	Ulica 27 mart broj 5/4, Skopje, Macedonia
Company ID number:	5256372
Business activity:	securities broker and financial consulting
Share capital:	EUR 75,661
Par value of equity interest:	EUR 50,466
Stakes (voting rights) held by Group members:	*Sava Tabak*: 100.0%
Governing bodies:	Executive Director — Iskra Kostova Board of Directors Chairman: Jordan Ralupovski Members: Melita Gugulovska, Mirče Kitanovski
Position in the Group:	*indirect subsidiary stock brokerage firm*

XI.

Company name:	**Sava životno osiguranje, a.d.o., Belgrade**
Registered office:	Sremska 6, 11000 Beograd, Serbia
Company ID number:	20482443
Business activity:	life insurance business
Share capital:	EUR 3,500,000
Par value of equity interest:	EUR 3,499,650
Stakes (voting rights) held by Group members:	*Sava Re*: 99.99%
Governing bodies:	Board of Directors Chairman: Vladimir Đurić Members: Mag. Polona Pirš, Jošt Dolničar Supervisory Board Milan Viršek, Milojka Kolar, Samo Selan
Position in the Group:	*subsidiary insurance company*

XII.

Company name:	**Dukagjini Life, sh.a., Pristina**
Registered office:	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo
Company ID number:	70520893
Business activity:	life insurance business
Share capital:	EUR 3,285,893
Par value of equity interest:	EUR 1,784,897
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 54.32%
Governing bodies:	Managing Director: Ramis Ahmetaj Board of Directors Chairman: Mag. Primož Močivnik Member: Ramis Ahmetaj, Mag. Fatmir Gashi, Uroš Lorenčič, Rok Moljk
Position in the Group:	*subsidiary insurance company*

XIII.

Company name:	**Velebit usluge, d.o.o., Zagreb**
Registered office:	Savska 144 a, 10000 Zagreb, Croatia
Company ID number:	2146282
Business activity:	wholesale, retailer
Share capital:	EUR 9,409,211
Par value of equity interest:	EUR 9,409,211
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 100.0%
Governing bodies:	Managing Director: Rok Moljk
Position in the Group:	*subsidiary*

XIV.

Company name:	**Velebit osiguranje, d.d., Zagreb**
Registered office:	Savska 144 a, 10000 Zagreb, Croatia
Company ID number:	2269937
Business activity:	non-life insurance business
Share capital:	EUR 9,065,810
Par value of equity interest:	EUR 4,842,049
Stakes (voting rights) held by Group members:	*Velebit usluge*: 51.14% *Velebit životno osiguranje*: 4.44%
Governing bodies:	Management Board Chairman: Dražen Kulić Member: Krešimir Vrbić Supervisory Board Chairman: Milan Viršek Deputy Chairman: Dragutin Sokačić Member: Srečko Čebron, Primož Močivnik, Josip Šeremet
Position in the Group:	*indirect subsidiary insurance company*

XV.

Company name:	**Velebit životno osiguranje, d.d., Zagreb**
Registered office:	Savska 144 a, 10000 Zagreb, Croatia
Company ID number:	2269929
Business activity:	life insurance business
Share capital:	EUR 9,065,810
Par value of equity interest:	EUR 4,836,610
Stakes (voting rights) held by Group members:	*Velebit usluge*: 51.14% *Velebit osiguranje*: 4.32%
Governing bodies:	Management Board Chairman: Tibor Kralj Member: Kristina Cvitanović-Zorić Supervisory Board Chairman: Rok Moljk Deputy: Pero Ćosić Member: Iris Vencelj, Uroš Lorenčič, Dražen Srdoč
Position in the Group:	*indirect subsidiary insurance company*

XVI.

Company name:	**Slorest, d.o.o., Skopje**
Registered office:	III Makedonske brigade b.b., 1000 Skopje, Macedonia
Company ID number:	6482686
Business activity:	estate agency
Share capital:	EUR 5,000
Par value of equity interest:	EUR 5,000
Stakes (voting rights) held by Group members:	*Sava Reinsurance Company*: 100.0%
Governing bodies:	Managing Director: Milan Viršek
Position in the Group:	*subsidiary*

XVII.

Company name:	**Dukagjini Hospital, sh.p.k., Pristina**
Registered office:	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo
Company ID number:	70587513
Business activity:	hospital
Share capital:	EUR 1,800,000
Par value of equity interest:	EUR 918,000
Stakes (voting rights) held by Group members:	*Dukagjini*: 100.0%
Governing bodies:	Managing Director: Dr. Mentor Basha
Position in the Group:	*indirect subsidiary*

6.3 Activities of the Sava Re Group and its associated companies

Sava Re, the Group parent, is a reinsurance company. The Group includes two composite insurers, the subsidiary Zavarovalnica Tilia and the associated company Zavarovalnica Maribor. The insurers Sava osiguranje, Belgrade, Sava Tabak, Skopje, Dukagjini, Pristina, Sava Montenegro, Podgorica and Velebit osiguranje, Zagreb are property insurers. Sava životno osiguranje, Belgrade, Dukagjini Life, Pristina and Velebit životno osiguranje, Zagreb are life insurance companies; Sava Invest, Skopje is a fund management company and the associated company Moja naložbe, Maribor is a pension company. The indirect subsidiary Bro-Dil Macedonia is a stock brokerage firm, and Dukagjini Hospital is a hospital in Kosovo wholly owned by the insurer Dukagjini.

6.4 Origin and development of the Sava Re Group

2009	**Enlargement of the Sava Re Group** Sava Re acquired from Zavarovalnica Maribor 100% of Velebit usluge, Zagreb, who is the majority owner of Velebit osiguranje and Velebit životno osiguranje
2008	**Change in ownership structure of Sava Reinsurance Company** An initial public offering is carried out and the stake held by SOD is reduced to 25.0%. On 11 June 2008, Sava Re shares are floated on the Ljubljana Stock Exchange. **Enlargement of the Sava Re Group** Sava Reinsurance Company establishes a fund management company in Macedonia (Sava Invest) and life insurance companies in Pristina and Belgrade (Dukagjini Life and Sava životno osiguranje).
2007	**Enlargement of the Sava Re Group** Sava Reinsurance Company acquires a majority stake in two non-life insurance companies, the Macedonian Sava Tabak and the Montenegrin Montenegro osiguranje (now Sava Montenegro).
2006	**Enlargement of the Sava Re Group** Sava Reinsurance Company acquires a majority stake in two non-life insurance companies, the Serbian Sava Osiguranje and the Kosovan Dukagjini.
2003	**New owner of Sava Reinsurance Company** The Slovenian Restitution Fund (SOD) becomes 99.8665% owner of Sava Reinsurance Company.
1999	**Enlargement of the Sava Re Group** Sava Reinsurance Company acquires a more than 40% stake in Zavarovalnica Maribor.
1998	**Sava Re Group** Sava Reinsurance Company acquires a 99% stake in Zavarovalnica Tilia.
1991	**Pozavarovalnica Sava, d.d., Ljubljana (Reinsurance Company Sava d.d., Ljubljana)** Pozavarovalna skupnost Sava is transformed into a joint stock company.
1977	**Pozavarovalna skupnost Sava (Reinsurance Community Sava)** The reinsurance business area is spun off from Zavarovalna skupnost Sava and transformed into an independent legal person.
1975	**Zavarovalna in pozavarovalna skupnost Sava (Insurance and Reinsurance Community Sava)**
1973	**Reinsurance department within the insurer Zavarovalnica Sava** The department is tasked with inwards reinsurance underwriting.

7 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR PUBLIC JOINT-STOCK COMPANIES

The Management Board and the Supervisory Board of Sava Reinsurance Company ("the Company") hereby confirm that the Company operates in compliance with the provisions of the Corporate Governance Code for Public Joint-Stock Companies ("Code"), except for the deviations expressly explained below.

Recommendation 1: The Company does not have the goals pursued by it in performing its activities expressly laid down in its Articles of Association. Instead, they are laid down in its business policy and financial plan, as well as in its medium-term strategic plan.

Recommendations 2, 2.1 and 2.2: The Company has not drawn up and adopted a Corporate Governance Policy in one document. The areas covered by the above recommendations are governed by several internal or public documents. Otherwise the Company implements the said recommendations. In 2010, it intends to starts drawing up the said Policy that will be fully compliant with the Code.

Recommendation 6.2: The Supervisory Board has two members who are employee representatives. They are employed with the Company and therefore have business ties with it. They were appointed already in 2007 by the Workers' Council in accordance with the applicable regulations.

Recommendation 8.4: To distribute materials and convene meetings, the Supervisory Board makes use of mail or couriers. This policy has so far not disturbed its work. If need arises, the Supervisory Board will start using information technology for the said purpose, as recommended by the Code.

Recommendation 8.7: The decisions adopted at the Supervisory Board's meetings are communicated to the public by the Company or its representative. The manner and contents of such communications are each time agreed between the Supervisory Board and the Company's representative responsible for communicating with the public.

Recommendations 8.8 and 8.9: The Company's Articles of Association or the Supervisory Board's resolutions do not stipulate requirements additional to those stipulated by the law for the position of a Management Board member. However, the Company as reinsurer is subject to special regulations, i.e. the Insurance Act, which stipulates additional requirements for the position of a Management Board member. In addition, Management Board members must obtain authorisation from the Insurance Supervision Agency before they can start their term of office, which is issued only in relation to a specific insurance or reinsurance company. In view of the strict regulatory framework, the Company is of the opinion that stipulating additional requirements is not necessary.

Recommendations 9, 9.1 and 9.3: The Supervisory Board does not evaluate the competence and efficiency of each individual Supervisory Board member, as the Board functions as a whole. As a rule, the Supervisory Board meets in its full composition and adopts decisions jointly, which makes it difficult to evaluate the contribution of each individual member. All members also participate in all Supervisory Board's decision-making and other processes. In view of all this, the Company is of the opinion that evaluating the performance of each individual Supervisory Board member is not necessary.

Recommendations 12, 12.1 and 12.2: Based on the resolution of the General Meeting of 8 August 2007, Members of the Supervisory Board receive only attendance fees. Based on the resolution of the General Meeting of 3 July 2009, these were reduced in view of the financial crisis by 50 percent for the period from 3 July 2009 to 31 December 2010. The Company will consider the possibility of introducing payments for members of the Supervisory Board that would be compliant with the above recommendations.

Recommendation 13.1: The Supervisory Board has not set up a permanent Human Resources or Nomination Committee. As its four-year term of office expired in 2009, it appointed, in April 2009, an ad-hoc five-member Nomination Committee. This was tasked with selecting objectively and transparently candidate members of the Supervisory Board to be proposed to the General Meeting for election. The Committee was dissolved upon their selection.

Recommendation 20.2: The Company does not have a single document regulating the elements from the above recommendation. They are regulated by different internal acts or implemented in practice. In 2010, the Company will bring this area in line with the above recommendation.

Recommendation 22.2: The Company did not publish a separate corporate sustainability report including a report on social responsibility on its website or as a part of the annual report.

Recommendation 22.5: In the annual report, the Company did not disclose for its members of the Management and Supervisory Boards their memberships on the management or supervisory bodies in non-related companies.

This statement relates to the Company's operations from 31 March 2009 up to the date of the statement.

Ljubljana, 31 March 2010

Sava Re Management Board

Mag. Zvonko Ivanušič
Chairman

Jošt Dolničar
Member

Srečko Čebron
Member

Sava Re Supervisory Board

Branko Tomažič
Chairman

8 STATEMENT ON COMPANY MANAGEMENT PURSUANT TO ARTICLE 70 OF THE COMPANIES ACT (ZGD-1)

Sava Reinsurance Company ("the Company") as a company listed in a regulated market hereby makes the following statement pursuant to Article 70(5) of the Companies Act:

1. **Compliance with the Corporate Governance Code**
   The Company uses the Corporate Governance Code for Public Joint-Stock Companies of 8 December 2009, except for the deviations expressly explained in the Statement of Compliance with the Corporate Governance Code for Public Join-Stock Companies of 31 March 2010, which forms an integral part of the annual report. The Code is available at the website of the Ljubljana Stock Exchange (www.ljse.si). In addition to the applicable statutory regulations, the Company is also governed by its Articles of Association, rules of procedure of the Supervisory and Management Boards, and certain other internal acts. The Articles of Association and rules of procedure of the Supervisory Board are available at the website of Sava Re (www.sava-re.si).

2. **Financial reporting: internal controls and risk management**
   Internal controls in the area of financial reporting are a system of guidelines and processes designed and implemented by the Company at all levels to manage the risks associated with this area. Internal controls are to guarantee the efficiency and effectiveness of operations, the reliability of financial reporting and compliance with applicable regulations and internal acts.

   Internal controls in the area of financial reporting include the following:
   - control of the correctness of financial information (e.g. by having the accounts receivable/payable confirmed by cedants, retrocessionaires and other partners);
   - control of the completeness of data entry (e.g. based on consecutive document numbering);
   - control of duty separation (e.g. of record-keeping and payments); and
   - control of the supervisors of employees handling financial information and of those employees themselves.

   Financial controls are based on the principles of reality and duty separation; on the control of transactions and the currency of records; on the matching of books of account and the actual situation; on the separation of record-keeping and operational responsibilities; and on accountants' professionalism and independency.

   Financial controls are tightly connected to the controls in the area of information technology, which are aimed among other things at restricting and controlling access to the network, information and applications.

   The Company's internal audit accesses the adequacy and effectiveness of internal controls used, and their reliability in the Company's pursuance of objectives and management of risks. Internal audit reports on its findings to the Management and Supervisory Boards, as well as to the latter's Audit Committee.

   Internal controls applying to financing reporting on the consolidated bases are set out in the internal accounting rules. Members of the Sava Re Group submit the financial information required for the preparation of the consolidated financial statements in the form of reporting packages, prepared in accordance with IFRSs and the parent's guidelines, within the time limits set out in the parent's financial calendar. Reporting packages have inbuilt cross controls that ensure information consistency, and are also checked by external auditors. Group members submit also their separate financial statements, which represents an additional control measure.

3. **General Meeting and shareholder rights**

The General Meeting decides the following:

- the approval of the annual report, if this is not approved by the Supervisory Board or if the Management and Supervisory Boards leave this decision to the General Meeting;
- the use of balance sheet profit, at the proposal of and based on a report by the Management Board;
- the appointment and recall of Supervisory Board members;
- the granting of discharges to Management and Supervisory Boards members;
- amendments to the Articles of Association;
- measures to increase and reduce the capital;
- Company dissolution and restructuring;
- the appointment of the auditor, at the proposal of the Supervisory Board; and
- other matters, in accordance with the law and the Articles of Association.

Convening the General Meeting:
As a rule, the General Meeting is convened by the Management Board. In those cases set out in the law, it may be convened by the Supervisory Board or shareholders.
The Company shall publish calls for the General Meeting at SEOnet (an electronic dissemination system provided by the Ljubljana Stock Exchange) and at its website.

Participation at the General Meeting:
Shareholders may participate at the General Meeting and exercise their voting rights provided they notify the Management Board of their intention at least three days in advance. The conditions of participation or exercise of voting rights at the General Meeting must be set out in detail in the notice of General Meeting.

Adoption of resolutions by the General Meeting:
The General Meeting adopts resolutions by ordinary majority, unless otherwise set out in the law or the Articles of Association.

Exercise of voting rights at the General Meeting:
Shareholders may exercise their voting rights at the General Meeting based on their share of the Company's share capital. Each no-par-value share with voting rights carries one vote. Voting rights may be exercised through a proxy based on a written authorisation. They may also be exercised through financial organisations or shareholder associations.

4. **Management and supervisory bodies**

MANAGEMENT BOARD

Composition:
- Mag. Zvonko Ivanušič, Chairman,
- Jošt Dolničar, Member, and
- Srečko Čebron, Member.

Mode of operation:
The Management Board represents the Company in its legal transactions. In this, it acts in accordance with the applicable legislation, above all the Companies Act and the Insurance Act, as well as the Articles of Association and the Management Board's charter and rules of procedure.

Responsibilities:
- to run and organise the operations of the Company;
- to represent the Company;
- to be responsible for legality of operations of the Company;
- to adopt the development strategy of the Company, together with the Supervisory Board;
- to approve the annual business plan and budget of the Company, together with the Supervisory Board;
- to adopt internal acts of the Company;
- to report to the Supervisory Board on operations of the Company and its Group;
- to prepare a draft annual report including a business report, and to submit it to the Supervisory Board together with the auditor's report and a proposal regarding appropriation of the balance sheet profit;
- to implement the resolutions adopted by the General Meeting and the Supervisory Board.

SUPERVISORY BOARD

Composition:
- Branko Tomažič, Chairman,
- Mateja Lovšin Herič, Deputy Chairperson,
- Mag. Mateja Treven, Member,
- Dr. Slaven Mićković, Member,
- Nada Zidar, Member – employee representative, and
- Mag. Aleš Mirnik, Member – employee representative.

The Supervisory Board in the above composition was appointed by the General Meeting of 3 July 2009 for a four-year term of office starting 14 July 2009.
Employee representatives were appointed by the Workers' Council, also for a four-year term of office, starting 10 June 2007.

Mode of operation:
The Supervisory Board supervises the operations of the Company. In this, it acts in accordance with the applicable legislation, especially the Companies Act and the Insurance Act, as well as the Articles of Association and the Supervisory Board's rules of procedure.
Responsibilities:

- to approve the annual business plan and budget of the Company prepared by the Management Board;
- to approve the internal control system designed by the Management Board;
- to approve the annual internal audit plan prepared by the Management Board;
- to supervise the adequacy of processes and the efficiency of internal audit;
- to prepare an opinion for the General Meeting on the internal audit annual report;
- to consider the findings of the Insurance Supervision Agency and other supervisory bodies made when exercising their supervisory competence over the Company;
- to check the annual and interim reports of the Company;
- to check the annual report submitted by the Management Board, adopt an opinion on the auditor's report, and prepare a qualified or approving report for the General Meeting;
- to check the proposal regarding appropriation of the balance sheet profit submitted by the Management Board, and prepare a written report for the General Meeting.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board may appoint one or more committees or commissions, and task them with the preparation of draft resolutions of the Supervisory Board, the implementation of resolutions of the Supervisory Board, and other tasks requiring specific expertise.

The Supervisory Board, already in 2008 and in accordance with the amended Companies Act (the obligation to set up an audit committee in any public join-stock company), appointed a three-member Audit Committee. Apart from that, it appointed no other permanent committee.

AUDIT COMMITTEE

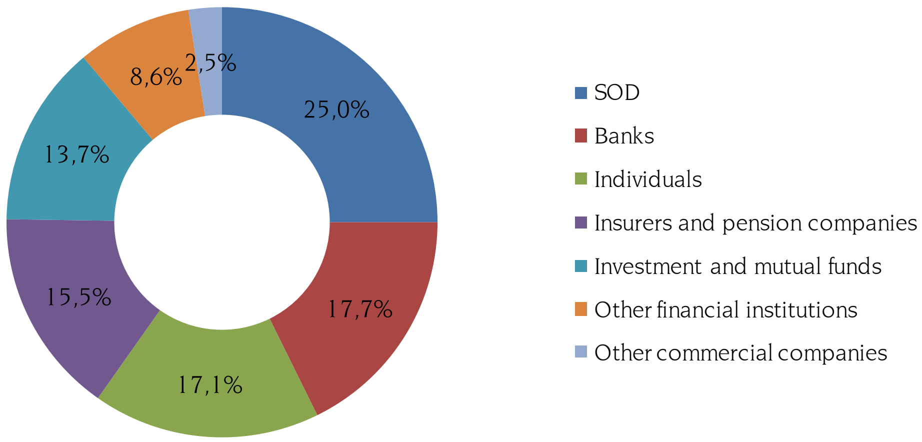
On 20 July 2009, the Supervisory Board appointed a new Audit Committee in the following composition:
- Mag. Mateja Treven, Chairperson,
- Dr. Slaven Mićković, Member, and
- Mag. Blanka Vezjak, Member.

Mode of operation:
The Audit Committee of the Supervisory Board acts in accordance with the applicable legislation, especially the Companies Act, as well as the Audit Committee's charter and rules of procedure, the Supervisory Board's rules of procedure, and other autonomous legal acts (e.g. its own recommendations).
Responsibilities:
- to monitor the efficiency of internal control, audit and risk management systems;
- to monitor the financial reporting process;
- to monitor the mandatory audit of the annual separate and consolidated financial statements;
- to check and monitor the independency of the auditor of the annual report, in particular if additional non-auditing services are provided by it;
- to propose to the Supervisory Board candidate auditor of the annual report;
- to supervise the integrity of the financial information prepared by the Company;
- to assess the annual report and prepare a draft proposal for the Supervisory Board;
- to participate when the areas to be audited are defined;

- to participate when the contract between the Company and the auditor is drafted;
- to participate with the auditor when the annual report is audited, in particular by exchanging information on the most important matters regarding the audit.

5. Information presented pursuant to Article 70(6) of the Companies Act (ZGD-1) as at 31 December 2009.

1. Breakdown of share capital



A list of the top ten shareholders as at year-end 2009 including number shares and shareholding is presented in the Shareholders and share trading section.

All shares are ordinary registered shares with no par value; all were issued in a dematerialised form and all pertain to the same class. The shares give their holders the following rights:
- to participate in the Company's management, with one share carrying one vote at the General Meeting;
- to participate on a proportional basis in the Company's distributable profits (dividends); and
- to participate on a proportional basis in the Company's estate in the event of liquidation or bankruptcy.

Pursuant to its Articles of Association and the applicable legislation, current Sava Re shareholders also hold pre-emptive rights entitling them to purchase a proportional number of shares in case of a future stock offering; their pre-emptive rights can only be excluded under a resolution to increase share capital adopted by the General Meeting by a majority of at least three quarters of the share capital represented.

2. Share transfer restrictions

All Sava Re shares are freely transferable.

3. Qualified stake holders under the Takeover Act (ZPre-1)

As at year-end 2009, Sava Re's qualified stake holders as defined in Article 77 of the Takeover Act were the following:
- Slovenian Restitution Fund (SOD) with a 25.0% stake;
- Abanka d.d. 7,0 %
- Poteza naložbe d.o.o. 5,0 %

4. Holders of securities carrying special control rights

Sava Reinsurance Company has not issued any securities carrying special control rights.

5. Employee share schemes

Sava Reinsurance Company does not have an employee share scheme.

6. Restrictions of voting rights

Sava Reinsurance Company does not restrict voting rights.

7. Shareholders' agreements restricting share transferability

Sava Re is not aware of such agreements.

8. Rules on appointment/replacement of members of management/supervisory bodies and on amendments to the Articles of Association
- appointment/replacement of Management Board members

Pursuant to its Articles of Association, Sava Reinsurance Company is represented by a Management Board consisting of two to five members. The Chairman and Members of the Management Board are appointed by the Supervisory Board for a period of five years. Such appointments are renewable without limitations. Natural persons with an unlimited legal capacity that meet the legally prescribed conditions may be appointed members of the Sava Re Management Board. The Management Board as a whole or its individual members may be recalled by the Supervisory Board for reasons prescribed by law.

- appointment/replacement of Supervisory Board members

Pursuant to its Articles of Association, the Supervisory Board of Sava Re supervises its management and performs other tasks in accordance with the applicable regulations and Sava Re's Articles of Association and other internal acts. The Supervisory Board shall be composed of six members, of whom four members representatives of the shareholders–shall be elected by the Company's General Meeting of Shareholders, and two members–employee representatives–shall be elected by the Company's workers council, which shall inform the General Meeting of Shareholders of its resolution. Shareholder representatives are elected by the General Meeting, by a majority of votes present. The term of office of Supervisory Board members shall be four years, renewable. Natural persons with an unlimited legal capacity that meet the legally prescribed conditions may be appointed members of Sava Re's Supervisory

Board. Supervisory Board members who are shareholder representatives may be recalled by the General Meeting for legally prescribed reasons.

- amendments to the Articles of Association

Sava Re's Articles of Association do not contain special provisions governing their amendments. Pursuant to applicable legislation, they may be amended by the General Meeting if a majority of at least three quarters of the represented share capital votes in favour.

9. Powers of the Management Board, especially relating to treasury shares

On 14 April 2008, the General Meeting passed a resolution on amending the Sava Reinsurance Company Articles of Associations to include a provision on authorised capital whereby the Management Board is authorised to (within a 5-year period after entering of resolution in the court register and subject to consent by the Supervisory Board but without an additional resolution of the General Meeting) increase the share capital of the Company to the amount of EUR 49,214,563.51, i.e. by a maximum of EUR 10,145,464.03 (authorized capital) by issuing up to a maximum of 2,431,259 new shares for contributions. The resolution of the General Meeting was entered in the court register on 16 April 2008. On this basis, the Management Board is authorised to increase the share capital of the Company, in the period up until 16 April 2013, with consent of the Supervisory Board but without an additional resolution of the General Meeting, up to the amount of EUR 49,214,563.51, i.e. by a maximum of EUR 10,145,464.03 (authorized capital) by issuing up to a maximum of 2,431,259 new shares for contributions. New shares shall carry rights and shall be issued under conditions and in a manner as decided by the Management Board while they must be ordinary shares and of the same class as existing shares and can only be issued against cash payments.

The Management Board has no other special powers including powers pertaining to treasury shares.

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

Sava Reinsurance Company protects itself against the risk of losses by means of retrocession contracts. These usually contain provisions governing contract termination in cases involving significant changes in ownership or control of the counterparty. It follows that in the case of a successful takeover bid, Sava Re's retrocessionaires could terminate their relevant contracts.

11. Agreements between Sava Reinsurance Company and members of its Management or Supervisory Board on compensations if in case of a takeover bid under the Takeover Act (i) resign, (ii) are dismissed without cause, or (iii) their employment relationship is terminated

Management Board members are not entitled to severance pay in case of resignation. They are entitled to severance pay in case of recall and dismissal without cause.

9 MISSION, VISION, STRATEGY, GOALS

9.1 Mission

We ensure financial safety and a profitable future.

- We are partners to our insureds and offer them our full support.
- We ensure a return on equity to our shareholders.
- We offer professional and personal development to our employees.
- We are friendly and responsible towards our social environment.

9.2 Vision

To be a financial and insurance group recognisable in its target markets for the highest-quality insurance, reinsurance and other financial products provided.

Group companies will be recognisable in target markets for providing products of the highest quality. By offering a complete range of products, we will enable our clients to select the optimal level of financial safety based on their specific needs. We will provide expert advice to our clients to choose the appropriate set of products, always guided by client safety and satisfaction.

We will offer a high-quality service to our insureds (i.e. insurance companies and other clients), and will continuously develop our insurance (and other) products, as well as our business and monitoring processes. This will enhance our profitability, and allow us to achieve appropriate returns on equity.

Since we believe that employees are key to success, the Group will set up a systematic programme of training, education and motivation for our employees, to enable them to contribute creatively to the development and reputation of their insurance companies, while at the same time growing professionally and personally. The Group will develop a Group-specific corporate culture that will enhance employee loyalty and the quality of services.

By definition, insurance is the provision of economic security by spreading economic risks, which is also saying that the insurance industry is tightly linked with the broader economic environment. In this environment, insurers are responsible for actively supporting certain activities that improve the social environment, such as research projects in health, education, traffic, ecology, geology, geography and such like. The insurance companies in the Group will support such activities in their local environments.

9.3 Values

The Group will promote the following values:

- commitment to clients;
- profitability and reputation of Group members;
- employee satisfaction and loyalty;
- ethical behaviour;
- professionalism;

- innovativeness;
- social responsibility.

9.4 Group strategy highlights 2010-2014

The Group will be recognisable in its target markets as provider of the highest-quality insurance, reinsurance and other financial products, and as the most professional and flexible insurance and financial group.

As regards intra-Group services, the Group will aim at transparency and will base its decisions exclusively on professional aspects.

After its individual members have brought their technical provisions up to European actuarial standards and by the end of the medium-term, the Group will generate an average return on equity of 8%.

Premium growth in the Group will be, as a rule, above the industry average in each of the markets covered, however this being secondary to the targets mentioned earlier. The Group's primary targets will therefore be quality, and profitability of the Group as a whole and of its individual members.

In order to mitigate its double exposure (to the reinsurance portfolio and its consolidated statements), Sava Re is planning to reduce the volume of its quota share treaties with its affiliates, taking into account any impact on the capital adequacy position of individual companies.

Sava Re will take advantage of opportunities in the international reinsurance markets, achieving profitable growth.

In the second half of the plan period, the Group will continue expanding to the markets of South-Eastern Europe, however never jeopardising thereby its sound corporate governance.

In the target markets abroad, where the Group is or will be present as property insurer, Sava Re will examine options for expanding services with life products by establishing life insurance companies. In line with our business policy, Sava Re will be majority owner of such life insurers. In markets where the Group has already established life companies and provided this companies are profitable, Sava Re will examine possibilities for extending services to include life products where the insured bears the investment risk.

Where possible, Sava Re will manage the investment portfolios of subsidiaries (depending on local legislation and available resources at Sava Re) in order to optimise the Group investment policy.

The Group will enhance its operations at all levels by means of effective business process and information technology.

The Group will also develop a modern, Group-specific corporate culture based on high-quality corporate governance, continuous internal and external training, and implementation of the Group code of ethics.

9.5 Plans for 2010

Summary of Sava Re Group goals:
- strengthening the position held by its insurance companies in their local insurance markets and growth of gross premiums written by more than 10%;
- adjustment of technical provisions to European actuarial standards (in the mid-term);
- lowering of operating expenses;
- expansion of agency network;
- optimisation of investment portfolio composition;
- employment of highly qualified experts, and intra-Group training and transfer of know-how;
- achievement of the best possible return on equity with the above-listed objectives being a priority;

Summary of Sava Re goals:
- growth in the share of foreign–sourced gross premiums written – portfolio diversification;
- mitigation of double exposure to subsidiary and associated companies;
- increase in profitability of reinsurance portfolio;
- decrease in the expense ratio.

9.6 Goals achieved in 2009

Goals achieved by Group companies

- Gross premiums written did not reach the growth target. In view of current economic conditions in the Western Balkans, we believe that premium growth was satisfactory. The Group met its target ratio of foreign-sourced premium to total premium, which increased in 2009.
- Technical provisions increased on the Group level, which ensures greater stability of Group operations in the future. As this strengthens insurance companies and enhances policyholder security, we see this as an achievement despite the fact that greater provisioning weakens the results of Group companies.
- The net expense ratio on Group level decreased.
- All Group companies were directed towards stronger growth of their agency networks, which will support premium growth.
- The net result on Group level is not in accordance with the targets set. This is largely due to write-downs of bad debts made in the Macedonian subsidiary as a result introducing uniform Group policies for such write-downs, and due to increasingly challenging conditions in the Montenegrin insurance market. The Group result was also impacted by the results of the controlling company, which continued to be impacted by the financial crisis and was again hit by large losses from hail storms.

Goals achieved by Sava Re:

- Premiums earned are larger than budgeted.
- The Group better diversified the portfolio of business by increasing the share of foreign-sourced premium and decreasing its dependence for premium on affiliated companies.

- In 2009, Sava Reinsurance Company acquired Velebit usluge, acquiring thereby indirectly Velebit osiguranje and Velebit životno osiguranje and entering the Croatian market.
- The net expense ratio decreased compared to 2008 and was lower than budgeted.
- In 2009, Sava Re made certain organisational changes to enhance transparency in its two most important areas: reinsurance business and the control of subsidiaries.

Sava Reinsurance Company did not meet its profit target because of the impact of hail storms, which again hit north-eastern Slovenia, and also because of investment impairments largely attributable to the financial crisis (partly due to securities prices and partly because of unfavourable payment behaviour in target markets). The latter is reflected in the results of subsidiaries as a result of which goodwill was written down in the controlling company. Hence, the net loss ratio and investment expenses were also larger than planned.

Pozavarovalnica Sava, d. d.

SAVA RE GROUP
BUSINESS REPORT 2009

10 BUSINESS ENVIRONMENT

10.1 The Slovenian insurance market

The Slovenian insurance market wrote gross premiums of EUR 2,073m in 2009, up 2.7% from 2008, and paid gross claims of EUR 1,238m, up 2.3% from 2008.

Gross non-life premiums grew by 4.8%, while life premiums decreased by 2.0%. Gross non-life and life claims increased by 2.4% and 1.8%, respectively.

Gross premiums written by type of business (life/non-life)

(EUR)	Non-life business	Life business	Total
2009	1,442,833,952	630,089,177	2,072,923,129
2008	1,376,307,195	642,652,700	2,018,959,895
Index	**104.8**	**98.0**	**102.7**

Source: Slovenian Insurance Association, annual statistics for 2009, March 2010

Gross claims paid by type of business (life/non-life)

(EUR)	Non-life business	Life business	Total
2009	1,051,505,255	186,445,648	1,237,950,903
2008	1,026,618,812	183,162,234	1,209,781,046
Index	**102.4**	**101.8**	**102.3**

Source: Slovenian Insurance Association, annual statistics for 2009, March 2010

Market shares of Slovenian insurance companies based on premium income

Insurance company	2009			2008			Index		
	Total	Non-life business	Life business	Total	Non-life business	Life business	Total	Non-life business	Life business
Zavarovalnica Triglav	35.8%	36.8%	33.6%	37.3%	37.8%	36.1%	98.7	102.1	91.2
Zavarovalnica Maribor	12.8%	13.8%	10.6%	12.5%	13.5%	10.3%	105.6	107.1	101.6
Adriatic Slovenica	12.6%	17.0%	2.4%	12.7%	17.5%	2.5%	101.5	102.3	90.9
Vzajemna, zdravstvena zavarovalnica	12.0%	17.2%	-	11.6%	17.1%	-	105.7	105.7	-
Kapitalska družba pokojninskega in	6.7%	-	22.1%	6.6%	-	20.6%	105.1	-	105.1
Zavarovalnica Tilia	3.5%	4.3%	1.6%	3.4%	4.2%	1.7%	105.8	107.8	95.3
Generali Zavarovalnica	3.3%	3.5%	3.0%	3.1%	3.1%	3.0%	112.5	119.2	97.7
KD Življenje	3.3%	-	10.9%	3.4%	-	10.8%	99.4		99.4
Triglav, Zdravstvena zavarovalnica	3.2%	4.7%	-	2.9%	4.3%	-	113.5	113.5	
Merkur zavarovalnica	2.2%	0.5%	6.1%	2.2%	0.5%	5.8%	103.6	102.8	103.7
GRAWE Zavarovalnica	1.7%	0.8%	3.7%	1.8%	0.9%	3.8%	97.2	98.8	96.4
NLB Vita	1.2%	0.1%	3.6%	1.6%	0.1%	4.6%	77.1	105.1	75.6
Wiener Städtische	0.6%	0.3%	1.3%	-	-	-	-	-	-
SID - prva kreditna zavarovalnica	0.5%	0.8%	-	0.7%	1.0%	-	79.0	79.0	
Sklad obrtnikov in podjetnikov (SOP)	0.2%	-	0.7%	0.2%	-	0.7%	95.5	-	95.5
Victoria-Volksbanken	0.1%	0.0%	0.3%	0.0%	0.0%	0.1%	260.1	143.0	283.1
Allianz	0.1%	0.1%		0.0%	-	-	-	-	-
ARAG	0.1%	0.1%	-	0.1%	0.1%	-	118.1	118.1	-
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	102.7	104.8	98.0

Source: Slovenian Insurance Association, annual statistics for 2009, March 2010

10.2 Insurance markets in which the Group has equity interests

Breakdown of gross premiums written in markets in which the Group has equity interests

(million EUR)	Estimate 2009			2008			2007			Index 09/08
	Total	Non-life business	Life business	Total	Non-life business	Life business	Total	Non-life business	Life business	Total
Croatia	1,304.7	967.0	337.7	1,340.2	987.7	352.5	1,235.6	897.2	338.4	97.4
Serbia	669.3	569.1	100.2	654.5	574.9	79.6	561.4	499.5	61.9	102.3
Macedonia	98.7	94.6	4.1	104.4	100.1	4.3	99.3	96.5	2.8	94.5
Montenegro	64.2	56.6	7.6	60.5	53.3	7.2	51.0	45.1	5.9	106.1
Kosovo	68.4	68.3	0.1	56.4	56.4	0.0	50.8	50.8	0.0	121.3

Market shares of Group insurers

	2009	2008
Zavarovalnica Tilia (non-life)	4.3%	4.2%
Zavarovalnica Tilia (life)	1.6%	1.7%
Zavarovalnica Tilia (total)	3.5%	3.4%
Sava osiguranje (Serbia)[3]	2.7%	2.4%
Dukagjini (Kosovo)	23.7%	19.3%
Sava Tabak (Macedonia)	17.4%	16.3%
Sava Montenegro (Montenegro)	16.9%	19.0%
Sava životno (Serbia)[4]	0.04%	-
Dukagjini Life (Kosovo)	100.0%	-
Velebit osiguranje (Croatia)	0.75%	0.54%
Velebit životno osiguranje (Croatia)	0.40%	0.31%

10.3 Macroeconomic environment in countries where the Group has equity interests

Croatia[5]

In the first quarter of 2009, real GDP declined at an annual rate of 6.7%. All its components also declined. Other macroeconomic indicators also indicated a downward trend in economic activity. In the first seven months of 2009, industrial production declined by 10.0%, while retail trade declined in real terms by 16.3%. The number of tourist nights decreased by 4.5%.

A downward trend started in the labour market in February 2009, when the annual registered unemployment rate started to rise. In the first seven months of 2009, the number of unemployed increased by 14,775 or 6.1% compared to the same period in 2008. According to the Labour Force Survey, the unemployment rate was 9.4% in the first quarter of 2009. In 2010, unemployment is expected to rise to 9.7% and then decline over the following two years.

Inflation, measured by the consumer price index, rose to 6.1% in 2008, which was 3.2 percentage points above the 2007 level. The increase is due to transmission of inflation

[3] Market share for the period January–September 2009
[4] Market share for the period January–September 2009
[5] Source: »Smernice ekonomske i fiskalne politike za razdoblje 2010. – 2012.«, HRK- Centar za makroekonomske analize; »Zunanji dolg Hrvaške se bliža ravni celotnega BDP«, STA, 26 October 2009.

from the end of 2007. After strong inflationary pressures almost throughout 2008, the 2009 average inflation is expected to have declined by 3%.

Since economic activity is recovering in 2010, analysts expect a slight, 0.5% real GDP growth and a gradual increase in economic growth, but at a slower pace than in 2008. For 2011, real GDP growth of 3.0% is forecast and 3.5% for 2012.

In 2010 Croatia's external debt will equal the country's GDP. In the year, loans in the amount of EUR 10bn will become due for payment and will need to be refinanced in foreign markets. If borrowings required for financing the budget deficit are added, Croatia will be looking for loans in foreign markets of about EUR 13bn over the next year.

Serbia[6]

According to the National Institute of Statistics, Serbia's GDP in the period January–September 2009 dropped by 3.5% compared to the same period in 2008. After GDP fell by 4.2% in the first and second quarter of 2009, economic activity slowed slightly in the third quarter (by 2.3% compared to the same period in 2008). Gross value added also fell in the third quarter compared to the same period in 2008, by 1.5%.

According to the Employment Service, the number of registered job seekers was 812,350 as at year-end 2009, up 2.3% compared to a year ago. The number of active job seekers was 730,372, up 0.4% compared to a year ago. The administrative unemployment rate was 28.2%, against 26.8% at year-end 2008.

According to the labour force survey of the National Institute of Statistics, the unemployment rate was 17.4% in October 2009, up 2.7 percentage points from October 2008.

Total inflation in 2009, measured by the consumer price index, was 6.6%, which was above the EU inflation level (1.4%). While prices rose in the first and second quarter (by 3.8% and 3.0%, respectively), the second half of the year was marked by deflation of 0.4%. Annual total and core inflation rates were falling throughout the year. Total inflation was measured by growth in regulated prices, which rose by 15.5%. Of this, oil prices (up by 46%) contributed 6.2 percentage points.

The national central bank[7] cut its key interest rate several times in 2009 so that it was at 9.5% at an annual level.

Base money decreased by RSD 65.5bn by the end of 2009. This is explainable by the drop in the bank's national currency-denominated reserves by RSD 67.8bn, and the drop in other reserves by RSD 3.1bn, while currency in circulation increased by RSD 5.4bn.

[6] Source: »Analiza makroekonomskih i fiskalnih kretanja u 2009. godini, Belgrade, February 2010, Ministarstvo finansija Republike Srbije.
[7] Narodna banka Srbije.

Macedonia[8]

GDP growth rate in the third quarter of 2009 was 1.8%, while the 2009 industrial production index was 92.3.

In the final quarter of 2009, the average inflation was –2.1% at an annual level, still lower as compared to the third quarter, when it was –1.4%. This trend in domestic prices reflected a change in import prices, which experienced a downward trend in 2009 after having experienced high growth in 2008. The negative output gap contributed to the downward price pressure.

Favourable developments in the trade and financial accounts in the last quarter of 2009 positively reflected also on the currency market. Gross foreign exchange reserves increased by EUR 70.9m in this period. At year-end, they stood at EUR 1,597.5m, up EUR 102.6m from a year ago.

From January to November 2009, the credit market stabilized. Loans increased In October and November.

In the third quarter of 2009, the labour force numbered 940,661, of which 642,541 were employed (68.3%) and 298,120 (31.7%) were unemployed. In the second quarter of 2009, the number of employed increased by 3.7% compared to the same period in 2008.

The monetary policy of the country was aimed at maintaining a stable exchange rate and price stability, combating the effects of the global economic and financial crisis, and taking economic and monetary measures.

Montenegro[9]

In 2009, Montenegro's economy was marked by a strong impact of the economic and financial crisis. An analysis of economic developments showed that an open economy is exposed to external influences. These were manifested through reduced or threatened liquidity of the banking sector, which then entered the real sector. Fewer loans made available by the former endangered development projects of the latter. In such circumstances, economic activity deteriorated and some basic macroeconomic indicators dropped dramatically. Analysts forecast that impacts of the crisis will persist throughout 2010.

Nominal GDP is estimated to have declined by 4.7% in 2009. Its decline in the three quarters of 2009 is primarily due to the decline in confidence in the banking sector, to the credit crunch, as well as to the decline in industrial production by 31% and retail trade by 9.4%. Real GDP is estimated to have declined by 5.3% in 2009.

The inflation rate, measured as the consumer price index, was 1.4% in the first 11 months in 2009, which translates into 3.6% at an annual level.

8 Source: Državni Zavod za statistiku Republike Makedonije and Narodna banka Republike Makedonije.
9 Source: Bilten Ministarstva finansija Crne Gore, October–December 2009.

At the end of September 2009, there were 174,418 persons formally employed, up 5.5% from the same period in 2008. The unemployment rate at the end of December 2009 was 11.25%. In 2010, it should increase further, which will affect overall demand negatively.

Kosovo[10]

Kosovo's economy was not impacted by the first wave of the financial crisis and recession that hit the global economy. Real GDP is estimated to have grown by 5.4%, and was mainly driven by private consumption and public investment. In 2009, the crisis appeared in Kosovo mainly in the form of lower economic growth. According to forecasts of the International Monetary Fund, Kosovo's real GDP should have increased by 3.8% in 2009. Labour market conditions remained difficult and the unemployment rate high. In the first half of 2009, the economy faced inflationary pressures, which had a negative impact on purchasing power and external debt. This notwithstanding, reduced demand in the global market and reduced oil prices eased inflationary pressures. The 2008 average inflation was 9.2%. This was the result of rising prices in global markets. This also illustrates how sensitive prices are in Kosovo to changes in the external sector, which is due to the high dependence on imports. Kosovo's dependency on imports continued to reflect on the high trade deficit (43% of GDP in 2008) and the consequently high current account deficit (19.5% of GDP). The unemployment rate of more than 40% remains a problem and a challenge for the economy. Kosovo's economy will continue to face challenges due to the crisis, which may manifest itself in a decline in migration and in foreign direct investment, and possibly in a tightening of credit conditions dictated by commercial banks.

10 Source: Central Bank of Republic of Kosovo, Annual report 2008; www.izvoznookno.si.

11 BUSINESS OPERATIONS AND PERFORMANCE

Key financial data for the Sava Re Group

(EUR)	2009	2008	Index
Gross premiums written	251,416,588	229,606,926	109.5
Net premiums earned	217,427,839	194,113,773	112.0
Gross claims paid	149,390,360	155,131,483	96.3
Net claims incurred	147,818,236	121,848,431	121.3
Operating expenses including acquisition costs	82,016,419	76,638,834	107.0
Investment income	22,350,395	29,357,293	76.1
Investment expenses	23,701,131	33,239,644	71.3
Net profit/loss for the year	-28,216,212	-8,472,644	333.0

11.1 Consolidated net earned premiums

Consolidated net earned premiums

(EUR)		2009	2008	Index
Gross premiums written	(1)	251,416,588	229,606,926	109.5
Net premiums written	(2)	222,272,651	205,987,031	107.9
Change in net unearned premiums	(3)	-4,844,812	-11,873,257	40.8
Net premiums earned	(2)+(3)	217,427,839	194,113,773	112.0

In 2009, consolidated gross premiums written increased by 9.5% to EUR 251.4m. This growth was mainly generated by Sava Reinsurance Company (EUR 12.3m), Zavarovalnica Tilia (EUR 3.9m), the Kosovan insurer Dukagjini (EUR 3.5m) and the Serbian insurer Sava osiguranje (EUR 2.0m). Velebit osiguranje also contributed to premium growth although it was only integrated into the Group in the second half of 2009. In 2009, Velebit osiguranje wrote gross premiums of EUR 3.5m, representing 1.4% of the total consolidated gross premiums written. Other Group insurers also recorded favourable premium growth; however, due to their smallness, their contribution to total Group premium growth is relatively small. Of the companies recently integrated in the Group, in addition to Velebit osiguranje, the Croatian life insurer Velebit životno osiguranje contributed to gross premium growth. The company wrote gross premiums of EUR 870,681.

Consolidated gross premiums written by region

(EUR)	2009	2008	Index	Structure 2009
Slovenia	135,930,348	130,613,994	104.1	54.1%
International	115,486,240	98,992,932	116.7	45.9%
Total	251,416,588	229,606,926	109.5	100.0%

Consolidated gross premiums written by the Group in Slovenia accounted for 54.1% of the total consolidated gross premiums. The consolidated reinsurance premium written in Slovenia grew by 2.2%, while Zavarovalnica Tilia recorded a 5.8% increase in gross premiums.

The share of foreign-sourced premium of the total consolidated premium grew by 2.8 percentage points in 2009 compared to the prior year, and accounted for 45.9% of total consolidated gross premiums written. This growth is a result of (i) favourable growth in premium volume in all Group companies, (ii) the integration of the Croatian insurers in the consolidated statements at the half-year (Velebit osiguranje and Velebit životno osiguranje), and (iii) favourable growth in consolidated foreign-sourced reinsurance premium (13.2%).

Consolidated gross premiums written by operating segment

(EUR)	2009	2008	Index	Structure 2009
Reinsurance business	120,343,800	112,320,597	107.1	47.9%
Non-life business	119,665,563	106,412,572	112.5	47.6%
Life business	11,407,225	10,873,757	104.9	4.5%
Total	251,416,588	229,606,926	109.5	100.0%

The growth in reinsurance[11] premium of 7.1% mainly reflects the growth in foreign-sourced reinsurance premium (13.2%).

Consolidated gross premiums in the non-life segment increased by 12.5% from 2008 as a result of solid premium growth in both domestic and foreign insurance markets. Non-life business includes health business that the Kosovan insurer Dukagjini started marketing in 2009. Health business of Dukagjini totalled EUR 4.1m.

The life segment increased by 4.9%; this modest growth is a result of (i) the fact that Zavarovalnica Tilia wrote less life premium (this is the segment most strongly impacted by the financial crisis) and (ii) the growth generated by the life insurers Dukagjini Life and Sava životno osiguranje (which only started operating in 2008).

The consolidated net premium written increased by 7.9%, which is largely a result of the increase in the net premium written of Sava Reinsurance Company of 6.9%.

The change in net unearned premium (an increase of EUR 4.8m) was mainly contributed by Sava Reinsurance Company (EUR 2.6m), Zavarovalnica Tilia (EUR 1.8m) and Sava osiguranje (EUR 1.7m).

Net premiums earned, which include the change in net unearned premiums, increased by 12.0% compared to the prior year. This growth is a result of the above mentioned movements in items used in calculating net premiums earned.

[11] The consolidated reinsurance premium comprises gross premiums written less premiums from Group subsidiaries)

Consolidated net earned premiums by class of business

(EUR) 2009	Net earned premiums
Personal accident	17,959,891
Health	3,793,047
Land vehicles casco	41,974,360
Aircraft casco	329,801
Ships hull	1,344,446
Goods in transit	3,354,681
Fire and natural forces	32,182,880
Other damage to property	29,326,320
Motor liability	66,856,192
Aircraft liability	318,637
Liability for ships	291,522
General liability	4,866,317
Credit	1,705,323
Suretyship	219,737
Miscellaneous financial loss	453,817
Legal expenses	107,034
Assistance	973,394
Life business	3,151,451
Unit-linked life	8,218,989
Total non-life	206,057,399
Total life	11,370,440
Total	217,427,839

11.2 Consolidated net claims incurred

Consolidated net claims incurred

(EUR)		2009	2008	Index
Gross claims paid	(1)	149,390,360	155,131,483	96.3
Net claims paid	(2)	117,695,956	109,790,349	107.2
Change in the net provision for outstanding claims	(3)	30,122,280	12,058,082	249.8
Net claims incurred	(2)+(3)	147,818,236	121,848,431	121.3

Consolidated gross claims paid decreased by 3.7% compared to 2008. This fall in gross claims paid was mainly due to Sava Reinsurance Company, which recorded a 12.1% drop in gross claims paid. All other Group companies recorded increases in gross claims paid. The largest nominal increase was recorded by Zavarovalnica Tilia (EUR 4.1m), Dukagjini (EUR 2.3m) and Sava osiguranje (EUR 1.7m). Velebit osiguranje recorded EUR 1.1m gross claims paid in 2009 (integrated in the consolidated statements in the second half of 2009). Other reason for increases in claims included measures taken to improve insurance portfolios in subsidiaries and claims inflation.

Gross claims paid by region

(EUR)	2009	2008	Index	Structure 2009
Slovenia	97,552,594	109,107,572	89.4	65.3%
International	51,837,766	46,023,911	112.6	34.7%
Total	149.390.360	155.131.483	96,3	100,0%

Consolidated gross claims paid relating to domestic business decreased by 10.6% compared to 2008. This decrease in claims paid for the Slovenian portfolio is mainly attributable to Sava Reinsurance Company, whose portfolio was hit by summer storms in 2008 and 2009, but those in 2008 were much larger so that in 2009, Sava Reinsurance Company recorded a drop in gross claims paid.

Consolidated gross claims paid for the international portfolio grew by 12.6% as a result of increases in gross claims paid in all Group companies. This increase in all companies reflects the growth in portfolios (consolidated gross premiums written increased by 9.5%).

Consolidated gross claims paid by operating segment

(EUR)	2009	2008	Index	Structure 2009
Reinsurance business	86,396,330	102,584,487	84.2	57.8%
Non-life business	61,376,186	51,051,029	120.2	41.1%
Life business	1,617,844	1,495,967	108.1	1.1%
Total	149,390,360	155,131,483	96.3	100.0%

The drop in gross claims paid of 15.8% in the reinsurance segment in 2009 from 2008 is attributable to the decrease in gross claims paid in the controlling company (2008 was a year of exceptionally large losses).

The increase in non-life claims (20.2%) was contributed by all Group companies (Zavarovalnica Tilia: an increase of EUR 4.0m, Dukagjini: EUR 2.3m, Sava osiguranje: EUR 1.7m and Sava Tabak: EUR 1.3m). Health business, which is part of non-life business, recorded gross claims paid of EUR 1.9m on a premium volume of EUR 4.1m.

Life claims increased by 8.1%, i.e. by EUR 121,877, which is mostly attributable to Zavarovalnica Tilia.

Consolidated net claims paid increased by 7.2% in 2009 (gross claims paid down 3.7%). Net claims paid increased despite a drop in gross claims paid as a result of a decrease in retroceded claims in the controlling company (by EUR 14.4) – described in detail in the business report of Sava Reinsurance Company.

The change in the consolidated net claims provision, which is used to calculate net claims incurred, was an increase of EUR 30.1m (from 1 Jan 2009 to 31 Dec 2009). This strong increase in the claims provision was mostly contributed by Sava Reinsurance Company (an increase of EUR 19.4m), Sava osiguranje (an increase of EUR 4.4m), Sava Montenegro (an increase of EUR 3.3m), Sava Tabak (an increase of EUR 1.3m) and Velebit osiguranje (an increase of EUR 1.1m). The increase in the controlling company relates to large increases in foreign-sourced business over recent years, while subsidiaries increase claims provisions also in order to bring them in line with EU reserving standards.

Net claims incurred, which include the change in the claims provision, increased by 21.3% compared to the prior year. The increase is a result of movement in above-mentioned items, which are used in calculating net claims incurred.

Consolidated net claims incurred by class of business

(EUR) 2009	Net claims incurred
Personal accident	8,151,347
Health	1,888,408
Land vehicles casco	32,960,563
Aircraft casco	156,724
Ships hull	2,199,494
Goods in transit	1,802,558
Fire and natural forces	22,228,224
Other damage to property	26,878,133
Motor liability	43,933,889
Aircraft liability	312,536
Liability for ships	-18,970
General liability	3,954,324
Credit	2,129,039
Suretyship	555,260
Miscellaneous financial loss	-1,052,554
Legal expenses	-1,318
Assistance	81,227
Life business	839,316
Unit-linked life	820,035
Total non-life	146,158,884
Total life	1,659,351
Total	147,818,236

11.3 Movements in consolidated net technical provisions

Movements in consolidated net technical provisions

(EUR)	31. 12. 2009	1. 1. 2009	Index
Net unearned premiums	82,697,482	75,407,848	109.7
Net claims provision	159,704,092	128,566,501	124.2
Net mathematical provisions	13,363,438	10,280,311	130.0
Net technical provisions for the benefit of policyholders who bear the investment risk	17,953,979	10,748,184	167.0
Other net technical provisions	3,618,482	1,911,834	189.3
Total	277,337,473	226,914,678	122.2

The total consolidated net technical provisions increased by 12.2% in 2009. Net unearned premiums grew by 9.7% as a result of growth in consolidated premiums written, while net technical provisions increased by 24.2%. Other net technical provisions, which include provisions for bonuses, rebates and cancellations, increased by 89.3%, which however is not a large increase in nominal terms (EUR 1.7m). The large relative increase in other net technical provisions is a result of the increase in the provision for unexpired risks. These are very sensitive to increases in the sum of loss ratio and expense ratio, when this sum exceeds 100%. The total net mathematical provisions, pertaining both to traditional as well as unit-linked life business, increased by 48.9%; net mathematical provisions relating to unit-linked business grew much faster (by 67.0%) than net mathematical provisions for traditional life business (by 30.0%).

11.4 Consolidated operating expenses

Consolidated operating expenses

(EUR)	2009	2008	Index
Operating expenses including acquisition costs	82,016,419	76,638,834	107.0
Operating expenses including acquisition costs less deferred acquisition costs	81,250,387	73,868,273	110.0
Operating expenses excluding acquisition costs (administrative expenses)	38,852,672	35,730,191	108.7
Operating expenses less reinsurance commission income	76,532,093	70,841,502	108.0

Expense ratios[12]

	2009	2008
Gross expense ratio	32.6%	33.4%
Administrative expense ratio	15.5%	15.6%
Net expense ratio	35.2%	36.5%

Consolidated gross expenses (operating expenses plus acquisitions costs) increased by 7.0% in 2009. Increases in expenses were mostly due to the new Group companies (Velebit osiguranje, Velebit životno osiguranje, Sava životno and Dukagjini Life), which contributed 73.5% of the increase in expenses (3.9m of the total 5.4m). Sava Reinsurance Company and Zavarovalnica Tilia both recorded a drop in gross operating expenses.

The gross expense ratios are relatively high because acquisition costs for non-life insurers in Western Balkan markets are high as a result of the high commissions paid for motor business.

Almost all Group companies recorded more favourable expense ratios in 2009, which is a favourable development: the increase in the net operating expenses was 8.0% against a 12.0% growth in net premiums earned.

11.5 Financial investments of the Sava Re Group

At the end of 2009, invested assets of the Sava Re Group[13] stood at EUR 335.8m, an increase of EUR 31.5m over 2008 (if receivables due from Zavarovalnica Maribor relating to the acquisition of Velebit usluge, which were not included in the investment portfolio, were included, the increase in the investment portfolio would be EUR 25.5m.) The investment portfolio was favourably impacted mostly by conditions in capital markets: after a downturn in the first quarter, prices gradually started to recover. Negative impacts came from certain subsidiaries: investments had to be reduced in order to ensure liquidity and some strategic investments were written off.

[12] The calculation of ratios is explained in the glossary in the appendix.
[13] The figures presented in this section are not in agreement with figures in the statement of financial position as these do not include (i) investments of policyholders who bear the investment risk pertaining to life business of Zavarovalnica Tilia nor (ii) financial investments of Sava Reinsurance Company i.r.o. reinsurance contracts with cedants.

Investment Structure

(EUR)	31. 12. 2009	Structure 31. 12. 2009	31. 12. 2008	Structure 31. 12. 2008	Index
Deposits and CDs	90,825,019	27.0%	73,288,273	24.1%	123.9
Government bonds	78,650,190	23.4%	71,243,900	23.4%	110.4
Corporate bonds	70,736,066	21.1%	57,775,899	19.0%	122.4
Structured products	1,563,830	0.5%	10,911,536	3.6%	14.3
Shares	17,052,682	5.1%	17,171,723	5.6%	99.3
Mutual funds	30,627,902	9.1%	35,299,560	11.6%	86.8
Loans	2,504,443	0.7%	202,995	0.1%	1,233.7
Land and buildings	5,773,594	1.7%	5,243,407	1.7%	110.0
Other	402,554	0.1%	402,098	0.1%	100.1
Strategic shares	37,646,480	11.2%	32,773,009	10.8%	114.9
Total	335,782,730	100.0%	304,312,399	100.0%	110.3
Cash and cash equivalents	5,617,457	1.6%	14,128,967	4.4%	39.8
Total investments and cash and cash equivalents	341,400,187	101.6%	318,441,366	104.4%	107.2

In 2009, the structure of the Group investment portfolio changed slightly. The portfolio structure was adjusted to the new circumstances in capital markets; major changes came from (i) partial restructuring of the investment portfolio by the controlling company, (ii) integration of two Croatian insurers in the Group, and (iii) recapitalisations carried out in subsidiary and associated companies.

Thus deposits grew by 23.9% as the Group sought to ensure solid liquidity of a considerable part of its assets (most deposits and CDs have a maturity of up to one year).

Government and corporate bonds grew from increases in fair value due to improved trends in capital markets especially in the second half of 2009 (increases were particularly high for corporate bonds, as they were recovering from record lows at the end of 2008), and purchases made in the fourth quarter 2009.

The Group (especially the controlling company) decreased investments in structured products, shares and mutual funds. Investments of these three types decreased by EUR 14.1m.

A significant structural change was the increase in loans granted following the acquisitions of Croatian insurers; however, this change is small in relation to the total Group portfolio where loans account for less than 1% of all investments.

Return on investments

The persisting financial crisis in early 2009 followed by "much caution" in the capital markets later in the year, negatively affected the profitability of the investment portfolio in 2009. Below, return on investments in 2009 is shown by investment types and compared against the 2008 investment return.

Investment return of the Sava Re Group investment portfolio

	2009	2008
Deposits and CDs	5.4%	6.5%
Government bonds	5.5%	5.3%
Corporate bonds	1.4%	1.0%
Structured products	-20.7%	-7.0%
Shares	4.0%	13.5%
Mutual funds	-11.0%	-14.8%
Loans	-8.2%	3.4%
Land and buildings	1.3%	4.1%
Other	84.2%	-282.2%
Strategic shares	-23.6%	0.0%
Total	-1.4%	0.3%

To calculate return on investments, the Group uses the arithmetic average of the investment amount as at the end of two consecutive financial years. Return on investments is then calculated as net income from investments, expressed as percentage of the average investment amount in the year. The total return is then reduced by the expenses relating to the subordinate debt issued by the controlling company.

Return on the total Group investment portfolio was -1.4% in 2009, down 1.7 percentage points from 2008.

The negative total return on the investment portfolio in 2009 was a result of losses on certain disposals, especially in the first quarter of 2009, and due to the unfavourable performance of certain subsidiaries.

Investments in deposits generated a slightly lower return than in 2008 because in the first half of 2009 (and particularly in the first quarter), banks offered high interest rates to attract funds; however, as the credit crunch relaxed, deposit interest rates decreased significantly.

The returns on government and corporate bonds in the Group portfolio in 2009 remained at approximately the same levels as in the prior year. The low return on the bond portfolio in 2009 was again due to the Lehman Brothers bankruptcy as the controlling company made further impairments in this regard; in addition, the controlling company sold two corporate bonds.

Mutual funds generated a negative return in 2009 due to disposals made in the first quarter of the year.

Also in the category of structured products, the large realised negative return resulted from disposals made at the end of 2009.

The negative return on strategic shares relates to the impairment of the investment in the subsidiary Sava Montenegro and the impairment of a strategic investment of Sava Tabak (Goldmak).

12 FINANCIAL POSITION OF THE GROUP

At 31 December 2009, total assets of the Sava Re Group stood at EUR 560.7m, an increase of 4.7% over 2008.

Consolidated total assets

(EUR)	31. 12. 2009	31. 12. 2008	Index	Structure 2009	Structure 2008
ASSETS	**560,711,611**	**535,346,611**	**104.7**		
Intangible assets	23,846,535	24,794,625	96.2	4.3%	4.6%
Property and equipment	24,830,829	22,232,413	111.7	4.4%	4.2%
Deferred tax assets	2,368,845	5,860,267	40.4	0.4%	1.1%
Investment property	5,773,564	5,243,407	110.1	1.0%	1.0%
Financial investments in associated companies	37,646,479	31,580,978	119.2	6.7%	5.9%
Financial investments:	298,131,559	271,602,919	109.8	53.2%	50.7%
Funds for the benefit of policyholders who bear the investment risk	17,861,634	10,577,672	168.9	3.2%	2.0%
Reinsurers' share of technical provisions	28,899,410	40,141,021	72.0	5.2%	7.5%
Receivables	96,209,971	84,896,822	113.3	17.2%	15.9%
Deferred acquisition costs	17,404,467	15,746,647	110.5	3.1%	2.9%
Other assets	1,130,971	7,344,421	15.4	0.2%	1.4%
Cash and cash equivalents	5,617,457	14,128,967	39.8	1.0%	2.6%
Non-current assets held for sale	989,887	1,196,451	82.7	0.2%	0.2%

The largest part of assets are financial investments, which increased by 9.8% compared to 2008. The share of financial investments in the structure of assets thus increased by 2.5 percentage points. The increase in total assets largely resulted from the integration of two new companies into the Group in 2009. Receivables, which accounted for 17.2% of total assets, increased by 13.3% compared to 2008 as a consequence of (i) an increased volume of business, (ii) the integration of two new companies into the Group, and (iii) negative trends in the payment behaviour of policyholders. The third largest asset item is financial investments in associates, which increased by 19.2% due to the recapitalisation of Zavarovalnica Maribor.

Consolidated equity and liabilities

(EUR)	31. 12. 2009	31. 12. 2008	Index	Structure 2009	Structure 2008
EQUITY AND LIABILITIES	**560,711,611**	**535,346,611**	**104.7**		
Equity	**161,677,406**	**174,087,055**	**92.9**	**28.8%**	**32.5%**
Share capital	39,069,099	39,069,099	100.0	7.0%	7.3%
Share premium	33,003,756	33,003,756	100.0	5.9%	6.2%
Profit reserves	80,277,970	92,496,487	86.8	14.3%	17.3%
Fair value reserve	543,937	-10,452,519	-5.2	0.1%	-2.0%
Retained earnings	13,524,831	14,793,688	91.4	2.4%	2.8%
Net profit/loss for the period,	-12,341,747	-823,359	1,499.0	-2.2%	-0.2%
Translation reserve	-1,685,177	-1,004,335	167.8	-0.3%	-0.2%
Equity attributable to the equity holders of the controlling company	152,392,668	167,082,817	91.2	27.2%	31.2%
Minority interest in equity	9,284,737	7,004,238	132.6	1.7%	1.3%
Subordinated liabilities	**31,135,777**	**31,139,605**	**100.0**	**5.6%**	**5.8%**
Technical provisions	**288,282,904**	**256,307,515**	**112.5**	**51.4%**	**47.9%**
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**17,953,979**	**10,748,184**	**167.0**	**3.2%**	**2.0%**
Other provisions	**872,101**	**777,616**	**112.2**	**0.2%**	**0.1%**
Deferred tax liabilities	**385,659**	**60,746**	**634.9**	**0.1%**	**0.0%**
Other financial liabilities	**3,173,918**	**600,160**	**528.8**	**0.6%**	**0.1%**
Liabilities from operating activities	**40,176,908**	**45,842,801**	**87.6**	**7.2%**	**8.6%**
Other liabilities	**17,052,958**	**15,782,930**	**108.0**	**3.0%**	**2.9%**

The technical provisions item is the largest item of equity and liabilities. At 31 December 2009, technical provisions accounted for 51.4% of equity and liabilities, and increased by 12.5% compared to 2008. The growth in this item also reflects adjustments made to bring provisioning in line with EU standards.

The second largest item is equity with a 28.8% share in the structure. Equity decreased by 7.1% from 31 December 2008. This drop is due to current-year losses made by certain Group companies in 2009. A positive effect on equity is the increase in fair value reserve of EUR 11.0m, i.e. 105.2% over 2008. Liabilities from operating activities, representing 7.2% of the liabilities side, decreased by 12.4%.

13 RISK MANAGEMENT

Risk management is carried out as described in greater detail in the Risk Management section of the notes to the financial statements. Risk management in subsidiaries is primarily carried out as part of other business processes. Underwriting risks, for example, are managed by having appropriate underwriting processes in place, and market risks are managed by having other appropriate procedures in place in the finance and accounting department.

As regards the establishment of technical provisions, subsidiaries comply with the requirements of local legislations, which, however, are less stringent than Slovenian regulations. Therefore, in 2009 the Group strengthened technical provisions in order to arrive at a uniform approach to technical provisions based on actuarial principles.

Risk management in subsidiaries is also carried out within advisory service provided to them in relation to the underwriting process, determination of retention limits, and such like.

14 ORGANIZATION, EMPLOYEES AND KNOW-HOW

Breakdown of personnel data and training

No. of employees in the Sava Re Group

	31. 12. 2009	31. 12. 2008	Change
Zavarovalnica Tilia, Slovenia	398	438	–40
Sava osiguranje, Serbia	353	316	37
Velebit osiguranje, Croatia	232	-	-
Velebit životno osiguranje, Croatia	198	-	-
Dukagjini, Kosovo	159	125	34
Sava Tabak, Macedonia	113	100	13
Sava Montenegro, Montenegro	103	92	11
Sava životno osiguranje, Serbia	92	11	81
Sava Reinsurance Company, Slovenia	65	58	7
Dukagjini Life, Kosovo	36	4	32
Bro-Dil, Macedonia	5	5	0
Sava Invest, Macedonia	3	4	–1
Dukagjini Hospital, Kosovo	0	-	-
Total	1,757	1,153	604

As at year-end 2009, the Sava Re Group had 1,757 employees. Compared to year-end 2008, the number of employees increased by 604. 430 employees relate to the integration of Croatian companies. In addition, increases relate to new recruitments made in the newly established life insurers and recruitments of insurance agents in non-life insurance companies. At Zavarovalnica Tilia, the number of employees decreased as a result of a reorganisation to stream-lines business processes.

In the year, Sava Reinsurance Company organised training in controlling, actuarial services and marketing for its subsidiaries.

15 BUSINESS PROCESSES AND IT SUPPORT

Also in 2009, the focus in the field of information and communication technology was on standardisation of technologies and solutions at Group level, both in hardware as well as in software.

The software package for the management of non-life business, which had already been successfully implemented in the subsidiary Sava osiguranje in 2008, was supplemented with a major module for claims handling and has been in service for some months. The complete application for the management of non-life business was installed in Sava Montenegro and Sava Tabak, where it is currently phased into use. In 2009, the Navision financial accounting system, which had already been in place in Sava Reinsurance Company, was installed in Sava životno osiguranje and Dukagjini Life; in 2010, two additional companies will install the system: Sava Montenegro and the largest company in terms of employees Zavarovalnica Tilia. Due to additional requirements, additional software modules were developed and implemented that will facilitate financial consolidation at the Group level and make more cost-effective use of user licenses.

In the field of communication technologies, communication equipment was budgeted and acquired, in line with guidelines of individual members. This is expected to facilitate data, voice and video communication in a user-friendly way and at a reasonable cost.

In 2009, Sava Reinsurance Company and Zavarovalnica Tilia, who are hosting application support for insurance and financial solutions, selected, by joint tender, a contractor for both the procurement of equipment and implementation of server infrastructure virtualisation.

16 SAVA RE GROUP PERFORMANCE INDICATORS

All data relate to consolidated figures.

Development of gross premiums written

(EUR)	2009	2008	Index
Gross premiums written	251,416,588	229,606,927	109.5

Net premiums written as a percentage of gross premiums written

(EUR)	Gross premiums written	Net premiums written	
	1	2	2/1
2009	251,416,588	222,272,651	88.4%
2008	229,606,927	205,987,031	89.7%

Development of gross claims paid

(EUR)	2009	2008	Index
Gross claims paid	149,390,360	155,131,483	96.3

Loss ratio

(EUR)	Gross premiums written	Gross claims paid	
	1	2	2/1
2009	251,416,588	149,390,360	59.4%
2008	229,606,927	155,131,483	67.6%

Administrative expenses as percentage of gross premiums written

(EUR)	Gross premiums written	Administrative expenses	
	1	2	2/1
2009	251,416,588	38,852,672	15.5%
2008	229,606,927	35,730,191	15.6%

Acquisition costs (commission) as percentage of gross premiums written

(EUR)	Gross premiums written	Acquisition costs	
	1	2	2/1
2009	251,416,588	42,397,715	16.9%
2008	229,606,927	38,138,082	16.6%

Net investment income as percentage of average investments

(EUR)	Average investments	Investment income	Investment expenses	Investment return
2009	319,451,550	18,398,553	22,823,257	-1.4%
2008	310,044,031	25,501,789	24,562,959	0.3%

Net provisions for outstanding claims as percentage of net earned premiums

(EUR)	Net claims provision	Net premiums earned	
	1	2	1/2
2009	159,704,092	217,427,839	73.5%
2008	128,566,501	194,113,774	66.2%

Gross profit/loss for the year as percentage of net premiums written

(EUR)	Gross profit/loss	Net premiums written	
	1	2	1/2
2009	-28,345,446	222,272,651	-12.8%
2008	-8,793,754	205,987,031	-4.3%

Gross profit/loss for the year as percentage of average equity

(EUR)	Gross profit/loss	Average equity	
	1	2	1/2
2009	-28,345,446	167,882,231	-16.9%
2008	-8,793,754	171,319,257	-5.1%

Gross profit/loss for the year as percentage of average assets

(EUR)	Gross profit/loss	Average assets	
	1	2	1/2
2009	-28,345,446	548,029,111	-5.2%
2008	-8,793,754	507,153,546	-1.7%

Gross profit/loss for the year per share

(EUR)	Gross profit/loss	No. of shares	
	1	2	1/2
2009	-28,345,446	9,362,519	-3.0
2008	-8,793,754	9,362,519	-0.9

Net profit/loss for the year as percentage of average equity

(EUR)	Net profit/loss	Average equity	
	1	2	1/2
2009	-28,216,212	167,882,231	-16.8%
2008	-8,472,644	171,319,257	-4.9%

Net premiums written as percentage of average equity and average technical provisions

(EUR)	Net premiums written	Average equity	Average technical provisions	
	1	2	3	1/(2+3)
2009	222,272,651	167,882,231	272,295,210	50.5%
2008	205,987,031	171,319,257	245,582,261	49.4%

Net premiums written as percentage of average equity

(EUR)	Net premiums written	Average equity	
	1	2	1/2
2009	222,272,651	167,882,231	132.4%
2008	205,987,031	171,319,257	120.2%

Average technical provisions as percentage of net earned premiums

(EUR)	Average technical provisions	Net premiums earned	
	1	2	1/2
2009	272,295,210	217,427,839	125.2%
2008	245,582,261	194,113,774	126.5%

Equity as percentage of net unearned premiums

(EUR)	Equity	Net unearned premiums	
	1	2	1/2
2009	161,677,406	82,697,482	195.4%
2008	174,087,055	75,407,848	230.9%

Equity as percentage of liabilities and equity

(EUR)	Equity	Liabilities and equity	
	1	2	1/2
2009	161,677,406	560,711,611	28.8%
2008	174,087,055	535,346,611	32.5%

Net technical provisions as percentage of liabilities and equity

(EUR)	Net technical provisions	Liabilities and equity	
	1	2	1/2
2009	277,337,473	560,711,611	49.5%
2008	226,914,678	535,346,611	42.4%

Gross premiums written per employee in regular employment

(EUR)	Gross premiums written	Number of employees in regular employment	
	1	2	1/2
2009	251,416,588	1,757	143,094
2008	229,606,927	1,153	199,139

Pozavarovalnica Sava, d. d.

CONSOLIDATED FINANCIAL STATEMENTS OF THE SAVA RE GROUP WITH NOTES 2009

Ljubljana, 21 April 2010

17 AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To the Shareholders of Pozavarovalnica Sava, d.d.

We have audited the accompanying consolidated financial statements of Pozavarovalnica Sava, d.d and its subsidiaries (Sava Re Group) which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Sava Re Group as at 31 December 2009, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion we draw your attention to the Note 16 (Profit reserves) to the financial statements referring to inconsistency of requirements in the Insurance Act with the International Financial Reporting Standards as adopted by the European Union. The Group forms and discloses equalisation provisions within equity in accordance with the International Financial Reporting Standards as adopted by the European Union. If these consolidated financial statements would be prepared according to provisions of the Insurance Act, these equalisation provisions would have been formed and charged against the operating profit or loss and disclosed among technical provisions.

Report on other legal and regulatory requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Simona Korošec Lavrič, M.Sc.Ec.
Certified Auditor

Katarina Sitar Šuštar, B.Sc.Ec.
Certified Auditor
Partner

KPMG Slovenija, d.o.o.
1

Ljubljana, 21 April 2010

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.

18 SAVA RE GROUP FINANCIAL STATEMENTS WITH NOTES

18.1 Consolidated statement of financial position as at 31 December 2009

(EUR)	Notes	31. 12. 2009	31. 12. 2008
ASSETS		**560,711,611**	**535,346,611**
Intangible assets	1	**23,846,535**	**24,794,625**
Property and equipment	2	**24,830,829**	**22,232,413**
Deferred tax assets	3	**2,368,845**	**5,860,267**
Investment property	4	**5,773,564**	**5,243,407**
Financial investments in associated companies	5	**37,646,479**	**31,580,978**
Financial investments:	6	**298,131,559**	**271,602,919**
- Loans and deposits		62,200,051	66,336,829
- Held to maturity		34,674,131	8,322,749
- Available for sale		194,438,455	193,771,276
- At fair value through profit or loss		6,818,923	3,172,065
Funds for the benefit of policyholders who bear the investment risk	7	**17,861,634**	**10,577,672**
Reinsurers' share of technical provisions	8	**28,899,410**	**40,141,021**
Receivables	9	**96,209,971**	**84,896,822**
Receivables arising out of primary insurance business		33,717,412	27,587,500
Receivables arising out of reinsurance and co-insurance business		53,400,807	47,670,957
Current tax assets		4,012,543	956,382
Other receivables		5,079,209	8,681,983
Deferred acquisition costs	10	**17,404,467**	**15,746,647**
Other assets	11	**1,130,971**	**7,344,421**
Cash and cash equivalents	12	**5,617,457**	**14,128,967**
Non-current assets held for sale	13	**989,887**	**1,196,451**
EQUITY AND LIABILITIES		**560,711,611**	**535,346,611**
Equity		**161,677,406**	**174,087,055**
Share capital	14	39,069,099	39,069,099
Share premium	15	33,003,756	33,003,756
Profit reserves	16	80,277,970	92,496,487
Fair value reserve	17	543,937	-10,452,519
Retained earnings	18	13,524,831	14,793,688
Net profit/loss for the period,	18	-12,341,747	-823,359
Foreign currency translation adjustment		-1,685,177	-1,004,335
Equity attributable to the equity holders of the controlling company		**152,392,668**	**167,082,817**
Minority interest in equity		**9,284,738**	**7,004,238**
Subordinated liabilities	19	**31,135,777**	**31,139,605**
Technical provisions	20	**288,282,904**	**256,307,515**
Unearned premiums		86,012,274	78,620,515
Mathematical provisions		13,363,461	10,280,389
Provision for outstanding claims		184,313,617	164,740,856
Other technical provisions		4,593,552	2,665,755
Technical provision for the benefit of life insurance policyholders who bear the investment risk	20	**17,953,979**	**10,748,184**
Other provisions	21	**872,101**	**777,616**
Deferred tax liabilities	3	**385,659**	**60,746**
Other financial liabilities	22	**3,173,918**	**600,160**
Liabilities from operating activities	23	**40,176,908**	**45,842,801**
Liabilities from primary insurance business		5,122,163	6,111,275
Liabilities from reinsurance and co-insurance business		34,399,199	39,411,061
Current tax liabilities		655,546	320,465
Other liabilities	24	**17,052,958**	**15,782,930**

The accounting policies and other explanatory notes form an integral part of these financial statements.

18.2 Consolidated income statement for year ended 31 December

(EUR)	Notes	2009	2008
Net earned premiums	25	**217,427,839**	**194,113,773**
Gross premiums written		251,416,588	229,606,926
Written premiums ceded to reinsurers and co-insurers		-29,143,938	-23,619,896
Change in net unearned premiums		-4,844,812	-11,873,257
Income from investments in affiliates	26	**167,497**	**1,350,266**
method		167,497	1,350,266
Investment income	27	**22,182,898**	**28,007,027**
- Interest income		10,184,372	12,424,360
- Other investment income		11,998,526	15,582,667
Other technical income	28	**7,801,858**	**4,157,752**
Commission income		4,718,294	3,026,771
Other technical income		3,083,564	1,130,981
Other income		**822,509**	**1,345,365**
Net claims incurred	29	**-147,818,236**	**-121,848,431**
Gross claims paid less income from recourse receivables		-149,390,360	-155,131,483
Reinsurers' and co-insurers' share of claims paid		31,694,404	45,341,134
Change in the provision for outstanding claims		-30,122,280	-12,058,082
Change in other technical provisions	30	**-3,367,476**	**-726,586**
Change in the technical provision for policyholders who bear the investment risk	31	**-7,205,795**	**-436,745**
Expenses for bonuses and rebates		**-675,655**	**-594,472**
Operating expenses	32	**-81,250,387**	**-73,868,273**
- Acquisition costs		-42,397,715	-38,138,082
- Other operating costs		-38,852,672	-35,730,191
Expenses from investments in affiliates		**-254,281**	**0**
- Losses from investments in associated companies under the equity method		-254,281	0
Expenses from financial assets and liabilities	27	**-23,446,850**	**-33,239,644**
- Impairment of financial assets not measured at fair value through profit or loss		-9,977,608	-12,631,875
- Interest expenses		-1,926,416	-2,818,485
- Other investment expenses		-11,828,686	-17,789,284
Other technical expenses	33	**-6,962,929**	**-3,989,886**
Other expenses	34	**-5,766,439**	**-3,063,901**
Profit/loss before tax		-28,345,446	-8,793,754
Income tax expense	35	**129,235**	**321,110**
Net profit/loss for the period		-28,216,212	-8,472,644
Net profit/loss for the period attributable to equity holders of the controlling company		**-25,122,312**	**-8,902,709**
Net profit/loss for the period attributable to minority interest		**-3,093,900**	**430,065**

The accounting policies and other explanatory notes form an integral part of these financial statements.

18.3 Statement of comprehensive income for year ended 31 December

(EUR)	2009	2008
NET PROFIT/LOSS FOR THE YEAR, NET OF TAX	**-28,216,212**	**-8,472,644**
OTHER COMPREHENSIVE INCOME, NET OF TAX	**10,524,628**	**-27,728,989**
Net change in fair value of available-for-sale financial assets	**12,207,061**	**-29,193,054**
Net change recognised in fair value reserve	10,595,486	-2,607,494
Net change transferred from fair value reserve to profit or loss	1,611,575	-26,585,559
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	**1,795,924**	**-546,148**
Income tax on other comprehensive income	**-2,797,515**	**2,642,726**
Net gains/losses from tranlation of finantial statements of non-domestic companies	**-680,842**	**-632,513**
COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**-17,691,584**	**-36,201,633**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE CONTROLLING COMPANY	**-14,612,274**	**-36,644,032**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MINORITY INTEREST	**-3,079,310**	**442,399**

The accounting policies and other explanatory notes form an integral part of these financial statements.

18.4 Consolidated cash flow statement for year ended 31 December

EUR				Notes	2009	2008
A. Cash flows from operating activities						
	a.)		**Items of the income statement**	36	**10,965,494**	**5,309,698**
		1.	Net premiums written	25	222,272,651	205,987,030
		2.	Investment income (other than financial income), financed from:	27	11,460,810	16,459,378
			- technical provisions		7,503,586	4,227,153
			- other sources		3,957,224	12,232,225
		3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables		8,624,367	5,503,117
		4.	Net claims paid	29	-117,695,956	-109,790,349
		5.	Expenses for bonuses and rebates		-675,655	-594,472
		6.	Net operating expenses excl. depreciation and change in deferred acquisition costs	32	-78,645,877	-75,101,868
		7.	Investment expenses (excluding depreciation and financial expenses), financed from:		-21,774,714	-30,421,159
			- technical sources		-7,758,374	-14,156,810
			- other sources		-14,016,340	-16,264,349
		8.	Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	33,34	-12,729,368	-7,053,787
		9.	Tax on profit and other taxes not included in operating expenses	35	129,236	321,808
	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**		**-2,451,336**	**-34,401,723**
		1.	Change in receivables from primary insurance	9	-6,129,912	-7,953,436
		2.	Change in receivables from reinsurance	9	-5,729,850	-19,431,191
		3.	Change in other receivables from reinsurance business	9	3,602,774	433,402
		4.	Change in other receivables and assets	9	4,469,141	-8,860,504
		5.	Change in deferred tax assets	3	3,491,421	-5,517,814
		6.	Change in inventories		86,489	-134,732
		7.	Change in liabilities arising out of primary insurance	23	-989,112	4,115,998
		8.	Change in liabilities arising out of reinsurance business	23	-5,011,862	4,826,171
		9.	Change in other operating liabilities	24	3,645,161	3,343,015
		10.	Change in other liabilities (except unearned premiums)		-210,498	-1,214,512
		11.	Change in deferred tax liabilities		324,913	-4,008,120
	c.)		**Net cash from/used in operating activities (a + b)**		**8,514,158**	**-29,092,025**
B. Cash flows from investing activities						
	a.)		**Cash receipts from investing activities**		**799,486,804**	**564,706,192**
		1.	Interest received from investing activities and from:		10,184,372	12,424,359
			- investments financed from technical provisions		7,960,748	7,829,487
			- other investments		2,223,624	4,594,872
		2.	Cash receipts from dividends and from participation in the profit of others, relating to		705,214	473,556
			- investments financed from technical provisions		119,195	150,371
			- other investments		586,019	323,185
		4.	Proceeds from sale of property and equipment, financed from:		1,847,343	147,415
			- technical provisions		531,463	134,409
			- other sources		1,315,881	13,006
		5.	Proceeds from sale of long-term financial investments, financed from:		167,922,055	164,951,044
			- technical provisions		53,365,848	53,294,838
			- other sources		114,556,206	111,656,206
		6.	Proceeds from sale of short-term financial investments, financed from:		618,827,820	386,709,817
			- technical provisions		388,015,922	195,323,947
			- other sources		230,811,898	191,385,870
	b.)		**Cash disbursements in investing activities**		**-811,941,136**	**-564,988,338**
		1.	Purchase of intangible assets		-1,254,710	-1,098,989
		2.	Purchase of property and equipment, financed from:		-5,784,711	-4,283,559
			- technical provisions		-790,715	-4,217,014
			- other sources		-4,993,996	-66,545
		3.	Purchase of long-term financial investments, financed from:		-150,261,837	-166,157,972
			- technical provisions		-48,353,643	-47,794,980
			- other sources		-101,908,194	-118,362,992
			Purchase of financial investments in subsidiaries, financed from:		-15,320,243	-9,537,109
			- technical provisions		0	0
			- other sources		-15,320,243	-9,537,109
		4.	Purchase of short-term financial investments, financed from:		-639,319,634	-383,910,709
			- technical provisions		-403,486,947	-271,216,163
			- other sources		-235,832,686	-112,694,546
	c.)		**Net cash from/used in investing activities (a + b)**		**-12,454,332**	**-282,146**
C. Cash flows from financing activities						
	a.)		**Cash receipts from financing activities**		**0**	**43,692,538**
		1.	Proceeds from paid-in capital		0	42,000,000
		3.	Proceeds from short-term borrowing		0	1,692,538
	b.)		**Cash disbursements in financing activities**		**-4,571,337**	**-2,868,646**
		1.	Interest paid		-1,926,417	-2,818,485
		3.	Repayment of long-term financial liabilities		-2,591,538	0
		4.	Repayment of short-term financial liabilities		-53,382	-39,155
		5.	Dividends and other profit participations paid		0	-11,006
	c.)		**Net cash from/used in financing activities (a + b)**		**-4,571,337**	**40,823,892**
C2 Closing balance of cash and cash equivalents					**5,617,457**	**16,031,376**
	x.)		**Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)**		**-8,511,510**	**11,449,722**
	Opening balance of cash and cash equivalents				**14,128,967**	**4,581,653**

The accounting policies and other explanatory notes form an integral part of these financial statements.

18.5 Consolidated statement of changes in equity for year ended 31 December 2009

(EUR)	I. Share capital	II. Share premium	III. Rezerve iz dobička: Legal reserves and reserves provided for	III. Rezerve iz dobička: Reserve for treasury	III. Rezerve iz dobička: for credit risks	III. Rezerve iz dobička: for catastrophe losses	III. Rezerve iz dobička: other	IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares (deductible item)	VIII. Translation reserve	IX. Total Group equity	X. Minority interest in equity	Total (13+14)
	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**	**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**	**167,082,815**	**7,004,238**	**174,087,053**
Comprehensive income for the year, net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**10,996,456**	**0**	**-25,122,312**	**0**	**-486,418**	**-14,612,274**	**-3,079,310**	**-17,691,584**
Allocation of net profit to profit reserve	0	0	291,407		0	0	0	0	0	-291,407	0	0	**0**	**0**	**0**
Additions/uses of credit risk equalization reserve and catastrophe equalization reserve	0	0	0	0	-1,836,069	1,721,856	0	0	0	114,213	0	0	**0**	**0**	**0**
Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0	**0**	**5,359,810**	**5,359,810**
Transfer of profit/loss	0	0	0	0	0	0	-12,395,711	0	-1,190,984	13,781,119	0	-194,424	**0**	**0**	**0**
Other	0	0	0	0	0	0	0	0	-77,873	0	0	0	**-77,873**	**0**	**-77,873**
Closing 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**	**152,392,668**	**9,284,738**	**161,677,406**

An additional note on equity is included under note 18.

18.6 Consolidated statement of changes in equity for year ended 31 December 2008

EUR	I. Share capital	II. Share premium	III. Rezerve iz dobička: Legal reserves and reserves	III. Rezerve iz dobička: Reserve for treasury	III. Rezerve iz dobička: for credit risks	III. Rezerve iz dobička: for catastrophe losses	III. Rezerve iz dobička: other	IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares	VIII. Translation reserve	IX. Total Group equity	X. Minority interest in equity	Total (13+14)
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
Opening balance in financial period	**32,809,710**	**106,162**	**14,986,525**	**1,774**	**3,839,550**	**1,387,095**	**35,701,116**	**16,011,444**	**39,413,114**	**20,041,044**	**-1,774**	**-371,822**	**163,923,938**	**4,627,522**	**168,551,460**
Comprehensive income for the year, net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-26,463,963**	**0**	**-8,902,709**	**0**	**-632,513**	**-35,999,185**	**442,399**	**-35,556,786**
Subscription (payment) of new equity capital	6,259,389	32,897,594	0	0	0	0	0	0	0	0	0		**39,156,983**	**1,936,061**	**41,093,044**
Allocation of net profit to profit reserve	0	0	0	0	0	0	36,261,398	0	-44,844,466	8,583,068	0	0	**0**	**0**	**0**
Additions/uses of credit risk equalization reserve and catastrophe equalization reserve	0	0	0	0	-785,607	1,106,410	0	0	0	-319,723	0	0	**1,080**	**-1,080**	**0**
Transfer of profit/loss	0	0	0	0	0	0	0	0	20,225,040	-20,225,040	0	0	**0**	**-664**	**-664**
Closing balance in financial period	**39,069,099**	**33,003,756**	**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**

The accounting policies and other explanatory notes form an integral part of these financial statements.

19 GENERAL INFORMATION, ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

19.1 Basic details

Reinsurance Company Sava is the controlling company of the Group. It was established under the Foundations of the Life and Non-life Insurance System Act, and was entered in the company register kept by the Ljubljana Basic Court, Ljubljana Unit, on 28 December 1990. Its legal predecessor, Pozavarovalna skupnost Sava, was established in 1977.

The controlling company is a reinsurance company. Subsidiaries are mostly insurance companies. One of them is a composite insurer; others are either non-life or life insurers. As per the Companies Act (Zakon o gospodarskih družbah, "ZGD") the controlling company is classified as a large insurance company.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, the Companies Act ("ZGD"), the Insurance Act ("ZZavar"), as well as with implementing regulations adopted and explanations issued by the Slovenian Insurance Supervision Agency ("ISA").

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

The Sava Re Group had 1,259 employees on average in 2009 (2008: 1,109). At 31 December 2009, the Group employed 1,757 people (2008: 1,153 people).

Number of employees by degree of formal education at 31 December

	31. 12. 2009	31. 12. 2008
Primary and lower secondary (I-IV)	34	21
Secondary (V)	1,099	672
Higher (VI)	155	122
University (VII)	438	317
Post-graduate (VIII)	31	21
Total	1,757	1,153

The controlling company has the following governing bodies: the General Meeting, the Supervisory Board and the Management Board.

The largest shareholder of the controlling company is the Slovenian Restitution Fund (SOD), which holds 25% plus one share. The second largest shareholder holds 7% of the controlling company.

It is the responsibility of the controlling company to approve the consolidated annual report. The audited consolidated annual report is approved by the Supervisory Board of the controlling company. If the annual report is not approved by the Supervisory Board or if the Management Board and Supervisory Board leave the decision about its approval to the General Meeting of Shareholders, the General Meeting decides on the approval of the annual report.

19.2 Group companies

Sava Reinsurance Company is the controlling company in the Sava Re Group.

Group companies at 31 *December* 2009:

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2009	Profit/loss in 2009	Total income	Share in voting rights (%)
Zavarovalnica Tilia	insurance company	Slovenia	126,663,384	111,724,148	14,939,236	820,497	61,618,167	99.71%
Sava osiguranje	insurance company	Serbia	23,766,546	19,663,909	4,102,637	-2,531,443	14,077,728	99.99%
Dukagjini	insurance company	Kosovo	16,308,563	12,452,302	3,856,261	137,780	11,979,557	51.00%
Sava Tabak	insurance company	Macedonia	19,740,420	16,365,270	3,375,150	-5,980,830	13,870,387	66.70%
Bro-Dil	securities broker	Macedonia	622,166	8,444	613,722	19,959	125,281	66.70%
Sava Montenegro	insurance company	Montenegro	18,208,834	17,715,456	493,378	-4,450,727	12,195,548	100.00%
Sava Invest	fund management	Macedonia	57,638	58,172	-534	-103,796	21,205	83.68%
Dukagjini Life	insurance company	Kosovo	3,329,960	144,652	3,185,308	-45,241	243,077	54.32%
Sava životno osiguranje	insurance company	Serbia	3,189,159	70,590	3,118,569	-121,361	467,701	99.99%
Velebit usluge	wholesale, retailer	Croatia	9,272,694	90	9,272,604	-246	2	100.00%
Velebit osiguranje	insurance company	Croatia	13,616,642	9,956,971	3,659,671	-1,675,514	3,110,974	53.41%
Velebit životno osiguranje	insurance company	Croatia	8,154,554	2,092,564	6,061,990	-614,855	1,123,575	53.35%
Slorest	estate agency	Macedonia	3,677	16	3,661	-1,299	8	100.00%
Dukagjini Hospital	hospital activities	Kosovo	1,823,929	24,000	1,799,929	-71	20	51.00%

Associated companies at 31 *December* 2009

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2009	Profit/loss in 2009	Total income	Share in voting rights (%)
Zavarovalnica Maribor	insurance company	Slovenia	680,833,142	613,519,209	67,313,933	-555,369	247,628,684	45.79%
Moja naložba	pension company	Slovenia	102,129,128	96,683,685	5,445,443	669,985	2,142,244	25.00%

Group companies at 31 *December* 2008

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2008	Profit/loss in 2008	Total income	Share in voting rights (%)
Zavarovalnica Tilia	insurance company	Slovenia	114,953,649	100,957,033	13,996,616	57,279	54,847,182	99.71%
Sava osiguranje	insurance company	Serbia	21,112,298	13,825,434	7,286,864	360,030	12,967,526	99.99%
Dukagjini	insurance company	Kosovo	15,147,565	11,291,711	3,855,854	867,213	8,395,663	51.00%
Sava Tabak	insurance company	Macedonia	25,243,475	15,766,584	9,476,891	173,982	12,132,927	66.70%
Bro-Dil	securities broker	Macedonia	616,377	7,662	608,715	123,796	284,455	66.70%
Sava Montenegro	insurance company	Montenegro	14,172,093	12,309,828	1,862,265	-2,366,141	10,306,727	100.00%
Sava Invest	fund management	Macedonia	113,035	8,500	104,535	-97,371	4,933	83.68%
Dukagjini Life	insurance company	Kosovo	3,468,964	14,544	3,454,420	-45,580	24,682	54.32%
Sava životno osiguranje	insurance company	Serbia	3,450,818	9,780	3,441,038	132,733	162,408	99.99%

Associated companies at 31 *December* 2008

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2008	Profit/loss in 2008	Total income	Share in voting rights (%)
Zavarovalnica Maribor	insurance company	Slovenia	634,940,266	579,966,832	54,973,434	2,791,783	230,439,646	45.79%
Moja naložba	pension company	Slovenia	83,616,360	78,967,721	4,648,639	-505,288	1,509,558	25.00%

In the second half of 2009, the property insurer Dukagjini established Dukagjini Hospital and is sole owner of the company. The founding capital in the form of a non-cash contribution was EUR 1.8m.

In 2009, three Croatian companies were integrated in the Group: Velebit usluge, Velebit osiguranje and Velebit životno osiguranje.

19.3 Consolidation principles

The financial year of the Group is equal to the calendar year. In accordance with IAS 27, the consolidated financial statements include the consolidated financial statements of the controlling company and all the entities over which the group has the power to control the financial and operating policies so as to obtain benefits from its activities.

Acquisitions are accounted for by applying the purchase method. To determine the net assets of the acquired entity at the time of first consolidation, subsidiaries' assets and liabilities are measured at fair value. Any excess of the acquisition cost over the share of the fair value of the acquired identifiable assets, liabilities and contingent liabilities is capitalised as goodwill.

Profits earned and losses made by subsidiaries are included in Group equity. Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated in full.

Associated companies

In accordance with IAS 28, associates are entities in which Sava Reinsurance Company has significant influence on the financial and operating policy decisions and which is not a subsidiary. If a shareholding corresponds to 20–50% of the voting rights or the controlling company exercises significant influence, the entity is deemed to be an associate. Investments in associated companies have been accounted for using the equity method.

Business combinations

In the first half of 2009, the controlling company acquired 100 % of Velebit usluge, Zagreb, Croatia, who is the owner of 51.14% of Velebit osiguranje, Zagreb and Velebit životno osiguranje, Zagreb. Due to the mutual ownership structure of Velebit osiguranje and Velebit životno osiguranje, the consolidated holding of the former is 53.41% and of the latter 53.35%. The acquisition price of this business combination was EUR 10,606,649. The acquisition price includes all acquisition expenses. There were no other acquisition-related expenses (in addition to the acquisition price), neither was any indemnification provided for in the relevant contract, so no contingent liabilities will be incurred in the future (connected with the acquisition).

The business combination was effective on 30 June 2009.

Had the companies been consolidated as of 1 January 2009, the Group's net loss would have been larger by EUR 1.5m to total EUR 29.7m. As from the business combination up until the end of the financial year, a loss of EUR 2,290,369 was recognised in the income statement.

The acquisition of the Croatian insurers is part of the Group's long-term strategy to be present in the majority of insurance markets in the Western Balkans.

(EUR)	Velebit usluge
Purchase price for the investment	10,606,650
Fair value of acquired net assets	5,665,542
Goodwill	**4,941,108**

The fair values of acquired net assets do not substantially deviate from the carrying amounts, and are as follows:

Intangible assets	10,743
Property and equipment	946,840
Investments	6,170,862
Receivables	1,723,303
Cash and cash equivalents	332,694
Technical provisions ceded to reinsurers	645,236
Other assets	786,688
Gross technical provisions	-3,868,879
Deferred tax liabilities	-15,441
Other liabilities	-1,066,503
TOTAL	5,665,542

Goodwill is based on additional market opportunities.

19.4 Significant accounting policies

Below is an explanation of significant accounting policies applied in the preparation of the consolidated financial statements.

19.4.1 Statement of compliance

The controlling company prepared both separate and consolidated financial statements for the year ended 31 December 2009. The consolidated financial statements include Sava Reinsurance Company as the controlling company and all subsidiaries, i.e. companies in which Sava Reinsurance Company holds, directly or indirectly, more than half of the voting rights. All subsidiaries were fully consolidated. Associated companies are accounted for in the consolidated statements using the equity method.

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee's ("IFRIC"), as adopted by the European Union. They were also prepared in accordance with applicable Slovenian legislation (the Companies Act ("ZGD-1"), the Insurance Act and implementing regulations), amongst them the "Decision on the annual report and quarterly financial statements of insurance companies" (SKL 2009). Interested parties can obtain information on the results of operations and financial condition of Sava Reinsurance Company by consulting the separate financial statements of Sava Reinsurance Company together with the consolidated financial statements of the Sava Re Group. Annual reports are available at the website of Reinsurance Company Sava and at its the registered office.

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

The Group uses the accrual basis of accounting. The financial statements have been prepared on the going concern basis of accounting.

The Group made all the required disclosures in the notes to the financial statements.
The Management Board of the controlling company approved the financial statements on 21 April 2010.

19.4.2 Measurement bases

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

19.4.3 Changes in accounting policies

Under the revised IAS 1, P*resentation of financial statements*, effective from 1 January 2009, information in the financial statements must be aggregated on the basis of shared characteristics and presented in the statement of comprehensive income, which was added to the income statement. Thus the Group presents comprehensive income in two statements: a separate income statement and a statement of comprehensive income. Presentation of profit or loss does not affect its content or profit or loss for the period.

19.4.4 Translation of events and items

The financial statements are presented in euro (EUR), rounded to the nearest euro. Due to rounding, figures in tables may not add up to totals.

Assets and liabilities as at 31 December 2009 denominated in foreign currencies were translated into euro using the mid-rate of the European Central Bank ("ECB") as at year-end 2009. Amounts in the income statements were translated using the average exchange rate. At 31 December 2008 and 31 December 2009, they were translated using the then applicable mid-rates of the ECB. Exchange rate differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve.

19.4.5 Comparative data

The tables below show reclassifications of certain items in financial statements made to facilitate the presentation of major items and requirements of the decision of the Insurance Supervision Agency SKL–2009. The reclassifications had no impact on profit/loss.

Adjustments to the statement of financial position as at 31 December 2008

(EUR)	Originally as at 31 Dec 2008	Adjustments	Adjusted to 31 Dec 2008
ASSETS	**535,346,611**	**0**	**535,346,611**
Financial investments in associated companies	**33,093,963**	**-1,512,985**	**31,580,978**
Financial investments:	**280,667,606**	**-9,064,687**	**271,602,919**
- Held to maturity	6,809,764	1,512,985	8,322,749
- At fair value through profit or loss	13,749,737	-10,577,672	3,172,065
Funds for the benefit of policyholders who bear the investment risk	**0**	**10,577,672**	**10,577,672**
Inventories	**263,416**	**-263,416**	**0**
Receivables	**83,940,440**	**956,382**	**84,896,822**
Current tax assets	0	956,382	956,382
Deferred acquisition costs	**0**	**15,746,647**	**15,746,647**
Other assets	**22,827,652**	**-15,483,231**	**7,344,421**
Tax receivables	**956,382**	**-956,382**	**0**
EQUITY AND LIABILITIES	**535,346,611**	**0**	**535,346,611**
Technical provisions	**267,055,699**	**-10,748,184**	**256,307,515**
Technical provision for the benefit of life insurance policyholders who bear the investment risk	10,748,184	-10,748,184	0
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**0**	**10,748,184**	**10,748,184**
Liabilities from operating activities	**61,305,265**	**-15,462,464**	**45,842,801**
Current tax liabilities	0	320,465	320,465
Other liabilities	15,782,929	-15,782,929	0
Other liabilities	**0**	**15,782,930**	**15,782,930**
Current tax liabilities	**320,465**	**-320,465**	**0**

Adjustments to the income statement for the year ended 31 December 2008

(EUR)	Original statement for 2008	Adjustments	Adjusted for 2008
Income from investments in affiliates	**1,392,002**	**-41,736**	**1,350,266**
Investment income	**27,965,291**	**41,736**	**28,007,027**
Change in other technical provisions	**-1,163,331**	**436,745**	**-726,586**
Change in the technical provision for policyholders who bear the investment risk	**0**	**-436,745**	**-436,745**
Profit/loss before tax	-8,793,754	0	-8,793,754
Income tax expense	**321,110**	**0**	**321,110**
Net profit/loss for the period	**-8,472,644**	**0**	**-8,472,644**

19.4.6 Cash flow statement

The cash flow statement was prepared using the indirect method. The Group cash flow statement was prepared as the sum of all cash flows of all Group companies and by eliminating any inter-Group cash flows. Cash flow from operating and investing activities were prepared based on data from the statement of financial position as at 1 January 2009 and 31 December 2009, and the income statement for 2009, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities has been disclosed based on actual disbursements. Items relating to changes in net operating assets are disclosed in net amounts.

19.4.7 Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the accounting period. Pursuant to a decision of the Insurance Supervision Agency, the provisions for credit risk equalization and the catastrophe equalization are included in other profit reserves.

19.4.8 Intangible assets

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

Intangible assets in the Group include computer software, and licences pertaining to computer software. Their useful life is assumed to be 5 years.

19.4.9 Goodwill

For the purpose of goodwill impairment testing and in accordance with IAS 36, the recoverable amount of cash-generating units was calculated based on the value in use.
Cash flow projections used in these calculations were based on the business plans approved by the management for the period until and including 2014, as well as on extrapolations of growth rates up until 2018. A 10-year period was used because all subsidiaries with goodwill operate in underdeveloped markets that we believe will grow faster than average developed markets, and their operations are expected to normalise only after a longer period of time. The discount rate used was based on market rates adjusted to reflect each insurance company-specific risks. The recoverable amount of the cash-generating unit so calculated was compared against its carrying amount, including goodwill belonging to the unit. Within the framework of notes to I*ntangible assets*, there is a presentation of main assumptions for cash flow projections used in the calculation of the value in use.

19.4.10 Property and equipment

Property and equipment assets are initially recognised at cost plus directly attributable costs. Subsequently, the cost model is applied: assets are carried at cost, less any accumulated depreciation and any impairment losses. The Group assesses annually whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount, being the value in use or net selling price less cost to sell, is the higher of the value in use and the net selling price. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

Depreciation of property and equipment assets begins when they are available for use. Depreciation is calculated for each item separately, on a straight-line basis. Depreciation rates are determined so as to allow writing off the cost of property and equipment over their estimated useful life.

Depreciation rates of property and equipment

Depreciation group	Rate
Land	0%
Buildings	1.3–1.8%
Transportation	15.50%
Computer equipment	33.0%
Office and other furniture	10–12.5%
Other equipment	6.7–20%

Gains and losses arising on disposal of items of property and equipment, calculated as the difference between sales proceeds and carrying amount, are included in profit or loss. The costs of day-to-day servicing and repair of property and equipment are recognised in profit or loss as incurred. Investments in property and equipment that increase future economic benefits are recognised in the carrying amount of property and equipment.

19.4.11 Non-current assets held for sale

Non-current assets held for sale are assets the carrying amount of which will be recovered through a sale transaction rather than through continuing use. A non-current asset is classified as held for sale when its sale is highly probable and when it is available for immediate sale in its present condition. The Group must be committed to the sale and must make it within one year. Such assets are measured at the lower of the assets' carrying amount or fair value less costs to sell.

19.4.12 Deferred tax assets and liabilities

The Group recognises deferred tax assets for temporary non-deductible impairments of portfolio securities and allowances for receivables, as well as for the uncovered tax losses. Deferred tax liabilities were recognised for the credit risk and catastrophe equalisation reserves transferred (on 1 January 2007) from technical provisions to profit reserves, which used to be tax-deductible when set aside. The Group does not recognise deferred tax assets for impairments of investments in subsidiaries.

In addition, the Group establishes deferred tax assets for that part of value adjustments recorded under negative fair value reserve.

In 2009, deferred tax assets and liabilities were accounted for at the rates applicable in individual countries, ranging from 9–20% (2008: 9–21%).

19.4.13 Investment property

Investment property relates to assets that the Group does not use directly for carrying out its activities, but holds to earn rent or to realise capital gains at disposal. The Group uses the cost model and the straight-line depreciation method to account for investment property. Investment property is depreciated at the rate of 1.3%. All leases where the Group acts as lessor are cancellable operating leases. Payments and/or rentals received are recognised as income on a straight-line basis over the term of the lease. The Group assesses annually whether there is any indication of impairment of investment property. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of the value in use and the net selling price less costs to sell. If the recoverable amount is higher than or equal to the carrying amount, the asset is not impaired.

The Group reviews the fair value of its investment property using models for assessing the fair value; in Slovenia the fair value of investment property is reviewed on the basis of data published by the Surveying and Mapping Authority of the Republic of Slovenia as part of its report on average prices of real estate in the Slovenian market.

19.4.14 Financial investments in associated companies

Investments in the equity of associated companies are accounted for in the consolidated financial statements using the equity method.

Impairment testing in associated companies is carried out at least on an annual basis.

For the purpose of impairment testing of the acquisition cost of investments in subsidiaries (with goodwill) in accordance with IAS 36, for each individual investment the recoverable amount of the cash-generating unit was calculated based on the value in use. Cash flow projections used in these calculations were based on the business plans approved by the management for the period until and including 2018, as well as on extrapolations of growth rates for all subsequent periods. The discount rate used was based on market rates adjusted to reflect each insurance company-specific risks. The recoverable amount of the cash-generating unit so calculated was compared against its carrying amount. For other subsidiary and associated companies such impairment of acquisition value of investments would only be accounted for if there were indications of impairment.

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

19.4.15.1 Classification

The Group classifies its financial assets in the following categories:

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

Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e. realising gains in the short term.

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

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

Available-for-sale financial assets
Available-for-sale financial assets are assets that the Group intends to hold for an indefinite period.

Funds for the benefit of policyholders who bear the investment risk
This category includes financial assets associated with life insurance products under which policyholders bear the investment risk.

19.4.15.2 Recognition, measurement and derecognition

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

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

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

Financial assets are derecognised when the contractual rights to cash inflows from the assets expire.

If the fair value cannot be reliably measured, investments are valued at cost.

Determination of fair value

The fair value of financial assets held for trading and financial assets available for sale is determined by reference to the last quotation, i.e. the last reported bid price in an active securities market.

19.4.16 Impairment of investments

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

The Group reviews its investment portfolio for impairment on a quarterly basis.

Debt securities

As a rule, investments in debt securities are not impaired, provided any payments under the amortisation plan or prospectus are made when due.

Investments in debt securities are impaired only if one of the following conditions is met:
- the issuer fails to make a coupon or principal payment, and it is likely that such liabilities will not be settled in the short term;
- the issuer is subject to a bankruptcy, liquidation or compulsory settlement procedure.

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

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

In respect of debt securities, only impairment losses recognised due to the issuer's failure to make coupon or principal payments may be reversed. An impairment loss is reversed when the issuer's liability is settled. An impairment loss is reversed through profit or loss.

Equity securities

QUOTED SECURITIES

Investments in individual quoted shares are impaired if the market price stays below cost for more than 12 months, or if at the reporting date, the market price is more than 40% below cost.

An impairment loss, being the difference between the market price and cost of shares, is recognised.

UNQUOTED SECURITIES

Unquoted shares are shares not quoted in any organised securities market, shares for which the Group has evidence that they do not have an active market, and investments in subsidiaries and associates carried at cost.

In establishing whether a share has an active market or not, the following criteria are considered:
- trading volume with a specific share;
- trading volume history in the three years preceding the statement of financial position date (when the market was operating normally). If there is a significant drop in volume, the market is deemed inactive for the observed security;

- trading volume compared to the total number of shares outstanding.

For the purpose of impairment testing, the fair value of unquoted shares is determined using the available P/B (price to book) ratio of comparable companies with quoted shares. Based on this ratio, the fair value of an unquoted share is calculated using the following formula:

*fair value of an unquoted share = last published book value * average* P/B *of comparable companies*.

If there are clear indications that the issuer of unquoted shares will report a loss at the statement of financial position date, the last published book value of the share is adjusted accordingly, unless its book value as at that date is available.

Companies pursuing the same or essentially the same activity are considered comparable. In selecting comparable companies, the currency in which shares are denominated and market development are also considered.

Unquoted shares are impaired if their fair value so determined is below cost at the last two statements of financial position dates on which consolidated financial statements are prepared, or if their fair value is more than 40% below cost at the statement of financial position date.

19.4.17 Classification of investments by source of data for revaluation (levels 1-3)

In accordance with IFRSs as adopted by the European Union, the Group classifies fair value measurements into a fair value hierarchy with the following three levels. The classification is by reference to the observability and significance of the inputs used in making the measurements.

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3	inputs for assets or liabilities that are not based on observable market data

19.4.18 Reinsurers' share of technical provisions

Reinsurers' share of technical provisions comprise reinsurers' share of unearned premiums and of technical provisions. The amount is determined in accordance with reinsurance (retrocession) contracts and in line with the retroceded portfolio.

The Group assesses these assets for impairment at the statement of financial position date. The Group did not impair reinsurers' share of technical provisions at the statement of financial position date, as it has business relations mostly with highly-rated reinsurers. For retrocession risks, see the section on Risk Management, R*etrocession programme*.

19.4.19 Receivables

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

19.4.19.1 Recognition of receivables

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

Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commission relating to retrocession business is invoiced to cedants or reinsurers, respectively.

19.4.19.2 Impairment of receivables arising out of core activities

The Group classifies receivables into groups with similar credit risk. It assesses receivables in terms of recoverability or impairment, making allowances based on payment history.

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

Recourse receivables are recognised as assets only if, on the basis of a recourse claim, an appropriate legal basis exists (a final order of attachment, a written agreement with or payments by the policyholder or debtor, or subrogation for credit risk insurance). Even if subrogation is applicable, recourse receivables are recognised only after the debtor's existence and contactability have been verified. Recognition of principal amounts to which recourse receivables relate decreases claims paid.

No receivables have been pledged as security.

19.4.20 Deferred acquisition costs

The Group discloses under deferred acquisition costs, mostly deferred commissions. These are booked commissions relating to the coming financial year and are recognised based on reinsurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line deferment.

Deferred acquisition costs also include commission expenses of external sales networks, labour cost depending on premiums written/earned (agent commission), rent for sales premises and costs of insurance product advertising.

19.4.21 Other assets

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

19.4.22 Cash and cash equivalents

This item of the statement of financial position and the cash flow statement comprises balances in bank accounts and overnight deposits.

19.4.23 Equity

Composition:

- Share capital comprises the par value of paid-up ordinary shares, expressed in euro,
- Share premium - comprises amounts in excess of the par value of shares,
- Profit reserves – comprise reserves provided for by the Articles of Association, legal reserves, reserves for treasury shares and credit risk and catastrophe (earthquake) equalization reserves,
- Fair value reserve,
- Retained earnings,
- Net profit/loss for the period,
- Translation reserve,
- Minority interest in equity.

19.4.24 Subordinated liabilities

Subordinated debt represents a long-term liability of the parent issued to meet capital adequacy requirements as defined by Standard and Poor's, which affects the insurer financial strength rating. Subordinated liabilities are measured at amortised cost on a monthly basis.

19.4.25 Technical provisions

Technical provisions are shown in gross amounts in the statement of financial position. The share of gross technical provisions for the business ceded by the Group is shown in the statement of financial position under item R*einsurers' share of technical provisions*. It is calculated at reinsurance contract level based on actuarial calculations. Technical provisions for each Group company are approved by each company's appointed certified actuary. The main principles used in the calculation of technical provisions are described below.

Unearned premiums are premiums written but pertaining to periods after the accounting period. Unearned premiums for primary insurance are calculated on the pro rata temporis basis at insurance policy level. For reinsurance, there is sometimes insufficient data available for this method; in such cases, nominal percentages are used at reinsurance account level for periods for which premiums is written.

Unearned premiums represent short-term provisions for the unexpired portions of insurance contracts. The amount set aside at the end of the prior financial year relates to contracts concluded prior to the beginning of the financial year, while their cover is effective also during the current financial year. Unearned premiums from the end of the prior financial year are mostly used during the current financial year, except for insurance contracts where cover extends into the succeeding accounting period as a result of which unearned premium needs to be set aside also at the end of the period. For new contracts written in the financial year where cover extends into the succeeding accounting period, unearned premium is set aside at the end of the year.

The calculation of the mathematical provision is based on the assumption that the full agent commission is paid as the conclusion of the contract, while actually the agent receives the commission in the period from two to five years (depending on the policy duration.) Therefore, the deferred commission (i.e. the part of the commission not already paid to the agent) is included within the mathematical provision. Thus, there are no other liabilities for deferred commission.

Mathematical provisions for life insurance contracts represent the actuarial value of obligations arising from policyholders' guaranteed entitlements. In most cases, they are calculated using the net Zillmer method with the same parameters as those used for premium calculation. Net premiums so calculated are increased by a loading for acquisition costs. The calculation of mathematical provisions is based on the assumption that the full agent commission was paid at conclusion of the contract, while agents actually receive the commission within two to five years depending on the policy term. The mathematical provision includes all deferred commission. Thus, there are no other liabilities from deferred commission. Calculated negative liabilities arising out of mathematical provisions are set to nil. For annuity insurance products with an agreed premium payment period, mathematical provisions are calculated using the prospective method with a 4% interest rate and German annuity tables 1994 for payments made after age 78. Mathematical provisions for business where policyholders bear the investment risk are determined as the value of the underlying asset of all policies written. This also applies to guaranteed products where the fund administrator guaranties for the unit values in accordance with conditions of the product; insurers, therefore, do not set aside any additional provisions in this respect. The value of underlying assets for a policy is calculated as the sum of the value of underlying assets linked to a certain fund using the unit value at 31 December 2009. At the end of each calendar year, insurers carry out liability adequacy tests for mathematical provisions and if inadequate, any shortfall would be recognised as an additional liability in the statement of financial position through profit and loss. Reversionary bonuses (which are added to the sum assured of life insurance with-profits policies) remain permanently in the ownership of insureds and form an integral part of mathematical provisions.

Provisions for outstanding claims are established for incurred but not settled claims under primary insurance contracts and reinsurance contracts. The part relating to incurred and reported claims is calculated based on case estimates; the other part relating to incurred but not reported claims is calculated based on actuarial projection methods, mainly using development triangles. Future liabilities are generally not discounted, with the exception of a relatively small part relating to annuities under certain liability insurance contracts. In such cases, the related provisions are established based on the net present value of future liabilities.

The controlling company establishes the IBNR provision following three procedures. In the first procedure, the controlling company assumes a portion of the IBNR provision as calculated by cedants based on relevant reinsurance contract's provisions. This relates to business segments were invoices are received timely. With the introduction of premium and claims estimates for business segments where invoices are not received timely, in the second procedure the claims provision is estimated relating to the estimated reinsurance premium or the insufficiently established claims provision prior to the estimation procedure. It is then added to the IBNR provision, as it has not been reported. As the triangular method is used in making estimates, such estimation also represents a liability adequacy test for portfolio segments for which estimates are made, that is for international business excluding subsidiaries and for retrocession business. In the third procedure, the IBNR provision is calculated as part of the liability adequacy test for business segments where reinsurance accounts are received timely and for which thus no estimates are made using triangular methods at portfolio data level. This calculation is made for gross data of Slovenian cedants and subsidiaries at insurance class level. Using loss development triangles of cumulative claim payments by underwriting year and cumulative development factors (their weighted average), the ultimate liability for losses is estimated by insurance classes. Such estimated ultimate liability reduced by the already paid claims and the unearned premium (net of deferred commission) available at the underwriting year level gives the estimated provision for outstanding claims. If this exceeds the outstanding claims provision already set aside (and calculated based on reinsurance accounts), a reinsurance IBNR provision is set aside. The described process shows that the outstanding claims provision is established based on statistical data and using actuarial methods; therefore, its calculation is at the same time also the test of its liability adequacy. In subsidiary companies, the IBNR claims provision is calculated using actuarial methods based on paid claims triangles provided that the business volume is sufficiently large. For classes of business with insufficient premium volume, methods are used based on expected loss ratios.

Adequacy testing of liabilities is regularly carried out for unearned premiums in accordance with IFRS 4. Any shortfalls identified are recognised within other technical provisions as unexpired risks provisions. The method of calculation is based on expected combined ratios at insurance class level. If the expected combined ratio exceeds 100%, this means that there is a shortfall in unearned premium provisions equal to the product of the combined ratio above 100% and unearned premiums (see also the notes to the statement of financial position: T*echnical provisions and the technical provision for the benefit of life insurance policyholders who bear the investment risk*). Mathematical provisions are also regularly tested for adequacy by comparing the main initial actuarial assumptions used for their calculation (e.g. the guaranteed interest rate, mortality tables, costs) against the expected future values.

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

These are provisions for unit-linked life business. Their value is the value of units of funds of all policies. For funds, the market value at 31 December 2009 is used. For technical provisions for unit-linked business, a liability adequacy test is carried out as described under Risk Management (Underwriting risks in life insurance).

19.4.27 Other provisions

Employee benefits include severance pay upon retirement, jubilee benefits and other benefits.

Provisions are calculated based on personal data of employees: date of birth, date of commencement of employment, anticipated retirement, and salary. For each Group company, the amounts of severance pay (retirement) and jubilee benefit are in accordance with local legislations and any other applicable regulations.

The probability of an employee staying with the Group includes both the probability of death and the probability of employment relationship termination.

Provisions for employee benefits are the net present value of the Group's future liabilities (calculated based on the above assumptions) proportionate to the years of service in the Group (the projected unit credit method).

Assumptions relating to future increases in salaries, severance pay (retirement) and jubilee benefits, as well as those relating to employee turnover depend on developments in Group companies and in markets where such companies operate. Employee benefits are only calculated for the Group companies that are required under local legislations to calculate them; this is why certain parameters for certain companies are not given.

The table below shows the assumptions used by Group companies to calculate provisions for employee benefits in 2009. Assumptions have not changed from 2008.

Provisions as per IAS 19

	Sava Reinsurance Company	Zavarovalnica Tilia	Sava osiguranje	Sava Tabak, Bro-Dil, Sava Invest	Sava Montenegro	Dukagjini	Velebit
Currency	EUR	EUR	RSD	MKD	EUR	EUR	EUR
Severance pay upon retirement	twice the amount of the last salary*	twice the amount of the last salary*	3 times the amount of the last salary	twice the amount of the average salary in the country	6 times the amount of the last salary	-	-
JB - 10 years (currency)	628	460	1 net salary	22,232	100	-	-
JB - 20 years (currency)	942	689	2 net salaries	44,464	200	-	-
JB - 30 years (currency)	1256	919	3 net salaries	66,697	300	-	-
JB - 40 years (currency)		919			400		
Discount rate	3.91%	3.95%	9.50%	6.50%	3.91%	-	-
Growth in severance pay (retirement)	6.18%	3.50%	10.00%	11.40%	3.00%	-	-
Growth in jubilee benefit	3.50%	3.00%	10.00%	11.40%	3.00%	-	-
Fluctuation up to age 35	2.60%	9.00%	18.00%	6.00%	2.00%	-	-
Fluctuation age 35–45	2.00%	5.13%	12.27%	6.00%	2.00%	-	-
Fluctuation after age 45	1.50%	2.75%	10.14%	6.00%	1.00%	-	-

*or average salary in the country if greater

19.4.28 Other liabilities

Liabilities are initially recognised at amounts recorded in the relevant documents. Subsequently, they are increased/decreased based on the relevant documents or payments. Other liabilities comprise: liabilities for claims and outwards retrocession premiums, liabilities for claims arising out of inwards reinsurance contracts, liabilities for retained deposits, amounts due to employees, trade payables and other short-term liabilities.

19.4.29 Classification of insurance contracts

The Group only provides traditional insurance and reinsurance services, the basic purpose of which is the transfer of insurance risk. Thus the Group classified all the contracts it concluded as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, i.e. insurance contracts. Non-proportional reinsurance contracts, which involve larger amounts in case of loss events, also qualify as insurance contracts.

19.4.30 Premiums earned

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

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

19.4.31 Claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. The Group separately discloses gross claims paid net of recourse receivables and retrocession recoveries. The amount of gross claims paid includes any change in the claims provision. Also included are estimated gross claims, retrocession claims and (gross and retroceded) claims provisions; claims estimates are made on the basis of reinsurance contracts so that, according to due dates, such claims have already been incurred although the Group has yet to receive reinsurance accounts. Claims incurred are estimated based on estimated premiums and composite ratios for individual reinsurance contracts concluded. Together, they represent net claims incurred in the income statement.

19.4.32 Income from and expenses for investments in affiliates

Income from investments in affiliates comprises participation in the profits of affiliates using the equity method. Expenses for investments in affiliates comprise participation in the loss of affiliates calculated using the equity method.

19.4.33 Investment income and expenses

The Group records investment income and expenses separately by source of funds, that is separately for the capital fund, liability fund and the long-term business fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions; and the long-term business fund, which is part of the liability fund, comprises assets supporting mathematical provisions.

Investment income comprises dividends (income from shares), income from land and buildings (investment property), interest income, financial income due to changes in fair value, income from reversals of value adjustments (impairment) on debt instruments available for sale, and gains on disposals of investments.

Investment expenses comprise interest expenses, losses on disposals of investments and expenses due to impairments.

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

Interest income and expenses are recognised in the income statement using the effective interest rate method. Dividend income is recognised in the income statement when payout is authorised. Income and expenses due to changes in fair value arise from unrealised gains and losses on financial assets classified as at fair value through profit or loss and financial assets classified as held for trading. Gains and losses on the disposal of investments represent the difference between the carrying amount of a financial asset and its sale price, or between its cost and sale price in the case of investments available for sale.

19.4.34 Operating expenses

Operating expenses comprise:

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

19.4.35 Other technical income

Other technical income comprises income from reinsurance commission less movement in deferred acquisition costs relating to reinsurers and are recognised based on confirmed reinsurance accounts and estimated commission income taking into account straight-line deferment.

19.4.36 Income tax expense

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

The Group income tax expense is determined in accordance with the requirements of local legislations. Statutory tax rates in various countries range from 9% to 21%.

19.4.37 Information on operating segments

Implementation of IFRS 8 (Operating segments), effective as of 1 January 2009, comprised additional disclosures in the notes to the financial statements and adjustments of items disclosed by 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[14] is a group composed of Management Board members, director of the finance and accounting, director of controlling, and director of the risk management. CODM can monitor quarterly the results of operations by segments. These results include the 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.

Business 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 business segment relates to non-life business of Group companies and to the non-life business of Tilia, a composite insurance company; the life business 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 activities carried on.

The reinsurance and non-life business segments exceed the 10-percent threshold of total income, total assets and share in profit/loss, and are therefore presented separately. The life business segment does not reach 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.

[14] CODM (Chief Operating Decision Maker) can be one person who is responsible for monitoring the results of operations of a segment. It can also be a group of persons who are responsible for allocating resources, as well as for monitoring and assessing the results of operations. CODM is a function and not a title.

Asset items by operating segment

(EUR)	Reinsurance		Non-life business		Life business		Other		Consolidation adjustment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
ASSETS	**404,105,056**	**399,152,652**	**183,588,156**	**164,119,953**	**49,389,903**	**33,428,915**	**11,780,103**	**729,413**	**-88,151,614**	**-62,084,317**	**560,711,611**	**535,346,611**
Intangible assets	**181,818**	**189,498**	**1,649,314**	**2,065,170**	**309,135**	**182,475**	**22,510**	**29,035**	**21,683,758**	**22,328,447**	**23,846,535**	**24,794,625**
Property and equipment	**1,808,628**	**1,852,159**	**17,065,908**	**18,769,569**	**4,186,642**	**1,587,692**	**1,769,651**	**22,993**	**0**	**0**	**24,830,829**	**22,232,413**
Deferred tax assets	**2,112,682**	**5,383,818**	**252,255**	**446,076**	**3,756**	**30,217**	**152**	**156**	**0**	**0**	**2,368,845**	**5,860,267**
Investment property	**1,244,886**	**1,262,310**	**4,528,678**	**3,981,097**	**0**	**0**	**0**	**0**	**0**	**0**	**5,773,564**	**5,243,407**
Financial investments in associated companies	**89,436,603**	**78,665,394**	**3,025,940**	**2,625,283**	**395,300**	**0**	**9,271,851**	**0**	**-64,483,213**	**-49,709,699**	**37,646,479**	**31,580,978**
Financial investments:	**207,913,774**	**201,286,220**	**70,435,458**	**55,345,852**	**24,887,396**	**14,368,112**	**594,931**	**602,736**	**-5,700,000**	**0**	**298,131,559**	**271,602,919**
- Loans and deposits	36,865,091	31,057,148	21,454,990	28,984,697	9,579,970	5,486,398	0	808,586	-5,700,000	0	62,200,051	66,336,829
- Held to maturity	9,798,345	7,700,603	21,010,812	556,139	3,399,279	0	465,695	66,007	0	0	34,674,131	8,322,749
- Available for sale	157,854,127	160,393,911	25,611,380	24,363,215	10,843,712	8,881,714	129,236	132,436	0	0	194,438,455	193,771,276
- At fair value through profit or loss	3,396,211	2,134,557	2,358,276	1,037,508	1,064,436	0	0	0	0	0	6,818,923	3,172,065
Funds for the benefit of policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**17,861,634**	**10,577,672**	**0**	**0**	**0**	**0**	**17,861,634**	**10,577,672**
Reinsurers' share of technical provisions	**25,148,351**	**37,690,671**	**29,517,146**	**26,180,193**	**22,845**	**1,933**	**0**	**0**	**-25,788,932**	**-23,731,776**	**28,899,410**	**40,141,021**
Receivables	**65,638,369**	**56,451,136**	**43,461,178**	**38,653,558**	**954,452**	**726,611**	**19,197**	**36,806**	**-13,863,226**	**-10,971,290**	**96,209,971**	**84,896,822**
Receivables arising out of primary insurance business	0	0	33,954,724	27,162,286	213,322	425,430	0	0	-450,634	-216	33,717,412	27,587,500
Receivables arising out of reinsurance and co-insurance busin	60,245,061	53,357,701	6,036,841	5,179,163	6,650	4,835	0	0	-12,887,745	-10,870,742	53,400,807	47,670,957
Current tax assets	3,500,244	846,920	403,544	86,694	107,068	0	1,687	22,768	0	0	4,012,543	956,382
Other receivables	1,893,065	2,246,516	3,066,069	6,225,415	627,412	296,346	17,510	14,038	-524,847	-100,332	5,079,209	8,681,983
Deferred acquisition costs	**10,263,816**	**9,652,159**	**7,094,580**	**5,855,823**	**46,071**	**238,665**	**0**	**0**	**0**	**0**	**17,404,467**	**15,746,647**
Other assets	**225,688**	**6,707,831**	**770,673**	**494,903**	**74,362**	**141,687**	**60,248**	**0**	**0**	**0**	**1,130,971**	**7,344,421**
Cash and cash equivalents	**130,442**	**11,454**	**4,797,140**	**8,505,977**	**648,311**	**5,573,850**	**41,564**	**37,686**	**0**	**0**	**5,617,457**	**14,128,967**
Non-current assets held for sale	**0**	**0**	**989,887**	**1,196,451**	**0**	**0**	**0**	**0**	**0**	**0**	**989,887**	**1,196,451**

Equity and liabilities items by operating segment

(EUR)	Reinsurance		Non-life business		Life business		Other		Consolidation adjustment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
EQUITY AND LIABILITIES	**404,105,057**	**399,152,652**	**183,588,159**	**164,107,171**	**49,389,904**	**33,428,915**	**11,780,103**	**742,195**	**-88,151,612**	**-62,084,318**	**560,711,611**	**535,346,611**
Equity	**149,995,279**	**153,740,161**	**25,977,488**	**32,260,206**	**16,814,712**	**11,100,963**	**11,689,382**	**726,033**	**-42,799,454**	**-23,740,308**	**161,677,406**	**174,087,055**
Share capital	39,069,099	39,069,099	35,220,738	25,298,569	21,219,205	12,180,628	11,492,556	279,343	-67,932,499	-37,758,540	39,069,099	39,069,099
Share premium	33,003,752	33,003,752	28,495	28,495	56	56	0	0	-28,547	-28,547	33,003,756	33,003,756
Profit reserves	79,639,568	92,238,213	5,092,441	4,592,217	0	0	98,336	91,379	-4,552,375	-4,425,322	80,277,970	92,496,487
Fair value reserve	-1,717,140	-10,570,904	1,977,700	1,160,787	81,097	-98,927	9,828	16,345	192,452	-959,820	543,937	-10,452,518
Retained earnings	0	0	-573,099	1,863,740	-3,266,680	-31,919	183,963	305,937	17,180,647	12,655,930	13,524,831	14,793,688
Net profit/loss for the period,	0	0	-14,472,194	92,800	-791,221	-948,875	-85,453	26,638	3,007,121	6,078	-12,341,747	-823,359
Translation reserve	0	0	-1,296,593	-776,402	-427,745	0	-9,848	6,391	49,009	-234,325	-1,685,177	-1,004,336
Equity attributable to the equity holders of the controlling company	**149,995,279**	**153,740,161**	**25,977,488**	**32,260,206**	**16,814,712**	**11,100,963**	**11,689,382**	**726,033**	**-52,084,192**	**-30,744,546**	**152,392,668**	**167,082,817**
Minority interest in equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**9,284,738**	**7,004,238**	**9,284,738**	**7,004,238**
Subordinated liabilities	**31,135,777**	**31,139,605**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**31,135,777**	**31,139,605**
Technical provisions	**169,726,846**	**159,309,009**	**130,566,625**	**110,120,107**	**13,778,365**	**10,610,175**	**0**	**0**	**-25,788,932**	**-23,731,776**	**288,282,904**	**256,307,515**
Unearned premiums	44,042,916	41,967,178	51,197,580	44,647,066	255,074	204,063	0	0	-9,483,296	-8,197,792	86,012,274	78,620,515
Mathematical provisions	0	0	0	0	13,363,461	10,280,389	0	0	0	0	13,363,461	10,280,389
Provision for outstanding claims	123,869,342	116,458,980	76,397,588	63,522,687	159,830	125,723	0	0	-16,113,143	-15,366,534	184,313,617	164,740,856
Other technical provisions	1,814,588	882,851	2,971,457	1,950,354	0	0	0	0	-192,493	-167,450	4,593,552	2,665,755
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**17,953,979**	**10,748,184**	**0**	**0**	**0**	**0**	**17,953,979**	**10,748,184**
Other provisions	**170,448**	**226,667**	**630,293**	**486,903**	**69,599**	**62,391**	**1,761**	**1,655**	**0**	**0**	**872,101**	**777,616**
Deferred tax liabilities	**323,814**	**0**	**41,570**	**60,746**	**20,275**	**0**	**0**	**0**	**0**	**0**	**385,659**	**60,746**
Other financial liabilities	**613**	**160**	**6,073,305**	**2,844,469**	**0**	**0**	**50,418**	**0**	**-2,950,418**	**-2,244,469**	**3,173,918**	**600,160**
Liabilities from operating activities	**37,345,542**	**42,528,378**	**14,680,764**	**12,656,309**	**115,181**	**77,521**	**24,246**	**0**	**-11,988,825**	**-9,419,407**	**40,176,908**	**45,842,801**
Liabilities from primary insurance business	0	0	5,059,871	6,079,447	46,756	31,828	24,000	0	-8,464	0	5,122,163	6,111,275
Liabilities from reinsurance and co-insurance business	37,345,542	42,528,378	8,982,217	6,257,970	51,801	44,120	0	0	-11,980,361	-9,419,407	34,399,199	39,411,061
Current tax liabilities	0	0	638,676	318,892	16,624	1,573	246	0		0	655,546	320,465
Other liabilities	**15,406,738**	**12,208,672**	**5,618,114**	**5,678,430**	**637,793**	**829,680**	**14,296**	**14,506**	**-4,623,983**	**-2,948,358**	**17,052,958**	**15,782,930**

Items of the income statement by operating segment

(EUR)	Reinsurance		Non-life business		Life business		Other		Consolidation adjustment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Net earned premiums (1)	**119,096,864**	**109,098,508**	**87,151,884**	**74,115,969**	**11,217,545**	**10,938,510**	**0**	**0**	**-38,454**	**-39,214**	**217,427,839**	**194,113,773**
Gross premiums written	147,082,330	134,743,720	119,665,563	106,452,791	11,407,225	10,874,387	0	0	-26,738,530	-22,463,971	251,416,588	229,606,926
Written premiums ceded to reinsurers and co-insurers	-25,360,971	-20,886,767	-30,392,194	-25,113,766	-90,848	-44,120	0	0	26,700,076	22,424,757	-29,143,937	-23,619,896
Change in net unearned premiums	-2,624,495	-4,758,444	-2,121,485	-7,223,056	-98,832	108,243	0	0	0	0	-4,844,812	-11,873,257
Net claims incurred (2)	**-90,257,788**	**-79,061,685**	**-55,939,199**	**-41,212,188**	**-1,621,249**	**-1,571,138**	**0**	**0**	**0**	**-3,420**	**-147,818,236**	**-121,848,431**
Gross claims paid less income from recourse receivables	-100,807,961	-114,689,231	-61,376,186	-51,051,030	-1,617,844	-1,495,967	0	0	14,411,631	12,104,745	-149,390,360	-155,131,483
Reinsurers' and co-insurers' share of claims paid	29,936,487	44,293,794	16,169,192	13,155,505	356	0	0	0	-14,411,631	-12,108,165	31,694,404	45,341,134
Change in the net provision for outstanding claims	-19,386,314	-8,666,248	-10,732,205	-3,316,663	-3,761	-75,171	0	0	0	0	-30,122,280	-12,058,082
Change in other technical provisions (3)	**-949,348**	**-182,999**	**-734,022**	**-302,891**	**-1,709,146**	**-217,990**	**0**	**0**	**25,040**	**-22,706**	**-3,367,476**	**-726,586**
Change in the technical provision for policyholders who bear the investment risk (4)	**0**	**0**	**0**	**0**	**-7,205,795**	**-436,745**	**0**	**0**	**0**	**0**	**-7,205,795**	**-436,745**
Operating expenses (5)	**-39,876,086**	**-39,127,544**	**-42,117,528**	**-34,989,750**	**-5,558,258**	**-4,736,570**	**-229,893**	**-262,534**	**6,531,378**	**5,248,125**	**-81,250,387**	**-73,868,273**
-Depreciation and amortisation	-150,478	-154,831	-1,615,486	-1,377,485	-62,209	-518	-10,305	-4,132	0	0	-1,838,478	-1,536,966
Other technical income (6)	**5,539,068**	**2,898,066**	**8,598,391**	**6,637,453**	**123,867**	**12,590**	**22**	**0**	**-6,459,490**	**-5,390,357**	**7,801,858**	**4,157,752**
Other technical expenses (7)	**-1,230,757**	**-573,707**	**-5,626,053**	**-3,399,749**	**-106,119**	**-16,431**	**0**	**0**	**0**	**0**	**-6,962,929**	**-3,989,886**
A) Technical result (1+2+3+4+5+6+7)	**-7,678,047**	**-6,949,361**	**-8,666,527**	**848,844**	**-4,859,155**	**3,972,226**	**-229,871**	**-262,534**	**58,474**	**-207,572**	**-21,375,126**	**-2,598,396**
Income from investments in affiliates (8)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**167,497**	**1,350,266**	**167,497**	**1,350,266**
-Shares in profit/loss of associated companies - equity method	0	0	0	0	0	0	0	0	167,497	1,350,266	167,497	1,350,266
Investment income (9)	**12,566,933**	**22,519,177**	**4,630,836**	**4,718,878**	**5,374,801**	**984,107**	**112,719**	**242,079**	**-502,391**	**-457,214**	**22,182,898**	**28,007,027**
- Interest income	6,069,093	8,513,365	3,231,873	3,560,083	1,017,157	602,711	24,699	24,254	158,450	276,053	10,501,272	12,976,466
- Other investment income	6,497,840	14,005,812	1,398,963	1,158,795	4,357,644	381,396	88,020	217,825	343,941	181,161	12,686,408	15,944,989
Expenses from investments in affiliates (10)	**0**	**0**	**-285,860**	**-314,213**	**0**	**0**	**-1,181**	**0**	**32,760**	**314,213**	**-254,281**	**0**
-Shares in profit/loss of associated companies - equity method	-254,281	0	0	0	0	0	0	0	0	0	-254,281	0
Expenses from financial assets and liabilities (11)	**-18,961,340**	**-25,059,829**	**-3,307,005**	**-2,281,715**	**-1,178,505**	**-5,898,101**	**0**	**0**	**0**	**0**	**-23,446,850**	**-33,239,644**
- Interest expense	-1,926,416	-2,818,485	0	0	0	0	0	0	0	0	-1,926,416	-2,818,485
B) Net investment income (8+9+10+11)	**-6,394,407**	**-2,540,652**	**1,037,971**	**2,122,950**	**4,196,296**	**-4,913,994**	**111,538**	**242,079**	**-302,134**	**1,207,265**	**-1,350,736**	**-3,882,351**
Other income (12)	**67,558**	**1,314**	**721,176**	**1,306,742**	**0**	**0**	**33,775**	**47,309**	**0**	**-10,000**	**822,509**	**1,345,365**
Expenses for bonuses and rebates (13)	**0**	**0**	**-650,615**	**-617,178**	**0**	**0**	**0**	**0**	**-25,040**	**22,706**	**-675,655**	**-594,472**
Other expenses (14)	**-663**	**-1,370**	**-5,765,762**	**-2,473,800**	**0**	**0**	**-14**	**-399**	**0**	**-588,332**	**-5,766,439**	**-3,063,901**
C) Result of other items (12+13+14)	**66,895**	**-56**	**-5,695,201**	**-1,784,236**	**0**	**0**	**33,761**	**46,910**	**-25,040**	**-575,626**	**-5,619,585**	**-2,313,008**
D) Profit/loss before tax (A+B+C)	**-14,005,559**	**-9,490,069**	**-13,323,757**	**1,187,558**	**-662,859**	**-941,768**	**-84,572**	**26,455**	**-268,700**	**424,067**	**-28,345,448**	**-8,793,754**
E) Income tax expense	1,406,914	1,498,420	-1,267,034	-1,174,995	-9,764	-2,285	-881	-30	0	0	129,235	321,110
F) Net profit/loss for the period (D+E)	**-12,598,645**	**-7,991,649**	**-14,590,791**	**12,563**	**-672,623**	**-944,053**	**-85,453**	**26,425**	**-268,700**	**424,067**	**-28,216,212**	**-8,472,644**

Inter-segment business

(EUR)	Reinsurance		Non-life business		Life business		Other		Consolidation adjustment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Net earned premiums	26,738,530	22,463,971	0	0	0	0	0	0	-26,738,530	-22,463,971	0	0
Net claims incurred	-14,411,631	-12,516,254	0	0	0	0	0	0	14,411,631	12,516,254	0	0
Operating expenses	-6,361,832	-5,372,782	0	0	0	0	0	0	6,361,832	5,372,782	0	0

Pursuant to the Decision on the annual report and quarterly financial statements of insurance companies (SKL 2009), requiring that the statement of financial position and income statement includes separate disclosures for non-life business, life business, supplementary health business and the sum total of all business, these data are given in the following tables:

Statement of financial position – assets

(EUR)	2009						2008				
	Non-life business	Life business	Health business	Group total	Consolidated	Total	Non-life business	Life business	Group total	Consolidated	Total
ASSETS	**597,490,923**	**49,389,904**	**1,982,394**	**648,863,221**	**-88,151,613**	**560,711,611**	**564,002,013**	**33,428,914**	**597,430,927**	**-62,084,318**	**535,346,611**
Intangible assets	**1,853,642**	**309,135**	**0**	**2,162,777**	**21,683,758**	**23,846,535**	**2,283,703**	**182,475**	**2,466,178**	**22,328,447**	**24,794,625**
Property and equipment	**19,867,208**	**4,186,642**	**776,980**	**24,830,830**	**0**	**24,830,829**	**20,644,721**	**1,587,692**	**22,232,413**	**0**	**22,232,413**
Non-current assets held for sale	**989,887**	**0**	**0**	**989,887**	**0**	**989,887**	**1,196,451**	**0**	**1,196,451**	**0**	**1,196,451**
Deferred tax assets	**2,365,089**	**3,756**	**0**	**2,368,845**	**0**	**2,368,845**	**5,830,050**	**30,217**	**5,860,267**	**0**	**5,860,267**
Investment property	**5,773,564**	**0**	**0**	**5,773,564**	**0**	**5,773,564**	**5,243,407**	**0**	**5,243,407**	**0**	**5,243,407**
Financial investments in associated companies	**100,830,033**	**395,300**	**904,360**	**102,129,693**	**-64,483,213**	**37,646,479**	**81,290,677**	**0**	**81,290,677**	**-49,709,699**	**31,580,978**
Financial investments:	**278,944,163**	**24,887,397**	**0**	**303,831,560**	**-5,700,000**	**298,131,559**	**257,234,807**	**14,368,112**	**271,602,919**	**0**	**271,602,919**
- Loans and deposits	58,320,081	9,579,970	0	67,900,051	-5,700,000	62,200,051	60,850,431	5,486,398	66,336,829	0	66,336,829
- Held to maturity	31,274,852	3,399,279	0	34,674,131	0	34,674,131	8,322,749	0	8,322,749	0	8,322,749
- Available for sale	183,594,743	10,843,712	0	194,438,455	0	194,438,455	184,889,562	8,881,714	193,771,276	0	193,771,276
- At fair value through profit or loss	5,754,487	1,064,436	0	6,818,923	0	6,818,923	3,172,065	0	3,172,065	0	3,172,065
Funds for the benefit of policyholders who bear the investment risk	**0**	**17,861,634**	**0**	**17,861,634**	**0**	**17,861,634**	**0**	**10,577,672**	**10,577,672**	**0**	**10,577,672**
Reinsurers' share of technical provisions	**54,665,497**	**22,845**	**0**	**54,688,342**	**-25,788,932**	**28,899,410**	**63,870,864**	**1,933**	**63,872,797**	**-23,731,776**	**40,141,021**
Receivables	**109,004,032**	**954,452**	**114,712**	**110,073,196**	**-13,863,226**	**96,209,971**	**95,141,500**	**726,611**	**95,868,111**	**-10,971,290**	**84,896,822**
Receivables arising out of primary insurance business	33,840,012	213,322	114,712	34,168,046	-450,634	33,717,412	27,162,286	425,430	27,587,716	-216	27,587,500
Receivables arising out of reinsurance and co-insurance business	66,281,901	6,650	0	66,288,551	-12,887,745	53,400,807	58,536,864	4,835	58,541,699	-10,870,742	47,670,957
Current tax assets	3,905,475	107,068	0	4,012,543	0	4,012,543	956,382	0	956,382	0	956,382
Other receivables	4,976,644	627,412	0	5,604,056	-524,847	5,079,209	8,485,969	296,346	8,782,315	-100,332	8,681,983
Other assets	**18,374,952**	**120,433**	**40,052**	**18,535,437**	**0**	**18,535,438**	**22,710,716**	**380,352**	**23,091,068**	**0**	**23,091,068**
Cash and cash equivalents	**4,822,856**	**648,311**	**146,290**	**5,617,457**	**0**	**5,617,457**	**8,555,117**	**5,573,850**	**14,128,967**	**0**	**14,128,967**

Statement of financial position – equity and liabilities

(EUR)	2009						2008				
	Non-life business	Life business	Health business	Group total	Consolidated	Total	Non-life business	Life business	Group total	Consolidated	Total
EQUITY AND LIABILITIES	**597,490,923**	**49,389,904**	**1,982,394**	**648,863,221**	**-88,151,613**	**560,711,611**	**564,002,013**	**33,428,914**	**597,430,927**	**-62,084,318**	**535,346,611**
Equity	**186,246,687**	**16,814,712**	**1,415,461**	**204,476,860**	**-42,799,455**	**161,677,406**	**186,726,399**	**11,100,963**	**197,827,362**	**-23,740,308**	**174,087,055**
Share capital	84,652,393	21,219,205	1,130,000	107,001,598	-67,932,499	39,069,099	64,647,011	12,180,628	76,827,639	-37,758,540	39,069,099
Share premium	33,032,247	56	0	33,032,303	-28,547	33,003,756	33,032,247	56	33,032,303	-28,547	33,003,756
Profit reserves	84,830,345	0	0	84,830,345	-4,552,375	80,277,970	96,921,809	0	96,921,809	-4,425,322	92,496,487
Fair value reserve	270,387	81,097	0	351,484	192,452	543,937	-9,393,772	-98,927	-9,492,699	-959,820	-10,452,519
Retained earnings	-389,136	-3,266,680	0	-3,655,816	17,180,647	13,524,831	2,169,677	-31,919	2,137,758	12,655,930	14,793,688
Net profit/loss for the period,	-14,843,108	-791,221	285,461	-15,348,868	3,007,121	-12,341,747	119,438	-948,875	-829,437	6,078	-823,359
Translation reserve	-1,306,441	-427,745		-1,734,186	49,009	-1,685,177	-770,011		-770,011	-234,325	-1,004,335
Equity attributable to the equity holders of the controlling company	186,246,687	16,814,712	1,415,461	204,476,860	-52,084,192	152,392,668	186,726,399	11,100,963	197,827,362	-30,744,546	167,082,817
Minority interest in equity	0	0	0	0	9,284,737	9,284,738	0	0	0	7,004,238	7,004,238
Subordinated liabilities	**31,135,777**	**0**	**0**	**31,135,777**	**0**	**31,135,777**	**31,139,605**	**0**	**31,139,605**	**0**	**31,139,605**
Technical provisions	**299,841,327**	**13,778,365**	**452,144**	**314,071,836**	**-25,788,932**	**288,282,904**	**269,429,116**	**10,610,175**	**280,039,291**	**-23,731,776**	**256,307,515**
Unearned premiums	95,145,814	255,074	94,682	95,495,570	-9,483,296	86,012,274	86,614,244	204,063	86,818,307	-8,197,792	78,620,515
Mathematical provisions	0	13,363,461	0	13,363,461	0	13,363,461	0	10,280,389	10,280,389	0	10,280,389
Provision for outstanding claims	199,909,468	159,830	357,462	200,426,760	-16,113,143	184,313,617	179,981,667	125,723	180,107,390	-15,366,534	164,740,856
Other technical provisions	4,786,045	0	0	4,786,045	-192,493	4,593,552	2,833,205	0	2,833,205	-167,450	2,665,755
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**0**	**17,953,979**	**0**	**17,953,979**	**0**	**17,953,979**	**0**	**10,748,184**	**10,748,184**	**0**	**10,748,184**
Other provisions	**802,502**	**69,599**	**0**	**872,101**	**0**	**872,101**	**715,225**	**62,391**	**777,616**	**0**	**777,616**
Deferred tax liabilities	**365,384**	**20,275**	**0**	**385,659**	**0**	**385,659**	**60,746**	**0**	**60,746**	**0**	**60,746**
Other financial liabilities	**5,989,575**	**2,687**	**0**	**5,992,262**	**-2,818,344**	**3,173,918**	**2,844,629**	**0**	**2,844,629**	**-2,244,469**	**600,160**
Liabilities from operating activities	**51,948,194**	**115,181**	**102,358**	**52,165,733**	**-11,988,825**	**40,176,908**	**55,184,687**	**77,521**	**55,262,208**	**-9,419,407**	**45,842,801**
Liabilities from primary insurance business	4,981,513	46,756	102,358	5,130,627	-8,464	5,122,163	6,079,447	31,828	6,111,275	0	6,111,275
Liabilities from reinsurance and co-insurance business	46,327,759	51,801	0	46,379,560	-11,980,361	34,399,199	48,786,348	44,120	48,830,468	-9,419,407	39,411,061
Current tax liabilities	638,922	16,624	0	655,546	0	655,546	318,892	1,573	320,465	0	320,465
Other liabilities	**21,161,475**	**635,106**	**12,431**	**21,809,012**	**-4,756,054**	**17,052,958**	**17,901,608**	**829,680**	**18,731,288**	**-2,948,358**	**15,782,930**

Income statement

(EUR)	2009						2008				
	Non-life business	Life business	Health business	Group total	Consolidated	Total	Non-life business	Life business	Group total	Consolidated	Total
Net earned premiums	**202,467,770**	**11,217,545**	**3,669,973**	**217,355,288**	**72,551**	**217,427,839**	**183,214,477**	**10,938,510**	**194,152,987**	**-39,214**	**194,113,773**
Gross premiums written	262,659,217	11,407,225	4,088,676	278,155,118	-26,738,530	251,416,588	241,196,510	10,874,387	252,070,897	-22,463,971	229,606,926
Written premiums ceded to reinsurers and co-insurers	-55,864,170	-90,848	0	-55,955,018	26,811,081	-29,143,938	-46,000,533	-44,120	-46,044,653	22,424,757	-23,619,896
Change in unearned premiums	-4,327,277	-98,832	-418,703	-4,844,812	0	-4,844,812	-11,981,500	108,243	-11,873,257	0	-11,873,257
Income from investments in subsidiary and affiliated companies, of this	**497,882**	**4,509**	**0**	**502,391**	**-334,894**	**167,497**	**457,214**	**0**	**457,214**	**893,052**	**1,350,266**
- gains from investments in associated companies under the equity method	0	0	0	0	167,497	167,497	0	0	0	1,350,266	1,350,266
Investment income	**16,812,606**	**5,370,292**	**0**	**22,182,898**	**0**	**22,182,898**	**27,022,920**	**984,107**	**28,007,027**	**0**	**28,007,027**
Other technical income	**14,137,481**	**123,867**	**0**	**14,261,348**	**-6,459,490**	**7,801,858**	**9,535,519**	**12,590**	**9,548,109**	**-5,390,357**	**4,157,752**
Commission income	11,080,032	7,621	0	11,087,653	-6,369,359	4,718,294	8,399,553	4,835	8,404,388	-5,377,617	3,026,771
Other technical income	3,057,449	116,246	0	3,173,695	-90,131	3,083,564	1,135,966	7,755	1,143,721	-12,740	1,130,981
Other income	**822,509**	**0**	**0**	**822,509**	**0**	**822,509**	**1,355,365**	**0**	**1,355,365**	**-10,000**	**1,345,365**
Net claims incurred	**-144,000,421**	**-1,621,249**	**-2,196,566**	**-147,818,236**	**0**	**-147,818,236**	**-120,273,873**	**-1,571,138**	**-121,845,011**	**-3,420**	**-121,848,431**
Gross claims paid less income from recourse receivables	-160,307,553	-1,617,844	-1,876,594	-163,801,991	14,411,631	-149,390,360	-165,740,261	-1,495,967	-167,236,228	12,104,745	-155,131,483
Reinsurers' and co-insurers' share of claims paid	46,105,679	356	0	46,106,035	-14,411,631	31,694,404	57,449,299	0	57,449,299	-12,108,165	45,341,134
Change in the provision for outstanding claims	-29,798,547	-3,761	-319,972	-30,122,280	0	-30,122,280	-11,982,911	-75,171	-12,058,082	0	-12,058,082
Change in other technical provisions	**-1,683,370**	**-1,709,146**	**0**	**-3,392,516**	**25,040**	**-3,367,476**	**-485,890**	**-217,990**	**-703,880**	**-22,706**	**-726,586**
Change in the technical provision for policyholders who bear the investment risk	**0**	**-7,205,795**	**0**	**-7,205,795**		**-7,205,795**	**0**	**-436,745**	**-436,745**	**0**	**-436,745**
Cange in liabilities under financial contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Expenses for bonuses and rebates	**-650,615**	**0**	**0**	**-650,615**	**-25,040**	**-675,655**	**-617,178**	**0**	**-617,178**	**22,706**	**-594,472**
Operating expenses	**-81,103,628**	**-5,558,258**	**-1,119,879**	**-87,781,765**	**6,531,378**	**-81,250,387**	**-74,379,828**	**-4,736,570**	**-79,116,398**	**5,248,125**	**-73,868,273**
Acquisition costs	-46,757,916	-1,550,914	-458,244	-48,767,074	6,369,359	-42,397,715	-41,834,394	-1,471,180	-43,305,574	5,167,492	-38,138,082
Other operating expenses	-34,345,712	-4,007,344	-661,635	-39,014,691	162,019	-38,852,672	-32,545,434	-3,265,390	-35,810,824	80,633	-35,730,191
Expenses for investments in affiliates, of this	**-287,041**	**0**	**0**	**-287,041**	**32,760**	**-254,281**	**-314,213**	**0**	**-314,213**	**314,213**	**0**
- losses from investments in associated companies under the equity method	0	0	0	0	-254,281	-254,281	0	0	0	0	0
Investment expenses	**-22,268,345**	**-1,178,505**	**0**	**-23,446,850**	**0**	**-23,446,850**	**-27,341,544**	**-5,898,101**	**-33,239,644**	**0**	**-33,239,644**
- Impairment of financial assets not measured at fair value through profit or loss	-6,347,533	0	0	-6,347,533	0	-6,347,533	0	0	0	0	0
Other technical expenses	**-6,856,810**	**-106,119**	**0**	**-6,962,929**	**0**	**-6,962,929**	**-3,973,456**	**-16,431**	**-3,989,886**	**0**	**-3,989,886**
Other expenses	**-5,766,439**	**0**	**0**	**-5,766,439**	**0**	**-5,766,439**	**-2,475,569**	**0**	**-2,475,569**	**-588,332**	**-3,063,901**
Profit/loss before tax	-27,878,421	-662,859	353,528	-28,187,752	-157,695	-28,345,446	-8,276,056	-941,768	-9,217,822	424,067	-8,793,754
Income tax expense	**443,697**	**-9,764**	**-304,698**	**129,235**	**0**	**129,235**	**323,395**	**-2,285**	**321,110**	**0**	**321,110**
Net profit/loss for the period	-27,434,724	-672,623	48,830	-28,058,517	-157,695	-28,216,212	-7,952,661	-944,053	-8,896,712	424,067	-8,472,644

Segment reporting 2009

(EUR)	Gross premiums written	Long-term assets
Slovenia	135,930,348	7,391,254
Western Balkans (former Yugoslavia)	68,939,462	43,011,829
Other	46,546,778	0
Total	251,416,588	50,403,083

19.5 Changes in accounting policies and correction of errors

In 2009, the Group introduced no material changes in accounting policies nor corrected any errors.

19.6 New Standards and Interpretations not yet effective

The following new Standards and Interpretations as adopted by the European Union were not yet effective at 31 December 2009 and have not been applied in preparing these financial statements:

- **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 potentially significant 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.
  As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

- ***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 Group has not yet completed its analysis of the impact of the revised Standard.

- ***Amendment to* IAS 32 – *Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after* 1 *February* 2010)**
  The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
  The amendments to IAS 32 are not relevant to the Group's financial statements 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* 2009)**
  The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.
  The amendments to IAS 39 are not relevant to the Group's financial statements as the Group does not apply hedge accounting.

- **IFRIC 12 – *Service Concession Arrangements*** (*effective for first annual reporting period beginning on or after* 1 *April* 2009)
  The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.
  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 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

    1. the agreement meets the definition of a construction contract in accordance with IAS 11.3;
    2. the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
    3. the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

  In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).
  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)
  The Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects

hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.
The Group has not yet completed its analysis of the impact of the new Interpretation.

- **IFRIC 17 – D*istributions of* N*on-cash* Assets *to* O*wners*** (*effective prospectively for annual periods beginning on or after* 1 N*ovember* 2009)
  The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.
  As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it 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 – T*ransfers of* Assets *from* Customers** (effective prospectively for annual period beginning on or after 1 November 2009)
  The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the transferred item meets the criteria for property, plant, and equipment in IAS 16, P*roperty*, P*lant and* E*quipment*. The Interpretation also requires the entity to recognize the amount as revenue; the timing of revenue recognition depends on the facts and circumstances of the particular arrangement.
  IFRIC 18 is not relevant to the Group's financial statements as the Group does normally receive contributions from customers.

19.7 Risk management

19.7.1 Insolvency risk

The Group must have, in accordance with the law, adequate capital in view of the amount and type of reinsurance businesses carried out. Capital of each Group member must be at all times at least equal to capital adequacy requirements calculated using the higher of the premium basis calculation or claims basis calculation, or at least equal to the minimum prescribed amount if the result based on the premium calculation or claims calculation is lower.

The Group meets capital adequacy requirements if the available solvency margin is higher or equal to the required solvency margin. The Group met capital adequacy requirements throughout 2009, as its available solvency margin always highly exceeded the required solvency margin.

As at 31 December 2009, the Group's available solvency margin was EUR 126,724,840 (31 December 2008: EUR 144,393,969). The Group's available solvency margin highly exceeds the required solvency margin of EUR 60,351,918 (31 December 2008: EUR 86,398,906), despite the fact that when calculating its adjusted solvency, the Group reduces the available solvency margin by the required solvency margin of the controlling company and by proportionate shares of the required solvency margins of subsidiaries (but not by equity investments in subsidiaries). Compared to year-end 2008, the available solvency margin decreased by 12.2%.

19.7.2 Underwriting risks

Underwriting risks are connected with the main activity pursued by insurance companies, i.e. the assumption of risks from policyholders. Underwriting risks mainly comprise the following: underwriting process risk (insurance and reinsurance), pricing risk, claims risk, net retention risk and reserving risk. Some other underwriting risks, e.g. product design risk, economic environment risk and policyholder behaviour risk could be relevant for individual Group members and/or insurance markets. However, their effects would usually indirectly manifest themselves in the main underwriting risks, for which reason they are not described in detail in this report.

The controlling company is a reinsurer, five subsidiaries are non-life insurers, three subsidiaries are life insurers, while one subsidiary is both a non-life and a life insurer. The basic purpose of both non-life and life insurance is the assumption of risk from policyholders. In addition to the risks assumed directly by Group insurance companies, the controlling company also indirectly assumes risks from cedants outside the Group. The Group retains a portion of the assumed risks and retrocedes the portion that exceeds its capacity. The Group classifies its insurance and reinsurance contracts as insurance contracts under IFRS 4. As the Group does not have liabilities under financial contracts, the risks arising from insurance contracts are disclosed in detail below, as required under IFRS 4.

Below, we first discuss the underwriting risks associated with non-life business, and then the underwriting risks associated with life insurance.

19.7.2.1 Underwriting process risk – non-life business

The underwriting process risk is the risk of incurring financial losses caused by an incorrect selection and approval of risks to be (re)insured. The Group reduces this risk mainly by complying with the established and/or required underwriting procedures, in particular as regards significant risks. These procedures entail: correctly determining the probable maximum loss (PML) for each risk; complying with the internal underwriting guidelines and instructions; complying with the authorisation system; having an appropriate pricing and reinsurance policy in place; and conducting actuarial reviews.

The majority of non-life contracts is renewed on an annual basis, which allows the insurers to adjust the insurance terms and conditions, rates included, in the case of deterioration in the underwriting results, both at insurance class and major policyholder level.

Underwriting experts of the controlling company participate also in the underwriting process of its subsidiaries when significant risks are involved. If these exceed the limits applying to reinsurance contracts, Sava Reinsurance Company would also purchase facultative reinsurance to upgrade the basic reinsurance contract.

The Group reduces the underwriting process risk also by ceding it on to retrocessionaires by means of outwards reinsurance contracts.

The underwriting process risk did not change substantially from 2008.

19.7.2.2 Pricing risk – non-life business

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover future liabilities under (re)insurance contracts. The Group manages the pricing risk mainly by conducting actuarial analyses of loss ratios, by identifying trends in loss ratios, and by making appropriate corrections. When determining premium rates for new products, the pricing risk can be reduced by prudently modelling loss experience, by comparing against others' experience, and by comparing the actual loss experience against the anticipated one.

With proportional reinsurance contracts, reinsurance premiums depend on insurance premiums that are as a rule fixed by cedants. In this case, the Group reduces the pricing risk by having an appropriate underwriting process in place and by adjusting the applicable commission rates. This helps reduce the pricing risk also with non-proportional reinsurance contracts. Prices are determined based on target combined ratios; their adequacy is tested by reviewing the results by reinsurance types and classes.

Premium rates are currently sufficient in view of reasonable actuarial expectations of movements in claims and expenses, and assuming rational behaviour of all market participants. Subsidiaries established outside Slovenia are facing a rising pricing risk due to competition (affecting mainly acquisition costs) and due to state-regulated premiums for compulsory motor third party liability insurance. The Group considers the pricing risk to have been moderate in 2009 but still higher than in 2008.

19.7.2.3 Claims risk – non-life business

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

The Group manages the claims risk by appropriate insurance terms and conditions, rates included, by an appropriate underwriting process, by monitoring risk concentration by geographical locations or areas, and above all by appropriate reinsurance and retrocession programmes.

The Group considers the claims risk to have remained essentially the same as in 2008.

19.7.2.4 Net retention risk – non-life business

Net retention risk is the risk of losses due to catastrophic or concentrated claims experience arising due to higher retention of risk within the Group. This risk could materialise mainly if the reinsurer had its net retention limits set too high or in the case of shock losses (damage to a large number of insured buildings). These include losses caused by natural perils covered by basic or additional fire insurance, or insurance attached to fire insurance, e.g. business interruption insurance or earthquake insurance.

The Group manages this risk by means of its appropriate underwriting process, partly also by exposure (the aggregate sum insured) measurement by geographic areas for various natural perils, and mainly by its appropriate net retention limits and reinsurance programmes. In managing this risk, the Group takes account of the fact that annual net claims paid are affected both by the maximum net claim arising from a single catastrophe event, and by the frequency of such events.

The Group considers the net retention risk to have remained essentially the same as in 2008 in terms of net retention limits and the expected number of catastrophic losses. However, the actual number of catastrophic losses that occurred in 2009 and 2008 was larger than could have been expected on the basis of long-term averages. Nevertheless, the Group was not seriously impacted thanks to its appropriate net retention limits and retrocession programme, as described under the section Estimated exposure to underwriting risks – non-life business.

19.7.2.5 Reserving risk – non-life business

Reserving risk is the risk that technical provisions are inadequate.

The reserving policy has not been standardised yet at Group-level, which is attributable to the different levels of development of markets where Group companies operate. In establishing technical provisions, the Group took into account the subsidiaries' underreserved technical provisions at the consolidated level.

Until and including 2006, none of the subsidiaries, except for the largest insurer in the Group, used to apply recognised actuarial methods (such as based on claims paid triangles) in estimating claims provisions. Only in 2007, two more applied for the first time the so-called "chain ladder" method to some insurance classes, and continued using this method also in 2008 and 2009. The majority of subsidiaries lack reliable claims provisions time series by accident years that would be separate for gross and net amounts, which is particularly true in the case of provisions for claims IBNR. Moreover, portfolios of certain insurance types are so small that calculation of claims provisions based on triangles would not make sense. For this reason, at the end of 2009, year-end data on previous years' claims provisions were collected (partly estimated), and aligned with subsequent estimates of claims provisions for the same (original) future liabilities.

Due to the difference in the methodologies used by reinsurers and insurers to establish claims provisions, the run-off analysis was made separately for reinsurance and insurance business. Unlike insurers, Sava Reinsurance Company as reinsurer cannot use paid claims triangles by accident years for estimating claims provisions based on actuarial methods. It cannot apply this approach, as its cedants report claims under quota share contracts by underwriting years. As claims under one-year insurance policies written during a year may occur in the underwriting year or in the next year, the aggregate data for quota share contracts cannot be broken down by accident year. Conversely, cedants can report data under other forms of reinsurance broken down by accident year, which, however, is quite time consuming.

In view of the foregoing, the Group sorts claims paid as reported by cedants by underwriting year, and estimates its future liabilities by underwriting years using the "chain ladder" method. Such estimates relate to claims that have already occurred (both reported and not reported) and for which claims provisions are established, as well as to claims that have not yet occurred and for which unearned premiums are established. Claims provisions represent the difference between the estimated future liabilities and the unearned premiums calculated separately.

The two tables below show how adequacy is tested of claims provisions (increased by unearned premiums and reduced by deferred commissions) established in the past for liabilities under reinsurance contracts. Such testing can only be done ex-post: the further back one goes, the more precise the testing. Nevertheless, thanks to its consistency in applying the same actuarial method, and based on the differences between actual liabilities and those originally estimated on different statements of financial position, the Group can already consider its technical provisions as at 31 December 2009 as adequate.

Adequacy test of gross technical provisions for Sava Reinsurance Company

(thousand EUR)	31 December					
Gross claims provisions + unearned premium provisions - deferred commissions	2004	2005	2006	2007	2008	2009
Originally estimated	104,552	119,374	116,218	128,797	158,426	167,912
Re-estimated 1 year later	73,051	92,112	91,373	121,637	149,802	
Re-estimated 2 years later	81,057	90,339	95,523	125,177		
Re-estimated 3 years later	78,386	91,611	98,953			
Re-estimated 4 years later	80,537	94,471				
Re-estimated 5 years later	84,721					
Cumulative redundancy	19,831	24,902	17,265	3,620	8,624	0
Cumulative gross claims paid						
1 year later	33,645	42,270	36,055	54,271	69,574	
2 years later	44,771	51,362	51,697	70,606		
3 years later	49,541	58,845	58,737			
4 years later	54,902	63,978				
5 years later	59,048					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

To illustrate how adequacy testing works, we will take the year 2004. At year-end, future gross liabilities for all claims occurred before and to occur after year-end 2004 under the contracts outstanding as at year-end 2004 were estimated at EUR 104,552 thousand. The associated provisions comprised claims provisions (for claims already inccurred) and unearned premiums (for claims not yet occurred). The following year, in 2005, Sava Reinsurance Company actually paid claims of EUR 33,645 thousand under contracts included in the original estimate. At year-end 2005, future gross liabilities were estimated again, this time at EUR 39,406 thousand (not shown in the table). This amount, increased by the claims actually paid in 2005, represents the second estimate (EUR 73,051 thousand). Future gross liabilities under the same contracts were estimated again and in the same way at year-end 2006, 2007, 2008 and 2009. In the period 2005-2009, Sava Reinsurance Company actually paid claims of EUR 59,048 thousand under those contracts. At year-end 2009, future gross liabilities were estimated again, this time at EUR 25,673 thousand (EUR 84,721 thousand less EUR 59,048 thousand) (not shown in the table). The last estimate, though the best one, still differs from the actual yet unknown amount of the unsettled claims. Over the years, the estimates get better, as the number of claims not settled decreases to zero, which, however, may take 10 and more years with certain insurance classes.

Adequacy test of net technical provisions for Sava Re

(thousand EUR)	31 December					
Net claims provisions + unearned premium provisions - deferred commissions	2004	2005	2006	2007	2008	2009
Originally estimated	85,012	92,696	99,291	107,347	120,772	142,783
Re-estimated 1 year later	54,333	68,403	70,180	100,637	112,821	
Re-estimated 2 years later	62,519	65,577	73,881	103,939		
Re-estimated 3 years later	58,980	66,383	76,989			
Re-estimated 4 years later	59,317	68,704				
Re-estimated 5 years later	62,117					
Cumulative redundancy	22,895	23,992	22,302	3,409	7,951	0
Cumulative gross claims paid						
1 year later	24,576	28,716	28,725	49,102	48,729	
2 years later	33,470	37,067	41,562	62,237		
3 years later	37,747	42,997	46,228			
4 years later	41,691	46,362				
5 years later	44,184					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

Cumulative redundant provisions for future net liabilities of the Group under reinsurance contracts in the period 2004–2008 represented 27%, 26%, 22%, 3% and 7% of the original estimate. Their relative decrease in 2007 and 2008 due to catastrophic losses and cedants' optimistic estimates of claims provisions for catastrophic losses. Cumulative redundant provisions in other years reflect, on one hand, the Group's conservative approach to provisioning, and on the other, the fact that for insurance classes with a combined ratio well below 100%, unearned premiums calculated on the *pro rata temporis* basis are by definition too high. This is also the reason for the sharp drop in the second estimate, as unearned premiums are, as most are one-year contracts, usually used almost entirely in the second year, when the redundant amount is also released. Subsequent estimates, however, remain essentially the same as the second-year estimate.

The adequacy of provisions in individual subsidiaries is tested by the controlling company and any insufficiency is accounted for at the Group level.

As a rule, insurance companies, including the one belonging to the Group, organise and analyse their data by accident years, which is not comparable with the system where they are organised and analysed by underwriting years.

The two tables below are an attempt at showing adequacy test of gross and net claims provisions established by the Group for liabilities under non-life insurance contracts. Amounts were translated from local currencies into euros using the exchange rate prevailing at the end of the year (provisions) or in the middle of the year (claims paid). Net amounts were estimated based on gross amounts considering retention rates, while IBNR provisions were allocated to different years based on the current structure of such provisions by accident years, i.e. based on lag patterns characteristic of the last year included.

Adequacy test of gross technical provisions for insurance companies

(thousand EUR)	31 December					
Gross claims provisions	2004	2005	2006	2007	2008	2009
Originally estimated	33,385	40,393	50,704	55,424	63,293	72,124
Re-estimated 1 year later	37,072	40,089	49,632	51,971	56,618	
Re-estimated 2 years later	37,563	40,215	49,371	50,341		
Re-estimated 3 years later	37,676	41,603	48,434			
Re-estimated 4 years later	39,093	41,621				
Re-estimated 5 years later	38,524					
Cumulative redundancy	-5,139	-1,228	2,270	5,082	6,675	
Cumulative gross claims paid						
1 year later	15,696	16,293	22,260	23,163	26,561	
2 years later	21,558	23,149	30,514	31,906		
3 years later	25,250	28,207	35,934			
4 years later	28,005	31,479				
5 years later	30,129					

Gross claims provisions in the period 2004–2009 were above/below the original estimate by –15%, –3%, 4%, 9% and 11% respectively.

Adequacy test of net technical provisions for insurance companies

(thousand EUR)	31 December					
Net claims provisions	2004	2005	2006	2007	2008	2009
Originally estimated	24,452	29,730	38,060	41,595	47,864	56,087
Re-estimated 1 year later	27,505	29,795	37,808	39,417	43,223	
Re-estimated 2 years later	28,271	30,215	38,040	39,148		
Re-estimated 3 years later	28,598	31,681	37,971			
Re-estimated 4 years later	30,005	32,039				
Re-estimated 5 years later	29,624					
Cumulative redundancy	-5,172	-2,309	89	2,447	4,641	
Cumulative gross claims paid						
1 year later	11,813	12,275	17,271	18,296	20,677	
2 years later	16,287	17,657	24,037	25,496		
3 years later	19,216	21,789	28,677			
4 years later	21,542	24,577				
5 years later	23,367					

Net claims provisions in the period 2004–2009 were above/below the original estimate by –21%, –8%, 0%, 6% and 10% respectively.

Unearned premiums are established by the Group on a *pro rata* basis at insurance policy level. In addition to unearned premiums, the Group establishes also provisions for unexpired risks for the insurance classes with a combined ratio (loss ratio + expense ratio) of more than 100%.

At Group level, the reserving risk is considered managed given that the sum total of any surplus or deficit in claims provisions is positive at Group level due to the surplus in claims provisions in the two largest Slovenian Group members.

19.7.2.6 Retrocession programme – non-life business

To reduce the underwriting risks to which it is exposed, the Group must have an appropriate reinsurance (retrocession in particular) programme in place. These are designed so as to reduce exposure to possible single large losses or the effect of a large number of single losses arising from the same loss event. The Group considers its reinsurance programme (including proportional and non-proportional reinsurance) to be appropriate in view of the risks it is exposed to. Net retention limits as fixed by the Group are achieved rarely and only for the best risks. The Group also concludes reciprocal contracts with other reinsurers to further disperse risks. The Group's net retained portfolio, relating to both domestic and foreign cedants, is additionally protected against large losses with carefully selected non-proportional reinsurance contracts.

The reinsurance (retrocession in particular) programme is considered appropriate, and comparable between 2009 and 2008.

19.7.2.7 Estimated exposure to underwriting risks – non-life business

Realisation of underwriting risks would have as its main consequence an increase in net claims. Due to its appropriate reinsurance and retrocession programmes, the Group as a whole, however, is not exposed to the risk of a sharp increase in net claims, even in the case of catastrophic loss events. A more likely scenario is the increase in net claims due to a number of smaller unfavourable events (an increase in claims or costs or a decrease in premiums), which would affect the Group's net combined ratio. If the Group's combined net ratio increased/decreased by 1 percentage point, its net profit before taxes would decrease (increase) by EUR 2.2m (2008: EUR 1.9m).

Group members pass on their underwriting risks to the parent when these exceed their net retention limits. The controlling company's net retention limits and its retrocession programme are therefore decisive when estimating the Group's exposure to underwriting risks. The net retention limit is set at EUR 1m for the majority of non-life classes of insurance, except for fire, natural disaster and other damage to property classes, for which it is set at EUR 2m. As a rule, net claim under a single loss event therefore cannot exceed EUR 2m. In case of catastrophic loss events, e.g., flood, hail, storm or even earthquake, the maximum net claim payable by the Group is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is EUR 2.5m for Slovenia and EUR 3m for other countries. These amounts represent the maximum net claim arising from a single catastrophe event based on reasonable actuarial expectations. Due to the increased priority in the catastrophe cover for Slovenia in 2009, claims up to the priority were additionally protected by an aggregate catastrophe coverage, under which claims per event in excess of EUR 1m to EUR 2.5m are aggregated, while the coverage is for EUR 5m in excess of 5m of the described aggregate. Several catastrophe events might occur in the same year, as was the case in 2008 and 2009, but the likelihood is negligible of their number being such as to trigger the Group's insolvency. In such worst-case scenario, the Group expects the increase in the net claims would not be significant for their overall operations. Even though it would negatively impact its results of operations, the Group does not expect causing it insolvency.

The Group estimates the risk of the underwriting risks seriously undermining its financial stability as low, the same as in 2008.

19.7.2.8 Underwriting risks in life insurance

The subsidiaries are exposed to actuarial and underwriting risk arising from a wide range of life products: traditional life products and additionally in Slovenia annuities and unit-linked products.

Significant components of underwriting risk are pricing risk and reserving risk. Pricing risk is the risk that expenses and incurred claims are higher than anticipated. Reserving risk represents the risk that the absolute level of the technical provisions is underestimated. Underwriting risk components of the life business include biometric risk (comprising mortality, longevity, morbidity and disability) and lapse risk. Lapse risk relates to unexpected higher or lower rate of policy lapses, terminations, changes to paid-up status (cessation of premium payment) and surrenders.

The subsidiaries manage underwriting risk by using underwriting guidelines. Underwriting guidelines specify criteria and terms of risk acceptance. At given premium rates, risk assumption depends on the age at entry and the requested sum insured. Companies accept risks if the insured's health, as a measure of risk quality, is in line with table data listing criteria for medical examinations. Companies purchase suitable reinsurance programs in order to limit the impact of underwriting risk. All companies use proportional reinsurance covers, mostly surplus, except for group life in Slovenia which is a quota share treaty. The retention does not exceed EUR 15,000; some facultative policies and the group policy in Slovenia have a larger retention. Reinsurance is placed with Sava Re; in Serbia it is through local reinsurer Dunav Re (Dunav Re retains 5% of the reinsured risk). Reinsurance for group life insurance in Slovenia is placed also with Zurich Life Insurance Company on a pooling basis.

Liability adequacy test

No formal liability adequacy test has been performed for greenfield subsidiaries (their mathematical provisions account for less than 10% of the Group mathematical provisions). Instead, the projected cash flows from a 5-year strategic plan were used to demonstrate that over the following 5 years, the anticipated technical provisions will be adequate for covering future contractual obligations and related expenses.

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

Where reliable market data is available, assumptions (such as discount rate and investment return) are derived from observable market prices. Due to the levels of uncertainty in the future development of insurance markets and the Group portfolio, it uses an interest rate of 4% for annuities and 3.5% for traditional life. Assumptions that cannot be reliably derived from market values are based on current estimates calculated by reference to the Group's own internal models (lapse rates, actual mortality) and publicly available resources (demographic information published by the Slovenian Statistical Bureau). For mortality, higher rates are anticipated than realised due to uncertainty.

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

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

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

Future contractual premiums are included and also premium indexation is taken into consideration. Estimates for lapses and surrenders are estimated based on past experience with insurance policies (split by type and policy duration). Actual persistency rates by product type and duration are regularly investigated, and assumptions amended accordingly. The actual persistency rates are slightly adjusted by a margin for risk and uncertainty.

Estimates for future maintenance expenses included in the liability adequacy test are derived from current experience. For future periods cash flows for expenses have been increased by a factor equal to the estimate of annual inflation (2%).

The investment return and the discount rates used are the same and differ by type of insurance (4% for unit-linked, 3.5% for traditional). An additional allowance is made for the potential volatility of actual investment returns compared to the guaranteed technical interest rate and the risk free rate. The actual return is 4%; 3,5% is used in the computation.

The liability adequacy test does not take into account future discretionary bonuses due to the method of determining bonuses.

<u>The sensitivity of present value of future profits to changes in significant variables</u>

The Group estimated, for unit-linked business, the impact on the present value of future profits at the end of the year on changes in key variables that may have a material effect.

	Present value of future profits
Base run	EUR 3,019,728
Investment return+100bp	EUR 2,503,692
Investment return–100bp	EUR 3,512,626
Mortality +10%	EUR 3,014,053
Policy maintenance expenses +10%	EUR 1,516,676

The base run represents the present value of future profits calculated using the assumptions during liability adequacy testing: investment return and discount rate 4%, mortality based on Slovenian mortality tables, expenses as in 2009 and thereafter adjusted by 2%, lapse rates based on own experience. Changes in variables represent reasonable possible changes which, had they occurred, would have led to significant changes in insurance liabilities at the statement of financial position date. The reasonable possible changes represent neither expected changes in variables nor worst case scenarios. In 2009, the investment return was 34,547 EUR, the policy maintenance expenses were 699,522 EUR. The change in key variables would affect the corresponding component of the result in the same proportion.

The analysis has been prepared for a change in variable with all other assumptions remaining unchanged and ignores changes in values of the related assets. Sensitivity was calculated for unfavourable direction of movement. The income statement and insurance liabilities (as evidenced by the present value of future profits above) are mostly influenced by a change in expenses.

19.7.3 Market risks

In their investment activities, insurers and reinsurers are subject to legal requirements relating to diversification, restrictions, valuation, and asset-liability matching. In addition to ensuring liquidity, some of the Group companies also managed their investments so as to comply with other legal requirements concerning asset-liability currency matching and liability fund structure.

In their financial operations, some Group companies are exposed to market risks that comprise above all interest rate risk, equity securities risk, currency risk, concentration risk and asset-liability mismatch risk.

Details on Group investments

(EUR)	31 Dec 2009		31 Dec 2008	
Investment type	Amount	Structure	Amount	Structure
Fixed income	149,386,255	44.5%	129,019,799	42.6%
Deposits, CD	90,825,019	27.0%	73,288,273	24.2%
Equity securities	17,052,682	5.1%	17,171,723	5.7%
Investments in associates	37,646,480	11.2%	31,580,979	10.4%
Mutual funds	30,627,902	9.1%	35,299,560	11.6%
Loans and structured products	4,470,827	1.3%	11,516,628	3.8%
Investments of reinsurers i.r.o. reinsurance contracts with cedants	5,768,874	1.7%	5,306,936	1.8%
Total	335,778,040	100.0%	303,183,898	100.0%

Amounts shown do not include assets for the benefit of policyholders who bear the investment risk. Changes in the value of these investments due to the changes in parameters do not affect the Group's results of operations or equity.

19.7.3.1 Interest rate risk

Interest rate risk is the risk of a loss due to changes in interest rates. These can cause a decrease in investments or an increase in liabilities.

The Group tries to manage the interest rate risk that affects the value of its assets (e.g. bonds) and the return on its investments (e.g. deposits) by investing in variable-rate bonds (i.e. using a so-called natural hedge). The table below shows the Group's exposure to interest rate risk. Based on the structure of mutual funds (equity, mixed, bond and fund of funds), the Group estimates that only 28.6% of its investments in mutual funds as at 31 December 2009 was interest sensitive, as compared to 37.5% a year ago (the remaining up to 100% is taken into account in equity securities risk.)

Exposure to interest rate risk – assets

(EUR)	31 Dec 2009	31 Dec 2008
Assets	Amount	Amount
Fixed income	149,386,255	129,019,799
Mutual funds (all)	30,627,902	35,299,560
Estimated total exposure*	158,145,835	142,257,134

* Investments in mutual funds were included at 28.6% (31 December 2009) and 37.5% (31 December 2008).

On the liabilities side, mathematical provisions are the item exposed to interest rate risk. The Group does have temporary annuities and annuities for life among its liabilities, which are provided as a result of liability insurance contracts, but the effect of a drop in interest rates on its liabilities due to the increased capitalised amounts of such annuities would be insignificant and is not dealt with herein.

Exposure to interest rate risk – liabilities

(EUR)	31 Dec 2009	31 Dec 2008
Liabilities	Amount	Amount
Mathematical provisions	13,363,461	10,280,389

Of the total Group's fixed income investments, 95% relate to the bond portfolios of the Slovenian Group members. It was for this portion that the effect of a change in interest rates was calculated. Interest rate sensitivity of these investments was assessed by shifting the yield curve for all maturities by two percentage points up or down, and calculating the change in the value of bond portfolio. As long as interest rate changes are small, we can approximate changes in bond prices quite well: we have to know the first and second derivative of the change in a bond price resulting from such interest rate changes, or else we have to know both duration and convexity of the bond.

The average duration of the observed bond portfolio as at 31 December 2009 was 4.02 years (31 December 2008: 3.88 years). A sensitivity analysis assuming a 2 percentage points increase in interest rates showed that the value of the Group's bond portfolio would drop by EUR 10.1m or 7.1% (2008: EUR 9.0m or 7.2%). Repeating the exercise with its investments in mutual funds: bond funds; mixed and guaranteed funds with a weight of 0.5; and in funds of funds with a weight of 0.5, the Group found that the same 2 percentage points increase in interest rates would additionally decrease its investment portfolio by EUR 1.0m (2008: EUR 0.9m). A 2 percentage point increase in interest rates would thus decrease the Group's total investments by EUR 11.1m (2008: EUR 9.9m). The majority of interest rate sensitive investments is classified as available for sale. Any change in interest rates would therefore affect mainly their market value and thus the statement of comprehensive income. Of the total decrease in investments of EUR 11.1m, EUR 10.9m relates to the change in equity and EUR 0.2m to the change in profit/loss.

Due to its traditional life insurance products, the Group is exposed to the risk of a drop in interest rates increasing its liabilities (mathematical provisions). Life insurance is provided by the largest insurer within the Group, as well as by three newly established subsidiaries. The latter still have small portfolios, for which reason their (mathematical provisions') exposure to interest rate risk is negligible. Their mathematical provisions were included in the table showing the Group's exposure to interest rate risk, but not in the sensitivity analysis described below.

A drop in interest rates would increase the value of bonds in the Group's liability fund (assets covering mathematical provisions), thus offsetting the increase in mathematical provisions. However, this would only hold true if maturity of the insurer's liabilities matched that of its investments. As this is not the case, the Group reduces this risk also by reducing the mismatch between the average maturity of its assets and liabilities. This can never be reduced completely, as life insurance maturities (they can be up to 40 years) are much longer than bond maturities. This adds reinvestment risk to the interest rate risk. If the interest rate applying to traditional life insurance contracts (under which the insurer assumes investment risk) dropped by 2 percentage points, the insurer's liabilities as at 31 December 2009 would increase by EUR 3.5m (2008: EUR 3.6m), while the value of bonds in the liability fund would increase by only EUR 0.9m. If the applicable interest rate increased by 2 percentage points, the drop in liabilities as at 31 December 2009 would be EUR 2.1m, while the drop in the value of bonds in the liability fund would be EUR 0.8m.

Based on year-end amounts or the absolute result of the sensitivity analysis, the Group considers that its exposure to the interest rate risk increased slightly in 2009 compared to 2008.

19.7.3.2 Equity securities risk

Equity securities risk is the risk that the value of investments will decrease due to the unfavourable movements on equity markets.

The table below shows the Group's exposure to equity securities risk. Based on the structure of mutual funds, the Group estimates that only 71.4% of its investments in mutual funds as at 31 December 2009 was sensitive to unfavourable movements on equity markets, as compared to 62.5 % a year ago (the remainder up to 100% is taken into account in interest rate risk).

Exposure to equity securities risk

(EUR)	31. 12. 2009	31. 12. 2008
Type of investment	Amount	Amount
Equity securities	17,052,682	17,171,723
Investments in associates	37,646,480	31,580,979
Mutual funds (all)	30,627,902	35,299,560
Estimated total exposure*	76,567,484	70,814,927

* Investments in mutual funds were included at 71.4% (31 December 2009) and 62.5% (31 December 2008).

As at year-end, the Group held EUR 37.6m of investments in associates and EUR 17.1m of investments shares of domestic and foreign companies, as well as EUR 30.6m of investments in mutual funds, of which 60% were stock funds, 21% were mixed funds, 17% were bond funds and 2% were fund of funds (2008: 31% were stock funds, 45% mixed funds, 6% bond funds, 16% guaranteed funds and 2% fund of funds). The total amount of equity securities exposed to unfavourable movements in equity markets was thus EUR 76.6m as at year-end 2009 (2008: EUR 70.8m). For mixed funds and funds of funds, 50% of bonds were taken into account (the remaining 50% were included under interest rate risk). Sava Reinsurance Company manages this risk by issuer, industry and geographic diversification, and by monitoring and analysing global market developments. When investing, Sava Reinsurance Company opts for equity securities with sufficient market capitalisation and appropriate liquidity. This policy cannot be followed by the subsidiaries established in the area of the former Yugoslavia due to the underdeveloped financial markets and localisation requirements.

An estimate of the Group's sensitivity to equity securities risk showed the following: a 10% drop in stock prices would cause a drop in the value of the Group's stock portfolio of EUR 7.7m (2008: EUR 7.1m). Unlike the value of bond portfolio, which changes non-linearly with interest rates, the value of stock portfolio and mutual fund portfolio changes linearly with stock prices. A 20% drop in stock prices would thus cause a drop in the stock portfolio of EUR 15.4m (2008: EUR 14.2m), which would entirely relate to the change in equity.

The Group considers its exposure to equity securities risk to have remained more or less the same as in 2008. It must be noted that the estimates relate to year-end figures.

19.7.3.3 Currency risk

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

The Group has been increasing its foreign reinsurance activities, which affects the currency structure of its liabilities. However, euro-denominated liabilities still represented 90.8% (2008: 92.2%). It is also in this currency alone that the controlling company's liability fund exceeds its liabilities, by EUR 37.5m (2008: EUR 25.8m). For all other currencies, the asset-liability mismatch (deficit) was EUR 11.1m (2008: EUR 6.8m).

The Group ensures asset-liability currency matching by directly matching the currency structure of assets and liabilities. In 2009, it even adapted its investment policy in view of its prevailing euro-denominated liabilities.

Assets and liabilities of subsidiaries established in Croatia, Serbia and Macedonia are denominated in local currencies. The only exception are liabilities under life insurance contracts (mathematical provisions) in Serbia and Croatia, which are euro-denominated or euro-linked. Also in this case is the asset-liability currency matching ensured. The subsidiaries established in Slovenia, Montenegro and Kosovo have their liabilities denominated in euro, so that it is practically only the controlling company that is exposed to currency risk.

As shown in the table below (relating to the controlling company), currency mismatch in 2009 was EUR 11.1m (2008: EUR 6.8m) or 6.3% (2008: 4.1%) of the sum of gross technical provisions and credit risk/catastrophe equalisation reserves of the controlling company. Even in the case of a drastic unfavourable change in euro exchange rates, this mismatch would not have been a problem for the controlling company, given that its liability fund exceeded its gross technical provisions and reserves by EUR 26.5m (2008: EUR 20.4m).

Currency (mis)match as at 31 *December* 2009 (*all amounts translated into* EUR)

Currency	Liability fund (LF)*	Gross technical provisions (GTP) and reserves	Mismatch max (GTP-LF, 0)
EUR	196,175,383	158,691,975	0
USD	2,637,075	7,235,651	4,598,576
KRW	1,123,996	2,065,817	941,821
TRY	307,781	1,940,889	1,633,108
HKD	112,579	1,066,739	954,160
Other	989,908	3,812,013	2,948,039
Total	201,346,723	174,813,085	11,075,704

*assets supporting technical provisions

The item "other" relates to the amounts of the controlling company's gross technical provisions and reserves expressed in other currencies, none of which exceeded EUR 1m as at 31 December 2009. For each of these currencies, the asset-liability mismatch was also calculated. The mismatch amount of EUR 2,948,039 under this "other" item exceeds the amount that could be obtained as the difference between the liability fund from the first column and technical provision and reserves from the second column, because it was calculated as the sum total of all mismatches by other currencies.

19.7.3.4 Concentration risk

Concentration risk is the risk of excessive concentration of investments in a geographic area or industry that could result in a decrease in the value of investments owing to unfavourable movements in this geographic area or industry.

To avoid excessive concentration in particular investment types, counterparties or sectors, as well as other forms of investment concentration, the Group has a reasonably diversified investment portfolio. Its investments are diversified by investment type (deposits, debt and equity securities, structured products, mutual fund units, etc.), by maturity and by currency.

The Group's bond portfolio is further diversified by issuers and comprises government bonds (domestic and foreign), as well as bank and corporate bonds (domestic and foreign).

Bond portfolio by geographic area

(EUR)	31. 12. 2009		31. 12. 2008	
Market	Amount	As % of total	Amount	As % of total
Slovenia	84,628,413	56.7%	82,941,979	64.3%
OECD	2,842,132	1.9%	4,324,901	3.4%
EU	54,595,254	36.5%	40,156,869	31.1%
Other	7,320,456	4.9%	1,596,048	1.2%
Total	149,386,255	100.0%	129,019,797	100.0%

Equity securities are diversified by issuers and ratings, and geographically.

Equity portfolio by geographic area

(EUR)	31. 12. 2009		31. 12. 2008	
Market	Amount	As % of total	Amount	As % of total
Slovenia	12,129,796	71.1%	13,137,083	75.4%
OECD	511,776	3.0%	211,304	1.2%
EU	1,526,391	9.0%	1,551,173	8.9%
Other	2,884,720	16.9%	2,523,256	14.5%
Total	17,052,682	100.0%	17,422,816	100.0%

Investments in equity mutual funds are diversified directly by the Group and indirectly owing to the nature of such funds.

Group's largest investment in a single issuer of debt and/or equity securities is the investments in the associated company Zavarovalnica Maribor. This amounted to EUR 21,431,229 as at year-end 2009. Of this amount, EUR 19,918,424 relates to shares (not included in the table of equity portfolio because included in EUR 37,646,480 representing investments in subsidiaries and associates) and EUR 1,512,805 to bonds (included in the table of bond portfolio, in EUR 84,605,144 representing investments in Slovenian bonds).

The Group considers its concentration risk as low, but is aware that investment diversification alone is not enough to neutralise the (global) systemic risk, when all developments in capital markets are unfavourable, as was the case in 2008. Assuming only locally-confined unfavourable developments, the Group's exposure to concentration risk could be considered, based on the tables above, more or less the same as in 2008.

19.7.3.5 Asset-liability mismatch risk

Asset-liability mismatch risk is the risk that cash flows from investments will not occur when required or in the amount required to meet the obligations.

The Group keeps the structure of its liability fund mainly compliant with the legal and other requirements in the countries where it operates. The liability funds of the Slovenian Group members exceeded their technical provisions and reserves by as much as EUR 28.9m as at year-end 2009 (31 December 2008: EUR 27.0m), which reflected positively also at Group level.

Asset-liability duration matching cannot be ensured for life insurance, as there are no debt securities that would have a long enough duration in Slovenia, let alone in the area of the former Yugoslavia.

Bond portfolio by duration

(EUR)	31. 12. 2009		31. 12. 2008	
Maturity	Amount	As % of total	Amount	As % of total
0–1 year	18,870,393	12.6%	10,995,633	8.5%
1–5 years	75,515,283	50.6%	78,631,446	60.9%
Over 5 years	55,000,579	36.8%	39,392,718	30.5%
Total	149,386,255	100.0%	129,019,797	100.0%

19.7.4 Liquidity risk

Liquidity risk is the risk that an entity will not have sufficient liquid assets to meet its obligations as they fall due, and will have to sell its less liquid assets at an inopportune time or raise loans outside the schedule.

The Group did not have liquidity problems in 2009. The Group mainly avoids liquidity risk by investing a large portion of its assets in highly liquid marketable securities, which can be converted to cash almost immediately. The controlling company could also assist its subsidiaries on occasions when they would not have sufficient liquidity by means of short-term bridging loans. In the case of large losses, immediate payments would be provided by the controlling company to its cedants or to the controlling company by its retrocessionaires based on the so-called cash call provision in its reinsurance contracts. On top of all this, the controlling company also concluded a call deposit contract with one of its banks, under which it can on a daily basis draw and pay back up to EUR 400,000. The controlling company also has two credit lines with two commercial banks that would give it an additional EUR 10m in emergency liquidity situations.

The Group's exposure to liquidity risk can be estimated based on the largest possible liability arising from a single extraordinary net claim (EUR 3m). It must be pointed out, however, that such large claims have longer handling periods. The same applies to a number of smaller claims arising from a natural disaster. In both cases, the Group would probably have enough time to sell its investments, e.g. equity securities or bonds.

At the end of 2006 and at the beginning of 2007, the controlling company raised a subordinated loan of EUR 32m to ensure capital adequacy required to be awarded a certain rating. Maturity of the subordinated loan is 20 years (maturity date is 27 December 2026), with the possibility of early repayment after 10 years. Principals are due at maturity. The applicable interest rate is a 3-month Euribor + 3.35%, with interest payable quarterly. The controlling company has been servicing this debt regularly. As at 31 December 2009, the controlling company's subordinated debt measured at amortised cost was EUR 31,135,777 (31 December 2008: EUR 31,139,605).

The Group considers the liquidity risk to have been minimal both in 2009 and 2008.

19.7.5 Credit risk

Credit risk is the risk that the issuers or other debtors will fail to meet their obligations.

Exposure to credit risk

(EUR)	31. 12. 2009	31. 12. 2008
Type of assets	Amount	Amount
Financial investments in associates	37,646,479	31,580,978
Financial investments	298,131,559	271,602,919
Reinsurers' share of technical provisions	28,899,410	40,141,021
Receivables	96,209,971	84,896,822
Total exposure	460,887,419	428,221,740

In accordance with local legislations, implementing regulations and internal acts, Group members invest their surplus money only in deposits placed with banks that are considered first-class in their local environments, debt securities issued by entities with an appropriate credit rating, if available in their local markets, and equity securities with sufficient market capitalisation or appropriate liquidity.

To assess credit risk, the Group monitors the structure of its investments by issuer credit rating. The table below shows the credit rating profile of the Group's bond portfolio.

Bond portfolio by issuer credit rating

(EUR)	31. 12. 2009		31. 12. 2008	
Rated by Moody's/S&P	Amount	As % of total	Amount	As % of total
Aaa/AAA	3,882,748	2.6%	6,017,856	4.7%
Aa/AA	50,965,596	34.1%	58,989,565	45.7%
A/A	38,000,985	25.4%	26,125,974	20.2%
Baa/BBB	16,834,376	11.3%	8,183,321	6.3%
Less than Baa/BBB	4,655,561	3.1%	788,670	0.6%
Not rated	35,046,989	23.5%	28,914,411	22.4%
Total	149,386,255	100.0%	129,019,797	100.0%

As at year-end 2009 (2008), 62% (70%) of bonds representing more than 27% (30%) of the Group's investment portfolio had an issuer credit rating at least equal to the credit rating assigned to the controlling company. The exposure of the Group's investments to credit risk was slightly larger than in 2008.

As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company, unless they are subject to localisation requirements. Even in such cases, local reinsurers would transfer at least a portion of their exposure to the controlling company. For this reason, the actual exposure to credit risk associated with reinsurers is even smaller than the otherwise correctly reported one.

As at year-end 2009 (2008), the Group's total credit exposure associated with reinsurers was EUR 42.5m (EUR 55.2m): of this, the reinsurers' share of technical provisions was EUR 28.9m (EUR 40.1m), and the reinsurers' share of claims was EUR 13.6m (EUR 15.0m). The total credit risk exposure of the Group arising from reinsurers represented 7.6% of its total assets (2008: 10.3%).

Sava Reinsurance Company mainly retrocedes its business with first-class reinsurers rated by Standard & Poor's at least A- for long-term transactions or BBB+ for short-term transactions. Thus, at the end of 2009 and 2008, reinsurers rated A- or better accounted for over 80% of the credit risk exposure relating to reinsurers.

Considering also the large diversification and the low probability of a default by reinsurers rated BBB+ or higher, the Group deems this risk to be low and even lower as in 2008.

The tables below show the structure of all accounts receivable by maturity, including the above-mentioned accounts receivable from the reinsurers' share of claims.

Aging analysis of receivables

(EUR) 2009	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables from policyholders	16,447,275	9,814,333	3,852,496	30,114,104
Receivables from insurance brokers	10,043	369,500	857,131	1,236,674
Receivables arising out of primary insurance business	1,722,631	243,356	400,648	2,366,634
Receivables for premiums arising out of assumed reinsurance and co-insurance	13,074,297	25,846,591	914,504	39,835,392
Receivables for reinsurers' shares in claims	7,815,050	4,571,069	1,179,296	13,565,415
Other short-term operating receivables	2,030,472	1,031,875	67,846	3,130,192
Short-term receivables arising out of investments	472,995	185,011	393,736	1,051,743
Current tax assets	4,012,543	0	0	4,012,543
Other receivables	878,159	18,295	820	897,274
Total	46,463,465	42,080,030	7,666,477	96,209,971

(EUR) 2008	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables from policyholders	12,207,081	8,055,863	5,874,028	26,136,972
Receivables from insurance brokers	1,147,752	0	104,219	1,251,971
Receivables arising out of primary insurance business	16,659	118,486	63,412	198,557
Receivables for premiums arising out of assumed reinsurance and co-insurance	26,342,639	5,756,256	587,654	32,686,549
Receivables for reinsurers' shares in claims	12,504,724	1,686,159	793,524	14,984,407
Other short-term operating receivables	719,952	1,126,028	889,461	2,735,441
Short-term receivables arising out of investments	227,342	319,357	0	546,699
Current tax assets	956,382	0	0	956,382
Other receivables	3,183,506	165,431	2,050,908	5,399,843
Total	57,306,037	17,227,580	10,363,206	84,896,822

19.7.6 Operational risk

Operational risk includes risks related to human resources, corporate governance, IT systems, processes, legal affairs, etc. The Group estimates to be mainly exposed to risks associated with failed or inadequate processes and internal controls, and corporate governance. A proper and effective internal control system is crucial for operational risk management. Operational risk is usually associated with other risks (underwriting risk, market risk, etc.), i.e. it usually increases them. Negligence in the underwriting process, for example, significantly increases underwriting risks.

To manage the operational risk, Group members have proper IT-supported processes and controls in place for their most important areas of business. In addition, this risk is managed also by means of internal audits, employee training and awareness-raising.

If broadly defined, operational risk includes also political risk. The Group estimates its exposure to political risk as medium and decreasing owing to the efforts of the countries in the area of the former Yugoslavia to join the European Union.

The Group considers the operational risk to have remained more or less the same as in 2008.

19.7.7 Implementing systematic risk management

The Group has been implementing systematic risk management, aware of the requirements brought about by the Solvency II Directive, amongst them also risk-based capital calculation. For this reason, the controlling company in particular has been following the preparations of the acts to be adopted based on this directive, and preparing itself for the changes.

19.8 Notes to the financial statements – statement of financial position

1) Intangible assets

Movements in cost and accumulated amortization of intangible assets

(EUR)	Intangible assets	Goodwill	Other intangible assets	Total
Cost				
1. 1. 2009	3,683,556	22,328,447	87,963	26,099,966
Acquisitions	25,299	4,941,108	0	4,966,407
Additions	864,631	0	26,656	891,287
Disposals	-285,578	0	0	-285,578
Reclassification	-669,007	0	0	-669,007
Impairments	0	-5,585,797	0	-5,585,797
Foreign exchange differences	-58,522	0	-271	-58,793
31. 12. 2009	3,560,380	21,683,758	114,348	25,358,487
Accumulated amortisation				
1. 1. 2009	1,226,931	0	78,410	1,305,341
Acquisitions	6,866	0	0	6,866
Additions	486,962	0	0	486,962
Disposals	-265,641	0	0	-265,641
Reclassification	-1,167	0	0	-1,167
Foreign exchange differences	-20,410	0	0	-20,410
31. 12. 2009	1,433,542	0	78,410	1,511,952
Carrying amount as at 1 January 2009	2,456,624	22,328,447	9,553	24,794,625
Carrying amount as at 31 December 2009	2,126,839	21,683,758	35,938	23,846,535

(EUR)	Intangible assets	Goodwill	Other intangible assets	Total
Cost				
1. 1. 2008	2,464,082	23,657,809	107,740	26,229,631
Additions	1,193,520	0	4,586	1,198,106
Reclassification	0	0	-24,556	-24,556
Impairments	0	-1,329,362	0	-1,329,362
Foreign exchange differences	25,954	0	193	26,147
31. 12. 2008	3,683,556	22,328,447	87,963	26,099,966
Accumulated amortisation				
1. 1. 2008	777,430	0	59,160	836,590
Additions	436,037	0	0	436,037
Reclassification	0	0	19,250	19,250
Foreign exchange differences	13,464	0	0	13,464
31. 12. 2008	1,226,931	0	78,410	1,305,341
Carrying amount as at 1 January 2008	1,686,652	23,657,809	48,580	25,393,041
Carrying amount as at 31 December 2008	2,456,625	22,328,447	9,553	24,794,625

Movements in Goodwill

Goodwill relates to the acquisition of the following companies: Sava osiguranje, Dukagjini, Sava Tabak, Sava Montenegro, Bro-Dil, Velebit usluge, Velebit osiguranje and Velebit životno osiguranje. As at year-end 2009, it amounted to EUR 21,683,758.

Movements in goodwill in 2009

(EUR) **Transferred amount at 31 December 2008 total**	**22,328,447**
Sava osiguranje	5,047,588
Dukagjini	4,991,887
Sava Tabak	3,030,375
Bro-Dil	24,266
Sava Montenegro	9,234,331
Additions in current year (acquisitions)	
Velebit usluge	4,941,108
Disposals in current year	
Impairments Sava Montenegro	-5,585,797
Transferred amount at 31 December 2009	**21,683,758**

Goodwill decreased by EUR 0.7m compared to year-end 2008. This is a result of an increase in goodwill of EUR 4.9m related to an acquisition, and a decrease of EUR 5.6m due to impairment of goodwill belonging to Sava Montenegro. The impairment was carried out in view of the recapitalisation planned for 2010 in the amount of EUR 3m and because of the loss generated by this company.

Movements in goodwill in 2008

(EUR) **Transferred amount at 31 December 2007 total**	**23,657,809**
Sava osiguranje	5,047,588
Dukagjini	4,991,887
Sava Tabak	3,030,375
Bro-Dil	24,266
Sava Montenegro	10,563,693
Additions in current year (acquisitions)	
	0
Disposals in current year	
Impairments Sava Montenegro	-1,329,361
Transferred amount at 31 December 2008	**22,328,447**

Goodwill impairment testing

In impairment testing of goodwill arriving from the acquisitions of the companies set out in the table above, the recoverable amount of each cash-generating unit exceeded its carrying amount including goodwill belonging to the unit. Impairment testing showed that goodwill impairment is not necessary, except in Sava Montenegro. Impairment testing of goodwill belonging to Sava Montenegro resulted in a negative amount of EUR 5.6m.

Goodwill is disclosed also for the indirect subsidiary Velebit životno osiguranje, which is a newly established life insurer.

Key assumptions used to determine the recoverable amount in goodwill impairment testing

Discounted cash flow projections were based on the Group's strategic business plan covering a 10-year period (Sava Re Group Strategic Business Plan 2010–2014 with a further 5-year extrapolation of results). Only a 10-year projection can yield a normal cash flow appropriate for extrapolation to perpetuity.

The strong growth in premiums earned (over 10% in the next 10- year period) in the companies set out in the previous table reflects the strong growth expected in their insurance markets, as well as the characteristics of their portfolios (low share of fire and other damage to property business). In all these markets, insurance penetration is relatively low. However, insurance penetration is expected to increase significantly due to the expected convergence of their countries' macroeconomic indicators towards EU levels. Claims awareness is also expected to increase, i.e. claims made against insurance companies are expected to become more frequent and higher. Costs are expected to lag behind premiums slightly owing to business process optimisation in subsidiaries. Process management, such as elimination of payment by instalments and improved premium collection, will contribute to the growth in net profits.

The discount rate was calculated as cost of equity, using the capital asset pricing model (CAPM). The applied discount rate is based on an interest rate for risk-free securities and a premium for equity capital as well as prospects for insurance business. Added is a premium for country risk and for some companies a factor for smallness.

Goodwill relates to the non-life operating segment.

Discount factor	2009	2008
Sava osiguranje	16.0%	13.0%
Dukagjini	17.0%	13.1%
Sava Tabak	16.0%	12.9%
Sava Montenegro	16.0%	12.9%
Velebit osiguranje	14.0%	-

Discount factors have increased from 2008 due to deteriorated macro-economic conditions in countries were these companies operate.

For all companies, a growth of 3.5% was applied for the residual to perpetuity.

2) Property and equipment

Movements in cost and accumulated depreciation of property and equipment

(EUR)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
1. 1. 2009	353,834	21,759,043	7,711,565	212,169	30,036,611
Acquisitions	489,584	1,040,365	256,286	63,265	1,849,500
Additions	1,750,000	2,547,991	1,073,122	189,757	5,560,870
Disposals	0	-1,189,946	-819,712	0	-2,009,658
Reclassification	0	-2,093,018	-32,437	0	-2,125,455
Foreign exchange differences	3,277	-395,810	-77,402	-12,040	-481,976
31. 12. 2009	2,596,694	21,668,626	8,111,421	453,151	32,829,893
Accumulated depreciation					
1. 1. 2009	0	3,421,254	4,349,827	33,117	7,804,198
Acquisitions	0	6,624	43,242	10,818	60,684
Additions	0	248,832	752,863	34,197	1,035,892
Disposals	0	-193,465	-662,833	0	-856,298
Foreign exchange differences	0	-911	-44,389	-117	-45,417
31. 12. 2009	0	3,482,333	4,438,711	78,016	7,999,060
Carrying amount as at 1 January 2009	353,834	18,337,789	3,361,738	179,052	22,232,413
Carrying amount as at 31 December 2009	2,596,694	18,186,290	3,672,710	375,135	24,830,829

(EUR)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
1. 1. 2008	353,834	20,750,300	6,642,146	220,280	27,966,560
Additions	0	1,543,545	1,484,423	1,943	3,029,911
Disposals	0	0	-356,666	0	-356,666
Reclassification	0	56,812	219	0	57,031
Foreign exchange differences	0	-591,614	-58,557	-10,054	-660,225
31. 12. 2008	353,834	21,759,043	7,711,565	212,169	30,036,611
Accumulated depreciation					
1. 1. 2008	0	3,206,643	3,784,602	31,588	7,022,833
Additions	0	385,212	858,389	1,529	1,245,130
Disposals	0	0	-258,444	0	-258,444
Reclassification	0	-116,484	-422,728	0	-539,212
Foreign exchange differences	0	-54,117	388,008	0	333,891
31. 12. 2008	0	3,421,254	4,349,827	33,117	7,804,198
Carrying amount as at 1 January 2008	353,834	17,543,657	2,857,544	188,692	20,943,727
Carrying amount as at 31 December 2008	353,834	18,337,789	3,361,738	179,052	22,232,413

The carrying amount of land changed substantially compared to the prior year. This is due to a purchase by the subsidiary Dukagjini.

3) Deferred tax assets and liabilities

(EUR)	31. 12. 2009
Long-term financial investments	1,293,246
Tax loss	667,546
Short-term operating receivables	391,968
Provisions for jubilee benefits and severance pay (retirement)	16,085
Total	2,368,845

(EUR)	1. 1. 2009	Recognized in the IS	Change in 2009	31. 12. 2009
Long-term financial investments	5,356,526	-2,444,764	-1,618,516	1,293,246
Tax loss	0	667,546	0	667,546
Short-term operating receivables	493,401	-101,433	0	391,968
Provisions for jubilee benefits and severance pay (retirement)	10,340	5,745	0	16,085
Total	5,860,267	-1,872,906	-1,618,516	2,368,845

In 2009, the Group derecognised deferred tax assets associated with realised temporary non-deductible value adjustments for investments in securities. In addition, the Group decreased deferred tax assets by the part of fair value revaluation of investments that are not recognised in the 2009 income statement but in the negative fair value reserve.

The Group recognised deferred tax assets in respect of the entire tax loss.

Of the deferred tax liabilities recognised most relate to deferred tax liabilities relating to credit risk equalisation and catastrophe equalisation reserves, in the amount of EUR 323,814. The remaining deferred tax liabilities total EUR 61,845.

4) Investment property

Movements in cost and accumulated depreciation of investment property

(EUR)	Land	Buildings	Total
Cost			
1. 1. 2009	136,048	5,424,208	5,560,256
Disposals	0	-453,576	-453,576
Reclassification	0	1,211,170	1,211,170
Foreign exchange differences	0	-166,760	-166,760
31. 12. 2009	136,048	6,015,041	6,151,089
Accumulated amortisation			
1. 1. 2009	0	316,849	316,849
Additions	0	49,478	49,478
Reclassification	0	12,208	12,208
Foreign exchange differences	0	-1,009	-1,009
31. 12. 2009	0	377,525	377,525
Carrying amount as at 1 January 2009	136,048	5,107,359	5,243,407
Carrying amount as at 31 December 2009	136,048	5,637,516	5,773,564

(EUR)	Land	Buildings	Total
Cost			
1. 1. 2008	136,048	1,484,528	1,620,576
Additions	0	3,731,854	3,731,854
Disposals	0	-13,243	-13,243
Reclassification	0	203,347	203,347
Foreign exchange differences	0	17,722	17,722
31. 12. 2008	136,048	5,424,208	5,560,256
Accumulated amortisation			
1. 1. 2008	0	299,743	299,743
Additions	0	21,188	21,188
Disposals	0	-5,641	-5,641
Reclassification	0	2,094	2,094
Foreign exchange differences	0	-535	-535
31. 12. 2008	0	316,849	316,849
Carrying amount as at 1 January 2008	136,048	1,184,785	1,320,833
Carrying amount as at 31 December 2008	136,048	5,107,359	5,243,407

The fair value of investment property totalled EUR 6.9m. The Group earned EUR 124,903 (2008: EUR 135,225) by leasing out its investment property in 2009. Maintenance costs associated with investment property are either included in the rent or charged to the lessees.

5) Financial investments in associated companies

Investments in shares of associates

(EUR)	1. 1. 2009		31. 12. 2009		
	Holding	Value	Holding	Value	Share in voting rights (%)
Zavarovalnica Maribor	45.79%	28,609,812	45.79%	36,265,966	45.79%
Moja naložba	25.00%	1,181,313	25.00%	1,380,514	25.00%
Gold-Mak	17.70%	1,789,853	17.70%	0	17.70%
Total		31,580,978		37,646,479	

Data on associated companies

(EUR)	31. 12. 2009	31. 12. 2008
Zavarovalnica Maribor		
Total assets	680,833,142	634,940,266
Liabilities	613,519,209	579,966,832
Income	247,628,684	230,439,646
Net profit/loss for the year	-555,369	2,791,783
Moja naložba		
Total assets	102,129,128	83,616,360
Liabilities	96,683,685	78,967,721
Income	2,142,244	1,509,558
Net profit/loss for the year	669,985	-505,288
Pension fund contributions	58,615	46,587

On 23 October 2009, Sava Reinsurance Company concluded a put option contract with Zavarovalnica Maribor on the shares acquired by Sava Reinsurance Company in the recapitalisation effective at 30 October 2009.

The subject of the put option contract is the right of Sava Reinsurance Company to sell Zavarovalnica Maribor shares, however, up to the number of shares acquired in the recapitalisation, i.e. 1.558.048 shares. The strike price of the put option was EUR 4.1729 (the stock offering price) plus 10.5% per annum, starting to accrue as of the date of entering the capital increase in the court register, i.e. 30 October 2009.

Sava Reinsurance Company has the right to sell from 1 April 2010 up until three years after the registering of ownership on the shares.

6) Financial investments

Financial investments in 2009

(EUR) 31. 12. 2009	Held-to-maturity Carrying amount	Held-to-maturity Fair value	At fair value through profit or loss, Non-derivative: Held for trading	At fair value through profit or loss, Non-derivative: Designated as at fair value through P/L	Available-for-sale	Loans and receivables	Total
Long-term financial investments							
Equity and other variable income securities and mutual funds	0	0	961,317	0	39,653,070	0	40,614,387
Debt securities and other fixed income securities	12,626,482	11,008,570	466,406	0	87,784,638	0	100,877,526
Shares in investment funds	0	0	898,530	0	0	0	898,530
Other financial investments	55,000	55,000	0	0	431,189	0	486,189
Other loans granted	0	0	0	0	0	1,122,628	1,122,628
Deposits	2,760,036	2,760,036	0	0	0	567,980	3,328,016
Short-term financial investments							
Held for trading shares and interests	3,367	3,367	1,474,364	0	0	0	1,477,731
Held for trading securities or securitites with a remaining maturity of less than one year	809,696	810,282	1,921,847	0	66,569,558	0	69,301,101
Short-term loans granted	33,846	33,846	0	0	0	1,347,970	1,381,816
Bank deposits	16,132,428	16,132,428	0	0	0	53,392,599	69,525,027
Other Short-term financial investments	2,253,276	2,253,276	0	1,096,459	0	0	3,349,735
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	5,768,874	5,768,874
Total	34,674,131	33,056,805	5,722,464	1,096,459	194,438,455	62,200,051	298,131,558
Funds for the benefit of policyholders who bear the investment risk	0	0	0	17,861,634	0	0	17,861,634

Funds for the benefit of policyholders who bear the investment risk comprise short-term financial investments and are described in greater detail in note 7 below.

Hierarchical classification of financial investments according to IFRS 7.27

EUR) 31. 12. 2009	At fair value through profit or loss other than derivative: level 1	At fair value through profit or loss other than derivative: Total	Available-for-sale: level 1	Available-for-sale: level 2	Available-for-sale: level 3	Available-for-sale: Total
Long-term financial investments						
Equity and other variable income securities and mutual funds	961,317	961,317	30,541,011	8,982,823	129,236	39,653,070
Debt securities and other fixed income securities	466,406	466,406	87,784,638	0	0	87,784,638
Shares in investment funds	898,530	898,530	0	0	0	0
Other financial investments	0	0	431,189	0	0	431,189
Short-term financial investments						
Held for trading shares and interests	1,474,364	1,474,364	0	0	0	0
Held for trading securities or securitites with a remaining maturity of less than one year	1,921,847	1,921,847	65,053,534	0	1,516,024	66,569,558
Other Short-term financial investments	1,096,459	1,096,459	0	0	0	0
Total	24,680,557	24,680,557	183,810,371	8,982,823	1,645,260	194,438,455
Funds for the benefit of policyholders who bear the investment risk	17,861,634	0	0	0	0	0

The controlling company took advantage of the possibility offered by the amendment to IAS 39 in the second half of 2008, and reclassified certain investments (equity securities) from the category financial assets at fair value through profit or loss to available for sale financial assets. The controlling company undertook this reclassification in response to changed conditions in capital markets since it considered that it would not be able to sell the relevant equity securities in the near term. The reclassification was effected on 1 July 2008.

Thus equity securities of EUR 1.0m were reclassified. As conditions in capital markets further deteriorated from July 2008 to year-end 2008, the controlling company decided to impair all equities reclassified in 2008. Reclassifications in 2008 thus did not affect gross profits, but it did affect net profits due to the tax charge for the year, as impairments of available for sale financial assets, unlike revaluation losses associated with financial assets at fair value through profit or loss, are tax non-deductible until disposal of assets. In 2009, the controlling company did realise EUR 39,233 of net increases in the fair value reserve, which would have increased investment income if Sava Reinsurance Company did not reclassify such investments.

The controlling company pledged, in respect of its long-term loan of EUR 2,900,000, the following bonds RS59 (36,867 lots), RS62 (23,100 lots) and BTPS 5 1/4 08/01/17 (1,050) lots in the total nominal value of EUR 3.55m and fair value of EUR 3,736,892. Other Group companies have no securities pledged as collateral. The long-term loan is described in note 22 (Other financial liabilities).

The controlling company has available credit lines in the amount of EUR 10m. Under the credit line contract, Sava Re is obliged to deposit EUR 1m until expiry of credit agreement on 23 June 2010. Until that time Sava Reinsurance Company has no access to this deposit. On 31 December 2009, the controlling company made no use of the credit line.

Pursuant to reinsurance contracts, part of the reinsurance premium is retained by some reinsurers as an interest-earning deposit and generally released after one year. Receivables so arising amounted to EUR 5,768,875 and were included under the "loans and receivables" item in investments.

Financial investments in 2008

(EUR)	Held-to-maturity		At fair value through profit or loss					
			Non-derivative					
31. 12. 2008	Carrying amount	Fair value	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Total
Long-term financial investments								
Equity and other variable income securities and mutual funds	91,855	0	0	0	0	45,227,715	0	45,319,570
Debt securities and other fixed income securities	8,000,603	6,045,728	0	0	0	99,595,591	0	107,596,194
Other financial investments	62,251	0	0	0	0	345,254	0	407,505
Other loans granted	0	0	0	0	0	0	67,424	67,424
Bank deposits	0	0	0	0	0	0	6,016,608	6,016,608
Short-term financial investments								
Held for trading shares and interests	1,356	0	1,108,821		0	593,198	0	1,703,375
Held for trading securities or securitites with a remaining maturity of less than one year	166,684	0	0	1,031,143	0	48,009,518	0	49,207,345
Short-term loans granted	0	0	0	0	0	0	135,570	135,570
Bank deposits	0	0	0	0	0	0	54,810,292	54,810,292
Other Short-term financial investments	0	0	1,037,508	0	-5,407	0		1,032,101
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	0	5,306,936	5,306,936
Total	8,322,749	6,045,728	2,146,329	1,031,143	-5,407	193,771,276	66,336,829	271,602,919
Funds for the benefit of policyholders who bear the investment risk	0	0	0	10,577,672	0	0	0	10,577,672

Hierarchical classification of financial investments according to IFRS 7.27

EUR)	At fair value through profit or loss				Available-for-sale			
	other than derivative		derivative					
31. 12. 2008	level 1	Total	level 3	Total	level 1	level 2	level 3	Total
Long-term financial investments								
Equity and other variable income securities and mutual funds	0	0	0	0	34,955,788	9,445,324	826,603	45,227,715
Debt securities and other fixed income securities	0	0	0	0	93,296,743	0	6,298,847	99,595,590
Shares in investment funds	0	0	0	0	0	0	0	0
Other financial investments	0	0	0	0	345,254	0	0	345,254
Short-term financial investments								
Held for trading shares and interests	1,108,821	1,108,821	0	0	593,198	0	0	593,198
Held for trading securities or securitites with a remaining maturity of less than one year	1,031,143	1,031,143	0	0	38,555,741	0	9,453,777	48,009,518
Other Short-term financial investments	1,037,508	1,037,508	-5,407	-5,407	0	0	0	0
Total	3,177,472	3,177,472	-5,407	-5,407	167,746,724	9,445,324	16,579,227	193,771,276
Funds for the benefit of policyholders who bear the investment risk	10,577,672	0	0	0	0	0	0	0

Funds for the benefit of policyholders who bear the investment risk comprise short-term financial investments and are described in greater detail in note 7.

Investments in subordinated debt instruments

(EUR)	31. 12. 2009	31. 12. 2008
Total	15,339,085	13,181,258

Investments in subordinated debt instruments totalled EUR 15.3m (2008: EUR 13.2m). These investments accounted for 5.17% of the Group's total investments at year-end 2009 (2008: 4.7%).

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

These funds relate to a subsidiary who is a composite insurer based in Slovenia. These funds are measured at fair value through profit or loss.

These are investments in mutual fund units realised by the insurer at the discretion of policyholders of unit-linked policies. In unit-linked life business, EUR 928,795 of financial expenses from revaluation were realised in 2009 (2008: EUR 5,893,262). Any increase in the value of underlying assets of policyholders entails an increase in financial income from revaluation. In 2009 such increases totalled EUR 3,951,842 (2008: EUR 210,918).

8) Reinsurers' share of technical provisions

(EUR)	31. 12. 2009	31. 12. 2008
From unearned premiums	3,314,792	3,212,667
From mathematical provisions	23	78
From provisions for claims outstanding	24,609,525	36,174,355
From provisions for bonuses and rebates	0	3
From other technical provisions	975,070	753,918
Total	28,899,410	40,141,021

The reinsurers' share of unearned premiums usually moves in line with premiums from the largest proportional retrocession treaties. The significant fall in the claims provision is a result of payments made for the summer storm losses (that occurred in Slovenia in 2008).

The reinsurers' share of other technical provisions comprises provisions for unexpired risks at the retroceded portfolio level.

9) Receivables

The majority were receivables arising out of (re)insurance contracts invoiced in the fourth quarter of 2009 but falling due only in 2010.

Receivables of the controlling company under reinsurance contracts are not secured, while some receivables of subsidiaries are secured by blank bills of exchange.

Receivables by type

(EUR)	31. 12. 2009			31. 12. 2008		
	Gross amount	Allowance	Receivables	Gross amount	Allowance	Receivables
Receivables from policyholders	39,533,482	-9,419,378	30,114,104	32,320,168	-6,183,196	26,136,972
Receivables from insurance brokers	2,470,491	-1,233,817	1,236,674	1,356,190	-104,219	1,251,971
Other receivables arising out of primary insurance business	4,979,368	-2,612,734	2,366,634	2,604,462	-2,405,905	198,557
Receivables arising out of primary insurance business	46,983,341	-13,265,929	33,717,412	36,280,820	-8,693,320	27,587,500
Receivables for premiums arising out of reinsurance and co-insurance	40,029,201	-193,809	39,835,392	32,776,416	-89,867	32,686,549
Receivables for shares in claims	13,604,783	-39,368	13,565,415	15,030,164	-45,757	14,984,407
Receivables arising out of reinsurance and co-insurance business	53,633,984	-233,177	53,400,807	47,806,580	-135,624	47,670,957
Current tax assets	4,012,543	0	4,012,543			956,382
Receivables for commission	3,130,192	0	3,130,192	2,735,441	0	2,735,441
Receivables arising out of investments	1,176,948	-125,205	1,051,743	743,217	-196,518	546,699
Other receivables	897,274	0	897,274	12,604,847	-7,205,002	5,399,845
Other receivables	5,204,414	-125,205	5,079,209	16,083,505	-7,401,520	8,681,985
Total	109,834,282	-13,624,311	96,209,971	100,170,905	-16,230,464	84,896,824

Aging analysis of receivables

(EUR) 2009	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables from policyholders	16,447,275	9,814,333	3,852,496	30,114,104
Receivables from insurance brokers	10,043	369,500	857,131	1,236,674
Receivables arising out of primary insurance business	1,722,631	243,356	400,648	2,366,634
Receivables for premiums arising out of assumed reinsurance and co-insurance	13,074,297	25,846,591	914,504	39,835,392
Receivables for reinsurers' shares in claims	7,815,050	4,571,069	1,179,296	13,565,415
Other short-term operating receivables	2,030,472	1,031,875	67,846	3,130,192
Short-term receivables arising out of investments	472,995	185,011	393,736	1,051,743
Current tax assets	4,012,543	0	0	4,012,543
Other receivables	878,159	18,295	820	897,274
Total	46,463,465	42,080,030	7,666,477	96,209,971

(EUR) 2008	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables from policyholders	12,207,081	8,055,863	5,874,028	26,136,972
Receivables from insurance brokers	1,147,752	0	104,219	1,251,971
Receivables arising out of primary insurance business	16,659	118,486	63,412	198,557
Receivables for premiums arising out of assumed reinsurance and co-insurance	26,342,639	5,756,256	587,654	32,686,549
Receivables for reinsurers' shares in claims	12,504,724	1,686,159	793,524	14,984,407
Other short-term operating receivables	719,952	1,126,028	889,461	2,735,441
Short-term receivables arising out of investments	227,342	319,357	0	546,699
Current tax assets	956,382	0	0	956,382
Other receivables	3,183,506	165,431	2,050,908	5,399,843
Total	57,306,037	17,227,580	10,363,206	84,896,822

All receivables are short-term.

For all receivables that have already fallen due, allowances have been recognised relating to individual classes of similar risks into which receivables are classified.

10) Deferred acquisition costs

(EUR)	31. 12. 2009	31. 12. 2008
Short-term deferred insurance acquisition costs	9,370,016	6,094,488
Short-term deferred reinsurance acquisition costs	8,034,451	9,652,159
Total	17,404,467	15,746,647

11) Other assets

(EUR)	31. 12. 2009	31. 12. 2008
Inventories	176,927	263,416
Accrued interest and rent	74,417	72,485
Other short-term accruals and deferred income	819,627	7,008,520
Other assets	60,000	0
Total	1,130,971	7,344,421

Other assets comprise inventories, accrued interest and rent and other assets and other short-term accruals and deferred income.

12) Cash and cash equivalents

This item of the statement of financial position and the cash flow statement comprises balances in bank accounts and overnight deposits.

13) Non-current assets held for sale

Non-current assets held for sale comprise real estate of a subsidiary in Serbia.

14) Share capital

The General Meeting held in August 2007 amended the Articles of Association of the controlling company to introduce non-par value shares.

In June 2008, the controlling company increased its share capital through the process of initial public offering. Thus, the controlling company's called-up capital increased by EUR 6,259,389 to EUR 39,069,099.

The recapitalisation involved the issuance of 1,500,000 new shares. The controlling company's share capital as at year-end 2009 was thus divided into 9,362,519 shares (the same as at 31 December 2008). All shares are ordinary registered shares of the same class. Their holders are entitled to participate in the controlling company's control and profits (dividends).

At 31 December 2009, the controlling company still had EUR 10,145,464.03 of authorised capital.

As at year-end 2009, the controlling company had 5,712 shareholders (2008: 5,678). On 11 June 2008, the controlling company listed in the standard equity market of the Ljubljana Stock Exchange.

Pursuant to a resolution of the General Meeting, the controlling company did not pay dividends in 2009.

15) Share premium

Upon completion of the initial public offering in June 2008, the controlling company increased its share premium by EUR 35,740,610. The increase in share premium was recognised net of costs directly attributable to the initial public offering of EUR 2,843,020. Thus at 31 December, share premium totalled EUR 33,003,752.

16) Profit reserves

(EUR)	31. 12. 2009	31. 12. 2008	distributable/non-distributable
Legal reserves and reserves provided for in the articles of association	15,277,932	14,986,525	non-distributable
Reserve for treasury shares	1,774	1,774	non-distributable
Treasury shares (as deduction item)	-1,774	-1,774	non-distributable
Credit risk equalization reserve	1,217,874	3,053,943	non-distributable
Catastrophe equalization reserve	4,215,361	2,493,505	non-distributable
Other profit reserve	59,566,803	71,962,514	distributable
Total	80,277,970	92,496,487	

Legal reserves increased based on allocation of net profit.

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

Profit reserves include credit risk equalization reserves established pursuant to the ZZavar and implementing acts for equalisation provisions, and catastrophe equalization reserves set aside pursuant to the rules on technical provisions and reserves as approved by appointed actuaries. In the ZZavar and the legislation of individual countries of subsidiaries, equalisation provisions are defined as technical provisions while their establishing and releasing/using is taken to profit or loss. As these requirements do not comply with IFRSs, the Group discloses these provisions within profit reserves in compliance with IFRSs. All movements in these reserves are recognised in equity as a decrease/increase in net profit for the year. The same is true for catastrophe equalisation reserves.

If the consolidated financial statement were in compliance with the ZZavar and local legislation of subsidiary companies, the Group loss for 2009 would have been smaller by EUR 114 thousand (2008: larger by EUR 319 thousand).

The credit risk equalization reserve was reduced from EUR 3,053,943 at the end of 2008 to EUR 1,217,874 at the end of 2009 due to an unfavourable technical result; the earthquake equalization reserves, on the other hand, grew from EUR 2,493,505 to EUR 4,215,361.

<u>Treasury shares bought back</u>

In 2009, the Group did not make any transactions with treasury shares. As at 31 December 2009, it held 210 treasury shares.

Treasury shares are a deduction item in equity.

17) Fair value reserve

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

(EUR)	2009	2008
As at 1 January	**-10,452,519**	**16,011,444**
Change in fair value	10,996,456	-2,371,413
Increase due to purchase of shares in subsidiaries	0	664
Transfer from fair value reserve to operating or financial income	0	-24,093,214
Total fair value reserve	543,937	-10,452,519

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

18) Net profit/loss for the year

The net loss of the Group in 2009 in the income statement was EUR 28,216,212. Pursuant to the decision of the Management Board, the loss will be charged against other profit reserves so that the loss in the statement of financial position totals EUR 12,341,747.

Minority interest in equity

(EUR)	31. 12. 2009	31. 12. 2008
Zavarovalnica Tilia	43,324	44,790
Sava osiguranje	8	14
Dukagjini	1,889,566	1,889,369
Sava Tabak	1,123,926	3,155,805
Bro-Dil	204,370	202,702
Sava Montenegro	0	1,490
Sava-Invest	-87	17,057
Dukagjini Life	1,468,331	1,692,666
Sava životno osiguranje	21,958	345
Velebit osiguranje	1,705,152	0
Velebit životno osiguranje	2,828,189	0
Total	9,284,737	7,004,238

Note to the statement of changes in equity:
In 2009, minority interest in equity incresed due to acquisitions in business combinations in the amount of EUR 5,600,872, excluding the loss for the financial year disclosed in the line comprehensive income for the year. The difference of EUR –241,062 represents the change due to acquisition of shares from minority shareholders.

19) Subordinated liabilities

At the end of 2006 and at the beginning of 2007, the controlling company raised a subordinated loan in the amount of EUR 32m, and drew down 97% of the principal amount. Maturity of the loan is 20 years, with the possibility of early repayment after 10 years. The principal is due at maturity. The applicable interest rate is a 3-month Euribor + 3.35%, with interest payable on a quarterly basis. The loan is carried at amortised cost.

Subordinated liabilities

Outstanding debt at effective interest rate as at 31 December 2009	31,135,777
Debt currency	EUR
Maturity date	27 December 2026
Conversion into shareholders' equity applicable	n/a
Conversion into other liabilities applicable	n/a

Outstanding debt at effective interest rate as at 31 December 2008	31,139,605
Debt currency	EUR
Maturity date	27 December 2026
Conversion into shareholders' equity applicable	n/a
Conversion into other liabilities applicable	n/a

In 2009, the controlling company paid EUR 1,652,765 in interest on the subordinated debt (2008: EUR 2,676,532), and EUR 87,189 in taxes on the subordinated debt, net of interest paid (2008: EUR 141,653).

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

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

(EUR)	Consolidated GTP as at 1 Jan 2009	GTP as at 1 Jan 2009 prior to elimination	Additions due to acquisitions	Additions	Uses and releases	Foreign exchange differences	GTP as at 31 Dec 2009 prior to elimination	Consolidated GTP as at 31 Dec 2009
	1	2	3	4	5	6	7 = 2+3+4-5+6	8
Gross unearned premiums	78,620,515	86,818,307	3,595,344	69,577,986	64,022,886	-473,182	95,495,569	86,012,273
Mathematical provisions	10,280,389	10,280,389	1,316,041	2,813,524	1,058,488	11,996	13,363,462	13,363,462
Gross provision for claims	164,740,856	180,107,390	2,259,596	82,966,279	64,299,112	-607,393	200,426,760	184,313,616
Gross provision for bonuses, rebates and cancellations	523,001	690,451	0	656,020	690,451	1	656,021	463,529
Other gross technical provisions	2,142,754	2,142,754	0	4,130,680	2,142,755	-656	4,130,024	4,130,024
Net technical provisions for the benefit of life insurance policyholders who bear the	10,748,184	10,748,184	0	7,819,085	613,291	0	17,953,978	17,953,978
Total	267,055,699	290,787,476	7,170,981	167,963,575	132,826,982	-1,069,234	332,025,814	306,236,883

(EUR)	Consolidated GTP as at 1 Jan 2008 prior to correction	Correction	Consolidated GTP as at 1 Jan 2008	GTP as at 1 Jan 2008 prior to elimination	Additions - Group 1 Jan 2008	Uses and releases - Group 1 Jan 2008	Foreign exchange differences	GTP as at 31 Dec 2008 prior to elimination	Consolidated GTP as at 31 Dec 2008
			1	2	3	4	5	6 = 2+3-4+5	7
Gross unearned premiums	66,259,147	1,344,089	67,603,236	74,707,216	82,925,952	70,509,311	-305,550	86,818,307	78,620,515
Mathematical provisions	9,294,535	0	9,294,535	9,294,535	1,836,090	850,237	0	10,280,388	10,280,389
Gross provision for claims	135,741,158	397,800	136,138,958	147,593,448	114,815,304	82,052,612	-248,750	180,107,390	164,740,856
Gross provision for bonuses, rebates and cancellations	330,975	0	330,975	475,718	690,451	475,718	0	690,451	523,001
Other gross technical provisions	1,370,168	0	1,370,168	1,370,168	2,142,754	1,370,168	0	2,142,754	2,142,754
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	11,112,838	0	11,112,838	11,112,838	69,179	433,833	0	10,748,184	10,748,184
Total	224,108,821	1,741,889	225,850,710	244,553,923	202,479,731	155,691,879	-554,300	290,787,474	267,055,699

Movements in technical provisions

The outstanding claims provision represents the provision for incurred but not settled claims. The amount set aside relates in part to claims incurred during the year and in part to adjustments to the estimated claims relating to previous years. This includes EUR 1,791,473, which is the adjustment on the Group level relating to established deficits of subsidiaries. Uses relate to claims settled during the year but relating to previous years.

Other technical provisions comprise only the provision for unexpired risks. This is set aside as an addition to unearned premiums for the case that unearned premiums are insufficient for the coverage of expected future claims and expenses for written insurance business. This is why it is similar in nature: it is used during the year and set aside at the end of the year for the insurance contracts concluded during the year. For details about its calculation, see the next section.

Liability adequacy testing of unearned premiums

Unearned premiums are calculated based on the unexpired portion of the policy term (the pro rata temporis method). Therefore, if the premium is adequate, the unearned premium is also adequate, and vice versa. The Group carried out the liability adequacy test separately for gross unearned premiums and for the retroceded portion of unearned premiums at the insurance class level. Calculation of the expected combined ratio at insurance class level was based on the weighted average of the combined ratios realised in the last three years, which were also trend adjusted. Calculation of the realised combined ratios was based on premiums written, insurance claims and benefits incurred, commission expenses and other operating expenses. Where the expected combined ratio so calculated exceeds 100%, thus revealing a deficiency in the unearned premium, a corresponding provision for unexpired risks within other technical provisions is set aside, in accordance with the Insurance Act (ZZavar).

The tables below give a summary of the calculation of the gross provision for unexpired risks by class of insurance for 2009 and 2008.

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

(EUR) 2009	Primary insurance		Reinsurance	
	Expected combined ratio	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	68.8%	0	63.4%	0
Land vehicles casco	117.6%	1,247,792	110.5%	685,888
Aircraft casco	323.0%	0	64.4%	0
Ships hull	38.1%	0	132.1%	71,170
Goods in transit	99.2%	0	87.1%	0
Fire and natural forces	71.9%	0	103.7%	295,009
Other damage to property	97.8%	0	103.6%	191,235
Motor liability	89.8%	0	95.4%	0
Aircraft liability	42.9%	0	54.8%	0
Liability for ships	40.1%	0	64.0%	0
General liability	96.1%	0	103.5%	22,577
Credit	135.0%	1,181,669	115.9%	234,456
Suretyship	150.0%	58,940	298.0%	87,684
Miscellaneous financial loss	44.2%	0	77.8%	0
Legal expenses	13.4%	0	4.8%	0
Assistance	17.4%	0	54.7%	0
Life business	99.5%	0	9.0%	0
Unit-linked life	96.9%	0	26.8%	0
Total	94.3%	2,488,401	100.1%	1,588,019

(EUR) 2008	Primary insurance		Reinsurance	
	Expected combined ratio	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	79.7%	0	57.8%	0
Land vehicles casco	116.1%	976,079	103.6%	231,067
Aircraft casco	1006.6%	0	46.4%	0
Ships hull	120.3%	0	97.6%	0
Goods in transit	107.9%	0	87.7%	0
Fire and natural forces	98.8%	0	102.9%	173,133
Other damage to property	91.8%	0	87.4%	0
Motor liability	87.8%	0	93.8%	0
Aircraft liability	281.4%	0	31.0%	0
Liability for ships	129.6%	0	70.8%	0
General liability	109.9%	51,529	110.0%	67,086
Credit	119.7%	542,268	69.6%	0
Suretyship	80.4%	0	252.6%	101,592
Miscellaneous financial loss	66.0%	0	98.7%	0
Legal expenses	26.0%	0	3.7%	0
Assistance	31.6%	0	76.7%	0
Life business	91.5%	0	26.1%	0
Unit-linked life	8.5%	0	5.3%	0
Total		1,569,876	92.5%	572,878

Incurred but not reported provision (IBNR)

The table below shows the sum total of the IBNR provision for claims as reported by cedants, estimated claims provisions and IBNR as calculated using triangles.

(EUR) 2009	Reported but not settled provision (RBNS)	Incurred but not reported provision (IBNR)	Provision for outstanding claims	IBNR as % of total claims provisions
Consolidated	111,909,015	72,404,602	184,313,617	39.3%
Total prior to elimination	123,556,768	76,869,992	200,426,760	38.4%
Total primary insurers	44,175,847	32,381,571	76,557,418	42.3%
Total reinsurers	79,380,921	44,488,421	123,869,342	35.9%

(EUR) 2008	Reported but not settled provision (RBNS)	Incurred but not reported provision (IBNR)	Provision for outstanding claims	IBNR as % of total claims provisions
Consolidated	109,367,342	55,373,515	164,740,857	33.6%
Total prior to elimination	118,796,150	58,990,471	177,786,621	33.2%
Total primary insurers	43,013,604	18,314,037	61,327,641	29.9%
Total reinsurers	75,782,546	40,676,434	116,458,980	34.9%

The gross provision for claims outstanding is included under liabilities, while the reinsurers' shares of the claims provision are included under assets.

21) Other provisions

Other provisions comprise mainly provisions for long-term employee benefits.

Movements in other provisions

(EUR)	1. 1. 2009	Additions	Uses	Released	Foreign exchange differences	31. 12. 2009
Provision for severance pay upon retirement	641,383	221,983	102,485	39,863	-5,286	715,730
Provision for jubilee benefits	135,128	33,011	12,324	0	-549	155,266
Total provisions for employees	**776,511**	**254,994**	**114,809**	**39,863**	**-5,835**	**870,996**
Other long-term deferred income	**1,105**	**0**	**0**	**0**	**0**	**1,105**

(EUR)	1. 1. 2008	Additions	Uses	Released	Foreign exchange differences	31. 12. 2008
Provision for severance pay upon retirement	498,555	215,494	45,633	23,469	-3,564	641,383
Provision for jubilee benefits	123,619	19,752	10,317	-1,798	276	135,128
Total provisions for employees	**622,174**	**235,246**	**55,950**	**21,671**	**-3,288**	**776,511**
Other long-term deferred income	**6,534**	**0**	**5,429**	**0**	**0**	**1,105**

22) Other financial liabilities

Other financial liabilities comprise liabilities for a loan taken up by the controlling company of EUR 2.9m.

23) Liabilities from operating activities

Liabilities from operating activities

(EUR) 2009	Secured liabilities	Maturity		
		Over 5 years	Up to 1 year	Total
Liabilities to policyholders	0	0	3,827,514	3,827,514
Liabilities to insurance brokers	0	0	161,489	161,489
Liabilities from primary insurance business	16,458	0	1,133,160	1,133,160
Liabilities from primary insurance business	16,458	0	5,122,163	5,122,163
Liabilities for reinsurance and co-insurance premiums	0	30,821	7,769,733	7,800,554
Liabilities for shares in reinsurance claims	0	0	26,598,646	26,598,646
Liabilities from reinsurance and co-insurance business	0	30,821	34,368,379	34,399,199
Current tax liabilities	0	0	655,546	655,546
Total	16,458	30,821	40,146,088	40,176,908

(EUR) 2008	Maturity		
	Over 5 years	Up to 1 year	Total
Liabilities to policyholders	0	4,071,835	4,071,835
Liabilities to insurance brokers	0	498,530	498,530
Liabilities from primary insurance business	0	1,540,910	1,540,910
Liabilities from primary insurance business	0	6,111,275	6,111,275
Liabilities for reinsurance and co-insurance premiums	31,584	7,162,927	7,194,511
Liabilities for shares in reinsurance claims	0	32,216,550	32,216,550
Liabilities from reinsurance and co-insurance business	31,584	39,379,477	39,411,061
Current tax liabilities	0	320,465	320,465
Total	31,584	45,811,217	45,842,801

24) Other liabilities

Other liabilities

(EUR) 2009	Secured liabilities	Maturity	
		Up to 1 year	Total
Other short-term liabilities	109,486	14,761,331	14,761,331
Short-term provisions (deferred income and accrued expenses)	0	2,291,627	2,291,627
Total	109,486	17,052,958	17,052,958

(EUR) 2008	Maturity		
	Over 1 year	Up to 1 year	Total
Other long-term liabilities	97,180	15,038	112,218
Other short-term liabilities	0	13,912,791	13,912,791
Short-term provisions (deferred income and accrued expenses)	0	1,757,921	1,757,921
Total	97,180	15,685,750	15,782,930

Other short-term liabilities are comprised mainly of liabilities for commission.

Movements in short-term provisions

(EUR)	1. 1. 2009	Additions	Uses	Released	Foreign exchange differences	31. 12. 2009
Short-term accrued costs	665,881	1,008,016	852,683	0	336	821,550
Other accruals and deferred income	1,092,041	6,529,046	6,150,612		-398	1,470,077
Total	1,757,922	7,537,062	7,003,295	0	-62	2,291,627

(EUR)	1. 1. 2008	Additions	Uses	Released	Foreign exchange differences	31. 12. 2008
Short-term accrued costs	631,144	1,023,654	954,349	35,427	859	665,881
Other accruals and deferred income	1,646,259	6,222,783	6,730,929	0	-46,072	1,092,041
Total	2,277,403	7,246,437	7,685,278	35,427	-45,213	1,757,922

19.9 Notes to the financial statements – income statement

25) Net earned premiums

Net earned premiums

(EUR) 2009	Gross premiums written	Premiums written for assumed co-insurance	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums for the reinsurance and co-insurance part (+/-)	Net premiums earned
Personal accident	18,717,497	5,998	-113,344	-835,619	185,359	17,959,891
Health	4,203,004	0	0	-409,957	0	3,793,047
Land vehicles casco	45,735,125	0	-3,962,133	-95,222	296,590	41,974,360
Aircraft casco	420,444	0	-45,153	-46,316	826	329,801
Ships hull	1,423,860	0	-88,853	19,788	-10,349	1,344,446
Goods in transit	3,382,311	3,048	-145,788	116,392	-1,282	3,354,681
Fire and natural forces	45,346,712	81,306	-10,346,115	-2,883,049	-15,974	32,182,880
Other damage to property	39,480,732	142,207	-10,095,377	-57,878	-143,364	29,326,320
Motor liability	69,382,971	0	-2,087,943	-422,587	-16,253	66,856,188
Aircraft liability	803,803	0	-474,076	-218,309	207,219	318,637
Liability for ships	305,626	0	-3,650	-8,306	-2,148	291,522
General liability	5,515,627	65,725	-807,741	134,616	-41,910	4,866,317
Credit	2,228,177	0	-11	-708,868	186,025	1,705,323
Suretyship	175,906	0	-10,918	62,633	-7,884	219,737
Miscellaneous financial loss	913,099	0	-480,976	-21,344	43,038	453,817
Legal expenses	180,042	5,078	-98,594	-26,913	47,421	107,034
Assistance	1,085,175	0	-61,090	-74,796	24,105	973,394
Life business	3,424,483	0	-216,376	-32,660	-23,996	3,151,451
Unit-linked life	8,388,632	0	-105,800	-63,843	0	8,218,989
Total non-life	239,300,111	303,362	-28,821,762	-5,475,735	751,419	206,057,395
Total life	11,813,115	0	-322,176	-96,503	-23,996	11,370,440
Total	251,113,226	303,362	-29,143,937	-5,572,237	727,424	217,427,839

(EUR) 2008	Gross premiums written	Premiums written for assumed co-insurance	Reinsurers' and co-insurers' shares (-)	Change in gross unearned premiums (+/-)	Change in unearned premiums for the reinsurance and co-insurance part	Net premiums earned
Personal accident	16,861,889	0	-42,303	-259,660	75,839	16,635,765
Health	887,714	0	0	-27,335	0	860,379
Land vehicles casco	44,450,074	0	-4,114,176	-2,381,997	439,288	38,393,189
Aircraft casco	103,485	0	991	-1,356	-44,209	58,911
Ships hull	1,354,519	0	-61,786	-159,405	-13,004	1,120,324
Goods in transit	4,437,063	0	-208,045	-275,105	-33,004	3,920,909
Fire and natural forces	36,825,657	96,140	-8,914,440	-2,858,191	51,820	25,200,986
Other damage to property	37,819,838	106,641	-7,023,165	-1,350,037	-850,618	28,702,659
Motor liability	64,565,520	0	-1,847,700	-4,123,032	644,403	59,239,191
Aircraft liability	259,701	0	-79,972	13,988	-10,877	182,840
Liability for ships	214,354	0	-3,403	-28,878	-2,375	179,698
General liability	5,265,244	73,625	-617,005	-53,659	-112,416	4,555,789
Credit	2,782,691	0	0	-642,141	183,605	2,324,155
Suretyship	224,396	0	-10,229	-119,781	16,163	110,549
Miscellaneous financial loss	896,162	0	-377,399	-38,645	55,043	535,161
Legal expenses	124,605	1,469	-9,538	-31,707	0	84,829
Assistance	856,051	0	-40,807	-80,959	37,265	771,550
Life business	2,646,905		-270,919	3,178	3,238	2,382,402
Unit-linked life	8,753,184		0	101,304	0	8,854,488
Total non-life	217,928,963	277,875	-23,348,977	-12,417,900	436,923	182,876,884
Total life	11,400,089	0	-270,919	104,482	3,238	11,236,890
Total	229,329,052	277,875	-23,619,896	-12,313,418	440,161	194,113,774

In 2009, gross premiums written increased by 9.5% compared to 2008, while reinsurers' and co-insurers' share of premiums written increased by 23.4%. The change in unearned premiums decreased by 59.2%.

26) Income from investments in affiliates

In 2009, the Group accounted participation in profits using the equity method.

(EUR)	2009	2008
Profit/loss of associated companies	167,497	1,350,266
Total	167,497	1,350,266

27) Investment income and expenses

Investment income, expenses and net investment income by IFRS categories

Investment income by IFRS categories

(EUR)		At fair value through profit or loss					
		Non-derivative					
2009	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Available-for-sale	Loans and receivables	Other	Total
Dividend income	0	25,815	1,278	510,623	0	0	537,715
Interest income	1,506,020	0	80,943	5,595,170	3,002,240	0	10,184,372
Change in fair value	19,596	48,732	4,057,648	178,782	306,666	0	4,611,424
Other financial income	0	1,721	10,840	95,280	310,189	124,903	542,933
Gains on disposals of investments	0	644,325	6,301	5,116,630	539,196	0	6,306,453
Total	1,525,616	720,593	4,157,010	11,496,485	4,158,291	124,903	22,182,898

Investment expenses by IFRS categories

(EUR)		At fair value through profit or loss							
		Non-derivative							
2009	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Interest expenses	0	0	0	5,394	0	181,068	0	1,739,954	1,926,416
Other financial expenses	111,559	4,439	155,243	0	295,352	58,358	52,732	0	677,683
Impairment of financial assets and liabilities	0	51,322	928,795	0	10,259,666	151,178	0	0	11,390,961
Losses on disposal of investments	0	401,006	205	0	9,026,816	23,764	0	0	9,451,791
Total	111,559	456,767	1,084,243	5,394	19,581,834	414,368	52,732	1,739,954	23,446,850

Net investment income

(EUR)		At fair value through profit or loss							
		Non-derivative							
2009	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Dividend income	0	25,815	1,278	0	510,623	0	0	0	537,716
Interest income/expense	1,506,020	0	80,943	-5,394	5,595,170	2,821,172	0	-1,739,954	8,257,957
Change in fair value	19,596	-2,590	3,128,853	0	-10,080,884	155,488	0	0	-6,779,537
Other financial income/expenses	-111,559	-2,718	-144,403	0	-200,072	251,831	72,171	0	-134,750
Gains/losses on disposal of investments	0	243,319	6,096	0	-3,910,186	515,432	0	0	-3,145,339
Total	1,414,057	263,826	3,072,767	-5,394	-8,085,349	3,743,923	72,171	-1,739,954	-1,263,953

Investment income and expenses by source of funds

The Group records investment income and expenses separately by source of funds, that is separately for the capital fund, liability fund and the long-term business fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions; and the long-term business fund, which is part of the liability fund, comprises assets supporting mathematical provisions.

Investment income – non-life business

(EUR)	Liability fund	Liability fund
	2009	2008
Income from shares and interests	117,917	150,371
Interest income	7,098,055	7,327,591
Change in fair value	580,969	1,842,363
Other financial income	29,863	544,621
Gains on disposals of investments	2,845,253	1,621,181
Total investment income - liability fund	10,672,057	11,486,127
	Capital fund	Capital fund
	2009	2008
Income from shares and interests	418,520	323,185
Interest income	2,069,107	4,535,794
Change in fair value	0	1,273,317
Other financial income	189,865	101,586
Gains on disposals of investments	3,458,546	9,344,648
Total investment income - capital fund	6,136,038	15,578,530
Total investment income - non-life business	16,808,095	27,064,657

Investment income – life business

(EUR)	Long-term business fund	Long-term business fund
	2009	2008
Income from shares and interests	0	0
Interest income	862,693	543,632
Change in fair value	79,891	0
Other financial income	14,392	8,069
Gains on disposals of investments	2,654	0
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	3,951,842	210,919
Total investment income - liability fund	4,911,472	762,620
	Capital fund	Capital fund
	2009	2008
Interest income	154,517	17,342
Change in fair value	0	162,408
Other financial income	308,813	0
Total investment income - capital fund	463,330	179,750
Total investment income - life business	5,374,802	942,370
Total investment income	22,182,896	28,007,027

Expenses from financial assets and liabilities - non-life business

(EUR)	Liability fund 2009	Liability fund 2008
Interest expenses	140,870	299
Asset management expenses and other financial	362,107	434,640
Impairment of financial assets and liabilities	3,191,885	6,672,979
Losses on disposal of investments	2,973,264	1,155,604
Total investment expenses - liability fund	6,668,126	8,263,522
	Capital fund 2009	Capital fund 2008
Interest expenses	1,785,546	2,818,186
Asset management expenses and other financial	66,071	244,991
Impairment of financial assets and liabilities	7,270,281	14,560,541
Losses on disposal of investments	6,478,322	1,454,303
Total investment expenses - capital fund	15,600,220	19,078,021
Total investment expenses - non-life business	22,268,346	27,341,543

Expenses from financial assets and liabilities - life business

(EUR)	Long-term business fund 2009	Long-term business fund 2008
Asset management expenses and other financial	161,248	28
Losses on disposal of investments	205	0
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	928,795	5,893,260
Total investment expenses - liability fund	1,090,248	5,893,288
	Capital fund 2009	Capital fund 2008
Asset management expenses and other financial	88,257	4,813
Total investment expenses - capital fund	88,257	4,813
Total investment expenses - life business	1,178,505	5,898,101
Total investment expenses (non-life+life)	23,446,850	24,976,122

Net investment income from non-life and life business

Net investment income	-1,263,954	-5,232,617
Non-life business	-5,460,251	-276,886
Life business	4,196,297	-4,955,731

Impairment of investments

The bulk of investment impairments are impairments of investments in subsidiaries and associates totalling EUR 5.7m. Such impairments amounted to EUR 1.3m in 2008.

(EUR)	31. 12. 2009	31. 12. 2008
Bonds	895,194	2,477,556
Shares	9,031,230	6,050,122
Mutual funds	0	7,302,330
Loans	51,184	0
Total	9,977,608	15,830,008

28) Other technical income

The bulk of other technical income comprises reinsurance commission. The following table shows reinsurance commission income by class of business.

(EUR)	2009	2008
Personal accident	16,597	930
Land vehicles casco	264,648	240,507
Aircraft casco	5,417	2,583
Ships hull	7,252	6,483
Goods in transit	5,524	13,255
Fire and natural forces	2,021,566	1,370,312
Other damage to property	1,929,712	1,055,018
Motor liability	179,988	133,774
Aircraft liability	14,965	17,594
Liability for ships	1	482
General liability	77,399	68,683
Miscellaneous financial loss	121,022	39,617
Life business	66,703	77,533
Unit-linked life	7,500	0
Total non-life	4,644,091	2,949,238
Total life	74,204	77,533
Total	4,718,294	3,026,771

In addition to reinsurance commission, this item comprises diverse other technical income of EUR 3,083,564 (2008: EUR 1,130,981); thus other technical income totalled EUR 7,801,858 (2008: EUR 4,157,752).

29) Net claims incurred

Net claims incurred

(EUR) 2009	Gross claims paid: Gross claims paid excl. Recourse recoveries	Gross claims paid: Recourse recoveries	Reinsurers' share (-)	Coinsurers' share of claims (-)	Change in gross claims provision (+/-)	Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	Net claims incurred
Personal accident	7,627,653	-1,000	-14,254	184	508,625	30,139	8,151,347
Health	1,884,679	0	0	0	3,729	0	1,888,408
Land vehicles casco	39,650,818	-1,030,160	-8,096,673	0	-1,083,648	3,520,226	32,960,563
Aircraft casco	131,312	0	-3,583	0	10,419	18,576	156,724
Ships hull	986,444	0	-30,650	0	1,239,903	3,797	2,199,494
Goods in transit	1,627,343	-11,837	-144	0	462,194	-274,998	1,802,558
Fire and natural forces	27,964,489	-4,277	-11,832,903	5,908	-175,112	6,270,119	22,228,224
Other damage to property	27,943,134	-89,386	-7,495,334	79,730	3,842,082	2,597,907	26,878,133
Motor liability	36,681,964	-1,745,944	-2,733,959	0	12,058,636	-326,808	43,933,889
Aircraft liability	118,622	0	-8,270	0	178,254	23,930	312,536
Liability for ships	45,802	0	0	0	-59,811	-4,961	-18,970
General liability	2,929,862	-6,778	-127,523	5,480	1,240,525	-87,242	3,954,324
Credit	3,914,803	-1,933,565	0	0	152,857	-5,056	2,129,039
Suretyship	350,818	-81,367	0	0	288,046	-2,237	555,260
Miscellaneous financial loss	627,068	0	-1,392,683	0	-165,005	-121,934	-1,052,554
Legal expenses	0	0	0	158	-1,476	0	-1,318
Assistance	81,995	0	0	0	4,492	-5,260	81,227
Life business	867,401	0	-23,851	0	-22,019	17,785	839,316
Unit-linked life	860,467	0	-26,038	0	-14,394	0	820,035
Total non-life	152,566,806	-4,904,314	-31,735,976	91,460	18,504,710	11,636,198	146,158,884
Total life	1,727,868	0	-49,889	0	-36,413	17,785	1,659,351
Total	154,294,674	-4,904,314	-31,785,864	91,460	18,468,297	11,653,983	147,818,236

(EUR) 2008	Gross claims paid: Gross claims paid excl. Recourse recoveries	Gross claims paid: Recourse recoveries	Reinsurers' share (-)	Coinsurers' share of claims (-)	Change in gross claims provision (+/-)	Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	Net claims incurred
Personal accident	7,490,377	0	-28,191	0	7,154	-51,975	7,417,365
Health	66,907	0	0	0	-5,832	0	61,075
Land vehicles casco	36,080,678	-1,077,190	-6,506,890	0	5,840,688	-6,446,285	27,891,001
Aircraft casco	21,968	0	-23,932	0	37,134	343	35,513
Ships hull	879,322	0	-17,641	0	92,141	46,181	1,000,003
Goods in transit	2,090,703	-10,136	0	0	1,068,406	-107,234	3,041,739
Fire and natural forces	31,206,763	-21,587	-17,282,072	14,046	11,864,591	-7,527,437	18,254,304
Other damage to property	38,287,371	-4,644	-19,755,658	88,583	6,839,477	-4,351,226	21,103,903
Motor liability	35,055,561	-1,452,342	-1,489,548	0	8,306,633	-3,704,323	36,715,981
Aircraft liability	117,477	0	-16,019	0	-70,067	-9,030	22,361
Liability for ships	25,315	0	0	0	184,967	503	210,785
General liability	3,343,595	-4,613	-132,312	-54,673	311,263	-456,551	3,006,709
Credit	2,306,158	-1,815,817	0	0	400,106	-2,947	887,500
Suretyship	655,123	-93,624	0	0	-255,378	2,497	308,618
Miscellaneous financial loss	337,647	0	-105,072	0	-1,757,061	1,704,165	179,679
Legal expenses	0	0	0	27	-81	0	-54
Assistance	56,189	0	0	0	-3,210	0	52,979
Life business	1,067,501	0	-31,782	0	-69,287	139,711	1,106,143
Unit-linked life	522,782	0	0	0	30,046	0	552,828
Total non-life	158,021,154	-4,479,954	-45,357,335	47,983	32,860,931	-20,903,319	120,189,460
Total life	1,590,283	0	-31,782	0	-39,241	139,711	1,658,971
Total	159,611,437	-4,479,954	-45,389,117	47,983	32,821,690	-20,763,608	121,848,431

The above tables show gross claims incurred as including gross claims paid, gross recourse receivables and retrocession recoveries (including portions relating to recourse receivables). Net claims incurred additionally include movements in the claims provision; in 2009 this resulted in an increase by EUR 30.1m.

Gross claims paid increased by 3.7% from 2008, while the reinsurers' share of claims decreased by as much as 30.1%. Movements in the claims provision increased by as much as 149.8%; this also affected net claims incurred.

30) Change in other technical provisions

The change in other technical provisions relates to changes in the net provision for bonuses, rebates and cancellations and the net provision for unexpired risks in the amount of EUR 1.66m, and to changes in the mathematical provision in the amount of EUR 1.7m. Net technical provisions represent the gross technical provisions less the reinsurers' share of technical provisions. The change in the gross technical provision is described in note 20; in the change in the mathematical provision, it needs to be taken into consideration that the initial amount is increased by amounts pertaining to acquisitions (column no. 3).

31) Change in the technical provision for policyholders who bear the investment risk

The large growth in other technical provisions for policyholders who bear the investment risk is partly a result of the increase in the value of underlying assets (40%) and partly due to new premium income (60%).

(EUR)	2009
Change in technical provisions due to revaluation of assets	3,057,593
Change in technical provisions due to premiums and claims	4,148,202
Total	7,205,795

32) Operating expenses

The Group classifies operating expenses by nature. Compared to 2008, operating expenses increased by 10%.

Breakdown of operating expenses

(EUR)	2009	2008
1. Acquisition costs (commissions)	**43,163,747**	**40,908,643**
2. Change in deferred acquisition costs	**-766,032**	**-2,770,561**
3. Depreciation of operating assets	**1,838,478**	**1,536,966**
4. Labour costs	**22,327,263**	**20,400,584**
- salaries and wages	16,685,805	15,225,328
- social and pension insurance costs	3,501,991	2,841,227
- other labour costs	2,139,467	2,334,029
5. Remuneration of the supervisory board and audit committee and payments under contracts for services	**686,307**	**446,310**
6. Other operating costs	**14,000,626**	**13,346,331**
- entertainment, advertising, exhibition costs	2,250,548	3,392,075
- material and energy costs	1,412,225	1,405,556
- maintenance costs	520,949	894,336
- reimbursement of work-related costs	840,778	874,620
- costs of intellectual and personal services	1,501,040	1,861,333
- taxes, levies and charges independent of profit or loss, except for insurance	669,098	597,324
- transport and communication costs	699,503	475,605
- insurance costs	337,669	174,706
- bank fees	684,883	530,597
- rentals and leases	1,339,579	869,714
- training costs	404,134	334,511
- other service costs	3,340,220	1,935,954
Total	81,250,387	73,868,273

In 2009, other operating expenses, net of acquisition costs (commissions) and changes in deferred acquisition costs (commissions), represented 15.5% of gross premium written (2008: 15.6%).

In 2009, the total costs relating to auditing as charged against the 2009 result were EUR 274,927 (2008: 201,367). In 2009 other expenses for auditing services other than services for the annual audit were EUR 22,092.

33) Other technical expenses

Other technical expenses comprise fees payable to the Insurance Supervision Agency and the Slovenian Insurance Association, and other technical expenses. These mainly comprise contributions for covering claims related to uninsured and unidentified vehicles, and fire brigade charges.

34) Other expenses

Other expenses mainly comprise allowances for impairments in respect of receivables. More than half of recognised impairments of receivables (EUR 3.2m) refer to the subsidiary Sava Tabak.

35) Income tax expense

Income tax expense

(EUR)	2009	2008
Income tax expense as recognised in the IS	**1,309,293**	**5,051,983**
Deferred tax	**-1,438,528**	**-5,373,093**
Non-deductible expenses	1,775	4,808
Change in temporary differences	-693	14
Income from deferred tax arising from a previously unrecognised tax loss	-667,546	-40,815
Income from deferred tax arising from a previously unrecognised tax credit	-3,197,647	-5,337,100
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	2,425,583	0
Total income tax expense in the income statement	-129,235	-321,110

Reconciliation of tax rate

(EUR)	2009		2008	
	%	amount	%	amount
Net profit/loss for the year		-28,216,212		-8,793,754
Income tax expense		-129,235		-129,235
Profit before tax		-28,345,447		-8,922,989
Income tax expenses at statutory tax rate	7.99%	-2,264,006	24.21%	-2,160,465
Non-deductible expenses	-12.08%	2,258,373	-40.63%	3,625,127
Tax exempt income	15.01%	-2,101,993	0.59%	-53,052
Income increasing the tax base	-20.00%	2,799,668	-44.52%	3,780,467
Tax incentives	0.36%	-101,885	1.67%	-148,742
Change in temporary differences	0.00%	-693	0.00%	-149
Balance of expense for (income from) deferred tax due to change in tax rate	0.41%	-117,495	0.06%	-4,963
Income from deferred tax arising from a previously unrecognised tax loss	-1.12%	318,501	0.46%	-40,815
Income from deferred tax arising from a previously unrecognised tax credit	11.75%	-3,331,821	54.43%	-5,337,100
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	-8.44%	2,392,614	-0.17%	15,417
Other	-0.07%	19,502	-0.04%	3,165
Total income tax expense in the income statement	10.05%	-129,235	-3.94%	-321,110

36) Notes to the cash flow statement

The table below shows items of the income statement not included in the cash flow statement (under cash flow from operating activities) but may be presented in other parts of the cash flow statement.

(EUR)	2009	2008
Net profit/loss for the year	**-28,216,212**	**-8,472,644**
Non-monetary items of the income statement not included in the cash flow statement:	**48,144,874**	**23,861,075**
- change in unearned premiums	4,844,812	11,873,257
- change in the provision for outstanding claims	30,122,280	12,058,082
- change in other technical provisions	3,367,476	726,586
- change in the technical provision for policyholders who bear the investment risk	7,205,795	436,745
- operating expenses – amortisation and change in deferred acquisition cost	2,604,510	-1,233,595
Eliminated investment income items	**-10,889,586**	**-12,897,915**
- interest received disclosed under B. a.) 1.	-10,184,372	-12,424,359
- Cash receipts from dividends and participation in the profit of others disclosed under B. a.) 2.	-705,214	-473,556
Eliminated investment expense items	**1,926,417**	**2,818,485**
- Interest paid disclosed under C. b.) 1.	1,926,417	2,818,485
Cash flows from operating activities - income statement items	10,965,493	5,309,001

19.10 Related party disclosures

The Group separately discloses its relationships with the following groups of related parties:

- owners,
- associates,
- Management and Supervisory Board members and employees not subject to the tariff section of the collective agreement,
- other related parties.

Items that are eliminated in the consolidation process are not disclosed in this part.

Owners

The Group does not have business relationships with its largest (25%) shareholder, the Slovenian Restitution Fund.

Associates

Investments in and receivables due from associates

(EUR) 31. 12. 2009		Total
Debt securities and loans granted to associates	gross	1,512,807
	allowance	0
	net	1,512,807
Receivables from policyholders	gross	2,276
	allowance	0
	net	2,276
Receivables for premiums arising out of reinsurance assumed	gross	13,477,236
	allowance	0
	net	13,477,236
Short-term receivables arising out of investments	gross	115,508
	allowance	0
	net	115,508
Total		15,107,827

Liabilities to associates

(EUR) 31. 12. 2009	Total
Liabilities for shares in reinsurance claims	16,697,324
Other short-term operating liabilities	2,930,002
Total (excl. provisions)	19,627,326

Income from and expenses for associated companies

(EUR) 2009	Total
Gross premiums written	58,789,684
Gross claims paid	54,571,313
acquisition costs	-6,623,498
Income from gross recourse receivables (-)	-1,385,760
Interest income	113,885
Income from shares in associates	-86,784
Additional pension insurance premium	58,615

The controlling company and one subsidiary company have concluded a contract with the company Moja naložbe, Maribor to participate in a supplementary pension scheme.

Management and Supervisory Board members and employees not subject to the tariff section of the collective agreement

Remuneration of Management and Supervisory Board members, and of employees not subject to the tariff section of the collective agreement

(EUR	2009	2008
Management Board of the controlling company	515,665	887,827
Supervisory Board of the controlling company	47,323	61,586
Auditing committee of the controlling company	17,442	4,826
Supervisory Boards of subsidiaries	13,221	14,815
Payments to employees not subject to the tariff section of the collective agreement	5,053,485	3,091,299
Total	5,647,136	4,060,353

Remuneration paid to Management Board members in 2009

(EUR)	Gross salary - fixed amount	Perks and other benefits	Total
Mag. Zvonko Ivanušič	186,708	10,647	197,355
Jošt Dolničar	154,885	7,779	162,663
Srečko Čebron	148,630	7,017	155,647
Total	490,222	25,442	515,665

Remuneration paid to members of the Supervisory Board and the Auditing Committee in 2009

(EUR)		Attendance fees	Expenses reimbursed	Perks	Total
Supervisory Board					
Branko Tomažič	Chairman of the Supervisory Board	2,917	1,368	0	4,285
Mateja Lovšin Herič	Deputy Chairman of the Supervisory Board	2,244	66	0	2,310
Mateja Treven	Member of the Supervisory Board	2,244	0	0	2,244
Dr. Slaven Mićković	Member of the Supervisory Board	2,244	66	0	2,310
Mag. Aleš Mirnik	Member of the Supervisory Board	6,943	0		6,943
Nada Zidar	Member of the Supervisory Board	7,273	0	0	7,273
Mag. Marko Pogačnik	prior SB	2,883	0	0	2,883
Dr. Timotej Jagrič	prior SB	5,486	2,014	0	7,500
Dr. Edo Pirkmajer	prior SB	4,805	17		4,822
Anton Sagadin	prior SB	5,359	1,058	336	6,753
Supervisory Board members		42,398	4,588	336	47,323
Auditing Committee					
Mateja Treven	Chairman of the AC	2,059	0	0	2,059
Dr. Slaven Mićković	Member of the AC	1,584	0	0	1,584
Mag. Blanka Vezjak	Member of the AC	5,544	1,174	0	6,718
Dr. Edo Pirkmajer	prior AC	3,604	0	0	3,604
Dr. Timotej Jagrič	prior AC	3,477	0	0	3,477
Auditing Committee members		16,267	1,174	0	17,442

Other related parties

One subsidiary has business relations (marketing, stationery, purchase of real estate) with companies owned by the subsidiary's co-owner. The value of such business totalled EUR 2.4m in 2009.

20 SIGNIFICANT EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 2 February 2010, the controlling company became sole owner of the Kosovan insurer Dukagjini (non-life insurer), and on 31 January 2010 sole owner of Kosovan Dukagjini Life (Life insurer). The fixed portion of the purchase price for the 49-percent share of the non-life insurer of EUR 8.5m is scheduled to be settled at the beginning of 2011. In addition, the purchase price includes a variable portion dependent on the business results of the non-life insurer in 2010 and 2011, with the total purchase price not exceeding EUR 9.5m. Shares were transferred to Sava Reinsurance Company in February 2010. The purchase price for the ownership interest in the life insurance company was EUR 2.2m.

On 3 February 2010 the Board of Directors of the fund management company Sava Invest from 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 Balansirajuči 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 investments.

At the beginning of 2010, also the Macedonian company Slorest was liquidated.

In January 2010, the controlling company carried out a recapitalisation in Sava Montenegro in the amount of EUR 3m.

Appendix – Glossary of selected terms and calculation methodologies for indicators

Administrative expenses ratio $=$

$$\frac{\text{operating expense} - \text{acquisition costs}}{\text{gross premiums written}}$$

Affiliate

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

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 is not a subsidiary. 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

Gross claims incurred (Claims incurred, gross of reinsurance)
Net claims incurred (Claims incurred, net of reinsurance)
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/net - before and after deduction of reinsurance.

Claims paid

Gross claims paid (Claims paid, gross of reinsurance)
Net claims paid (Claims paid, net of reinsurance)
Claims and benefits liquidated during a given period for claims resolved either fully or in part including loss adjustment expenses.
Gross/net - before and after deduction of reinsurance.

Combined ratio

the aggregation of the loss ratio and the expense ratio.

Net (incurred) combined ratio

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

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
(Net) ***expense ratio*** **=**

$$\frac{\textit{operating expenses} \; - \textit{commission income}}{(\textit{net}) \; \textit{earned premiums}}$$

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.

Gross expense ratio **=**

$$\frac{\textbf{\textit{operating expenses}}}{\textbf{gross premiums written}}$$

Gross/net
In insurance terminology, the terms gross and net 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

Insurance density **=**

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

Insurance penetration **=**

$$\frac{\text{gross premiums written}}{\text{gross domestic product}}$$

Liability fund
Assets supporting technical provisions.

Life insurance liability fund
Assets supporting mathematical provisions.

Loss ratio (Incurred loss ratio)
Gross (incurred) loss ratio =

$$\frac{\textit{gross claims incurred}}{\textit{gross premiums earned}}$$

Net (incurred) loss ratio =

$$\frac{\textit{net claims incurred}}{\textit{net premiums earned}}$$

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
Gross paid loss ratio =

$$\frac{\text{gross claims paid}}{\text{gross premiums written}}$$

Net paid loss ratio =

$$\frac{\text{net claims paid}}{\text{net premiums written}}$$

Premiums earned
Gross premiums earned (Premiums earned, gross of reinsurance)
Net premiums earned (Earned premiums, net of reinsurance)
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/net - before and after deduction of reinsurance.

Premiums written
Gross premiums written (Premiums written, gross of reinsurance)
Net premiums written (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.
Gross/net - before and after deduction of reinsurance.

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.

Retention ratio =

$$\frac{net\ premiums\ written}{gross\ premiums\ written}$$

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 any agreement with any third parties under recourse issues, court decisions, or for credit business – after settlement of insurance claim.

Subsidiary entity
An entity that is controlled by an investor (through ownership of more than 50 percent 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
– net claims incurred
– 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.