Sava Reinsurance Company d.d.

ANNUAL REPORT 2010

English language translation of the Annual Report of the Sava Re Group and Sava Reinsurance Company 2010
(Letno poročilo Skupine Sava Re in Pozavarovalnice Sava, d.d. 2010)

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Zvonko Ivanušič

Jošt Dolničar

Srečko Čebron

Mateja Treven

DECLARATION OF THE MANAGEMENT BOARD

»To the best of our knowledge and in accordance with the applicable reporting principles, the separate and consolidated financial statements give a true and fair view of the assets, liabilities, financial position, profit or loss for the year, and of the cash flow of the Company and the Group. The financial report gives a fair view of the development and performance of operations and the financial position, together with a description of the principal opportunities and risks associated with the expected development of the Company and the Group.«

Zvonko Ivanušič,
Chairman of the Management Board

Jošt Dolničar,
Member of the Management Board

Srečko Čebron,
Member of the Management Board

Mateja Treven,
Member of the Management Board

Ljubljana, 15 April 2011

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We are a bridge
between nature and man
between them and you.

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SUMMARY OF KEY PERFORMANCE INDICATORS[1]

(EUR)	Sava Re Group		Sava Reinsurance Company	
	2010	2009	2010	2009
Gross premiums written	**259,103,050**	**251,416,588**	**142,861,784**	**147,082,330**
Year-on-year change	3.1%	9.5%	-2.9%	9.2%
Gross premiums written – Slovenia	129,022,307	135,930,348	71,450,127	85,450,863
Gross premiums written – international	130,080,743	115,486,240	71,411,657	61,631,467
International premium as % of total GPW	50.2%	45.9%	50.0%	41.9%
Gross claims paid	**131,269,604**	**149,390,360**	**78,092,872**	**100,807,961**
Year-on-year change	-12.1%	-3.7%	-22.5%	-12.1%
Net incurred loss ratio	60.4%	68.0%	66.2%	75.8%
Operating expenses including reinsurance commission income	**82,807,924**	**76,532,093**	**37,167,769**	**35,438,665**
Year-on-year change	8.2%	8.0%	4.9%	-2.5%
Net expense ratio	35.7%	35.2%	30.1%	29.8%
Net combined ratio	**96.1%**	**103.2%**	**96.3%**	**105.5%**
Net investment income (inv. income – inv. expenses)	**14,715,167**	**-1,350,736**	**2,548,285**	**-6,394,408**
Year-on-year change	1189.4%	65.2%	139.9%	-151.7%
Realised investment return	3.6%	-1.4%	0.8%	-2.3%
Profit/loss, net of tax	**5,520,670**	**-28,216,212**	**7,193,724**	**-12,598,645**
Year-on-year change	119.6%	-233.0%	157.1%	-57.6%
Comprehensive income	4,113,237	-17,691,584	6,143,048	-3,744,882
Total assets	**578,385,408**	**560,711,611**	**418,350,613**	**404,105,057**
Change on 31 December	3.2%	4.7%	3.5%	1.2%
Shareholders' equity	**154,684,609**	**161,677,406**	**156,138,328**	**149,995,279**
Change on 31 December	-4.3%	-7.1%	4.1%	-2.4%
Net technical provisions	**307,179,073**	**277,337,473**	**156,415,674**	**144,578,495**
Change on 31 December	10.8%	22.2%	8.2%	18.9%
ROE (profit/loss for the period/average equity)	3.5%	-16.8%	4.7%	-8.3%
Book value of shares	16.52	17.27	16.68	16.02
Net earnings/loss per share	0.59	-3.01	0.77	-1.35
No. of employees at 31 December (full-time equivalent basis)	1,580	1,449	65	61

The Group ended the financial year 2010 with a profit. The performance of subsidiaries has improved from 2009; however, insurance operations are yet to achieve adequate business results. Because of our strategy to limit the growth of very unprofitable lines of business, gross premiums have not grown significantly on the Group level, while target segments did reach budgeted growth rates. The net expense ratio 2010 remained on the 2009 level. On a smaller scale, Group members continued to align their reserving policy to Group guidelines. The total Group return on equity in 2010 was 3.5%, slightly better than budgeted.

2010 was a turnaround year for the Sava Re Group.

1. The calculation of ratios is explained in the appended glossary.

For Sava Reinsurance Company 2010 was a turning point when the Company again stabilised core business results and surpassed planning figures. There was a slight drop in reinsurance premiums, in line with the strategy of decreasing exposure to the Slovenian insurance market. Sava Reinsurance Company grew foreign-sourced business by 15.9% as a result of targeted marketing activities. After two years of heavy losses, Sava Reinsurance Company ended 2010 with a combined ratio of 96.3%, an improvement of 9.2 percentage points from 2009. This improvement is partly a result of the light loss year 2010 and partly a result of measures taken to improve the profitability of reinsurance portfolios over the past two years. Positive results were achieved also with investments, which means that fewer impairments needed to be made than in the past two years.

1 Statement of the Chairman of the Management Board

Introduction

When you know what you are working towards, you see your objective clearly and you always find a way to get there.

The past three years have been difficult ones. Our decisions and conduct have been put to the test, and so have our views of the future. Like everyone else, our Group has faced operational difficulties resulting from the poor economy. We accepted the challenge of solving these problems with a systematic approach to managing various types of risk and set clear priorities for controlling them.

Stabilization of Group results and curbing risks associated with the various systems of the companies in the Group

The Sava Re Group was formed over the past four years. It extends over the area of the former Yugoslavia and in addition to the reinsurance company includes nine independent insurance companies and two associate companies (an insurance company and a pension company). In this time of formation and growth, we have survived various childhood diseases, which were further exacerbated by the economic crisis, and the major (100-year) losses that hit Slovenia had an additional negative impact on our operating results.

Cleansing the organism is a prerequisite for a healthy constitution. The Sava Re Group was making intensive efforts to do so even before the onset of the crisis, and continued in that direction in the past year. We paid particular attention to intensifying collection activities relating to premiums, clearing old bad debts and bringing technical provisions in line with Group standards. An appropriate choice of risks and a focus on classes of insurance that will be able to generate profits will also be important factors in achieving future results.

We are pleased that we have already been able to detect signs of improvement in 2010 in all areas of our operations that generate results: reinsurance, insurance and investments.

In the future we will continue to focus on improving business processes, seeking profitable opportunities on individual target markets, selecting the most appropriate sales avenues and providing services that exceed our clients' expectations.

The Sava Re Group has unique competitive advantages.

The Sava Re Group is an increasingly important player in the insurance industry in the region. Its advantage over the majority of international insurance groups is its familiarity with the characteristics of the individual markets and the local legislation, familiarity with the needs of policyholders on those markets, and thus easier development of products adapted to the characteristics of the individual markets and easier transfer of good practices within the Group, since the language barriers are minimal.

The Sava Reinsurance Company is a medium-sized enterprise in its region, while at a global level we are one of the smaller reinsurance companies. This can be used to our advantage, since we react more quickly and are more flexible.

Financial stability

Even during the most trying times, the Company maintained financial stability. The Sava Reinsurance Company is a financially strong institution in the long term, which was confirmed at the beginning of November 2010, when the rating agency Standard & Poor's reaffirmed our A– rating with a stable medium-term outlook.

Growth on the international reinsurance market

In the past year, Sava Reinsurance Company grew slightly above expectations. While premiums collected abroad increased, domestic premiums fell by less than we forecast.

Our double exposure to Slovenian cedants, which is expressed through participation in reinsurance coverage and through equity shareholding in subsidiary and associate companies, was decreased according to

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plan, by decreasing the proportional coverage of those companies.

We posted major growth on foreign markets, even above our targets, which accords with our strategy. Foreign premiums thus reached the designated limit of 50% in the portfolio structure in 2010. In planning growth, Sava Reinsurance Company focuses on markets with the highest current growth potential. These are above all the Asian markets, where we have already succeeded in increasing our presence (Malaysia, China, South Korea, Japan), and we hope to penetrate new markets in this part of the world.

Responsibility to the Company

We build relationships within the Company responsibly, sincerely and respectfully. Our value system is based on mutual respect and long-term successful collaboration with all of the Group's stakeholders.

A message to our Shareholders

You have demonstrated trust by becoming a shareholder. Events on global financial markets over the last few years have left their mark on the Slovenian economy as well. In the last three years the Slovenian stock index has mainly fallen – the value of the majority of Slovenian shares and that of Sava Reinsurance Company shares has decreased. The movement of the share price has been influenced by the conditions on the capital market, which posted negative trends and low liquidity in Slovenia from 2008 to 2010, as well as the Company's operating results in 2008 and 2009.

As at 31 December 2010 the market price of POSR shares was at 48.0% of book value. I estimate that the share value on the capital market is significantly lower than its real value and that our future operating results will bear this out. As stated above, despite the unstable operating environment, the 2010 operating results were above expectations and I believe that our future results will reflect positive trends in all areas of operations.

People are our greatest asset

We are aware of the importance of know-how that is joined together in our Group. We have a clear vision and highly motivated employees. We are bound by tradition, and respect knowledge and professionalism. We know that the people who work in the Sava Re Group are our most profitable investment.

Looking ahead

With self-confidence and a positive approach, we are accomplishing our mission to provide security, a good quality of life, and a profitable future. In the future we will continue to operate in a transparent manner, with integrity and due diligence, and thus create an organisation that will be able to create added value in the long term for all of its stakeholders.

Zvonko Ivanušič
Chairman of the Management Board of
Sava Reinsurance Company

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2 Sava Reinsurance Company – Basic Details

2.1 Company profile of Sava Reinsurance Company

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 Dec 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.	

2.2 Governing bodies of the Company

THE 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 order to transact business, the Company must be represented jointly by at least two members.

On 14 October 2008, the Supervisory Board elected Zvonko Ivanušič Chairman of the Management Board. The term of office of Zvonko Ivanušič and Jošt Dolničar started on 31 December 2008, while Srečko Čebron started his function of Board Member on 1 February 2009.

In its meeting on 5 October 2010, the Supervisory Board appointed as fourth Member of the Sava Re Management Board Mateja Treven, who had served on the Supervisory Board and chaired the Audit Committee since July 2009. Mateja Treven was employed by the Company as Authorised Representative of the Management Board on 15 December 2010 for the period until Mateja Treven obtained an Insurance Supervision Agency licence for performing the function of Member of the Management Board. This licence was issued by the Insurance Supervision Agency on 3 February 2011.

Members of the Management Board as at 31 December 2010:

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

Notes on membership of management or supervisory bodies of third parties:

The members of the Management Board are members of no management or supervisory bodies of third parties.

THE SUPERVISORY BOARD

Pursuant to the Company's Articles of Association and the applicable legislation, the Supervisory Board is composed of six members, of which four (shareholder representatives) are elected by the Company's General Meeting, and two (employee representatives) are elected by the Workers' Council, which subsequently informs the General Meeting of its decision. Supervisory Board members are appointed for a term of up to four years and may be re-elected.

Four Supervisory Board members (shareholder representatives) started their four-year term of office in July 2009. The two employee representatives of the Supervisory Board started their four-year term of office in June 2007.

Mateja Treven, Member of the Supervisory Board (shareholder representative) and Chairperson of the Audit Committee of Sava Re's Supervisory Board, tendered her irrevocable notice of resignation from both functions on 15 December 2010, prior to the expiration of her 4-year term of office. This resignation was tendered because on 5 October 2010, Mateja Treven was appointed Member of the Management Board of Sava Reinsurance Company.

As of 15 December 2010, the Supervisory Board has had again five members.

Because of the resignation of Mateja Treven as Chairperson of the Audit Committee, on 15 December 2010 the Supervisory Board appointed Mateja Lovšin Herič as third member and Chairperson of the Audit Committee.

Supervisory Board Members as at 31 December 2010:

Chairman: Branko Tomažič
Deputy Chairperson: Mateja Lovšin Herič
Member: Slaven Mićković
Member (employee representative): Aleš Mirnik
Member (employee representative): Nada Zidar

Notes on membership of management or supervisory bodies of third parties:

Branko Tomažič:
- KAD, d.d., Dunajska cesta 119, Ljubljana – Supervisory Board Member
- Daimond, d.d., Žnidarčičeva ulica 19, Šempeter pri Gorici – Supervisory Board Member

- Slaven Mićković:
- Abanka Vipa, d.d., Slovenska cesta 58, Ljubljana – Supervisory Board Member

Members of the Supervisory Board Audit Committee as at 31 December 2010:

Chairperson: Mateja Lovšin Herič
Member: Slaven Mićković
External member: Blanka Vezjak

GENERAL MEETING OF SHAREHOLDERS

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

3 Significant Events in 2010

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

- On 31 January 2010, the newly acquired shares of the Kosovan company Illyria Life (Kosovo) were transferred to Sava Reinsurance Company; the newly acquired shares of Illyria (Kosovo) were transferred on 1 February 2010. Sava Reinsurance Company thus became sole owner of the two companies.

- On 3 February 2010, the Board of Directors of the fund management company Sava Invest, Macedonia, adopted the decision to wind up the legal entity. This decision triggered the proceedings for the liquidation of the investment funds Sava Invest Rasteči and Sava Invest 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 ownership interest.

- On 30 June 2010, the 23rd General Meeting was held. The Meeting was presented the annual report for 2009 with the auditor's opinion and written report of the Supervisory Board to the annual report and the annual report on internal auditing for 2009 with the opinion of the Supervisory Board. The General Meeting decided on the discharge for 2009 to the Management Board and the Supervisory Board, and on amendments to the Articles of Association and the General Meeting's Rules of Procedure. The Auditor appointed for the 2010 financial year is KPMG Slovenija, podjetje za revidiranje d.o.o., Železna cesta 8a, Ljubljana. No challenging actions were announced in the General Meeting.

- On 7 July 2010, the Ljubljana District Court, by decision no. 847/2010, initiated bankruptcy proceedings against the company Poteza Naložbe d.o.o. Sava Reinsurance Company has a claim against Poteza naložbe d.o.o. based on commercial notes in the amount of EUR 359,321. Because of the bankruptcy proceedings initiated against Poteza Naložbe d.o.o., on 7 July 2010 Sava Reinsurance Company recognised an impairment loss on the full amount of the Poteza Naložbe commercial notes. On 9 September 2010, the District Court, by decision no. St 1106/2010, announced the proposal for compulsory settlement for the company Poteza Skupina d.d., against who Sava Reinsurance Company has a claim of EUR 1,528,615 based on bond investments. Also in respect of this investment, Sava Reinsurance Company recognised an investment loss for the full amount in the last quarter 2010.

- In August 2010, the Macedonian subsidiary Sava Invest was stricken off the Central Register of the Republic of Macedonia.

- In its meeting on 5 October 2010, the Supervisory Board appointed as fourth Member of the Sava Re Management Board Mateja Treven, who had served on the Supervisory Board and chaired the Audit Committee since July 2009. On 5 October 2010, Mateja Treven tendered her resignation as Member of the Supervisory Board and Chairperson of the Audit Committee at Sava Reinsurance Company.

- In autumn 2010, the Kosovan subsidiaries Dukagjini and Dukagjini Life took over the corporate image of the Sava Re Group and were renamed Illyria and Illyria Life.

- In October the subsidiary Sava Montenegro established the vehicle inspection company Sava Car.

- In November 2010, the rating agency Standard & Poor's published a new rating report for Sava Reinsurance Company, reaffirming its long-term credit and financial strength rating of A– with a stable outlook.

- In 2010 the following recapitalisations of Group members were carried out: Sava osiguranje (EUR 1.3m), Sava Montenegro (EUR 4.0m), Sava životno osiguranje (EUR 0.3m), Velebit usluge (EUR 0.8m).

S&P reaffirmed its A– rating with a stable outlook.

4 Significant Events After the Reporting Date

- On 31 January 2011, the controlling company received a request from the Securities Market Agency that the companies:
  - Zavarovalnica Triglav, d.d., Miklošičeva cesta 19, Ljubljana,
  - Slovenska odškodninska družba, d.d., Mala ulica 5, Ljubljana,
  - Nova kreditna banka Maribor, d.d., Vita Kraigherja 4, Maribor,
  - Aerodrom Ljubljana, d.d., Zgornji Brnik 130A, Brnik-Aerodrom,

being shareholders of the controlling company, who are deemed to act in concert, issue a statement on the facts and circumstances relevant for a decision of the Securities Market Agency relating to a potential obligation on behalf of the listed companies to make a takeover bid for POSR shares in accordance with the Takeover Act. Pozavarovalnica Sava, being the target company in the proceedings, examined the request and issued a statement within the given time limit. At the time of preparing this report, the Securities Market Agency has yet to conclude the proceedings.

- Pursuant to the decision of the Supervisory Board of 5 October 2010 and on the basis of the licence issued by the Insurance Supervision Agency, on 3 February 2011, for performing the function of Management Board Member, Mateja Treven started her 5-year term of office as Management Board Member in the controlling company on 3 February 2011.

- At the beginning of February 2011, the controlling company recapitalised the subsidiary Sava životno osiguranje Serbia with EUR 320 thousand.

- At the end of February, the controlling company received a claim from the designers of its former logo in the amount of EUR 450 thousand. The proceedings have not concluded by the time this report is being finalised but the controlling company does not expect any financial obligations in this regard.

- In mid March 2011, the controlling company adopted a resolution to recapitalise its subsidiary Sava Tabak, Macedonia with EUR 2.5m.

- Furthermore, at the end of March 2011, the controlling company adopted a resolution to recapitalise its subsidiary Velebit usluge, Croatia with EUR 1.5m.

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5 Report of the Supervisory Board

COMPOSITION OF THE SUPERVISORY BOARD

Pursuant to the Company's Articles of Association and the applicable legislation, the Supervisory Board is composed of six members, of which four (shareholder representatives) are elected by the Company's General Meeting, and two (employee representatives) are elected by the Workers' Council, which subsequently informs the General Meeting of its decision. Supervisory Board members are appointed for a term of up to four years and may be re-elected.

Four Supervisory Board members (shareholder representatives) – Branko Tomažič (Chairman), Mateja Lovšin Herič (Deputy Chairperson), Slaven Mićković (Member) and Mateja Treven (Member) – started their four-year term of office in July 2009. The two employee representatives of the Supervisory Board – Nada Zidar (Member) and Aleš Mirnik (Member) started their four-year term of office in June 2007.

Changes in its composition 2010

Mateja Treven, Member of the Supervisory Board (shareholder representative) and Chairperson of the Audit Committee of Sava Re's Supervisory Board, tendered her irrevocable notice of resignation from both functions on 15 December 2010, prior to the expiration of her 4-year term of office. This resignation was tendered because on 5 October 2010, Mateja Treven was appointed Member of the Management Board of Sava Reinsurance Company.

As of 15 December 2010, the Supervisory Board has had again five members.

ACTIVITIES OF THE SUPERVISORY BOARD

The Supervisory Board met 13 times in 2010. In the course of the year, the Supervisory Board, within its statutory mandate, discussed all relevant aspects of the operations and activities of Sava Reinsurance Company. Discussions about business-related matters were also attended by Management Board members, those about certain agenda items also by other professionals employed with the Company.

Early in 2010, the Supervisory Board approved the business plan and budget for the Company and the Group for 2010.

In 2010 the Supervisory Board spent more time on a thorough discussion of the strategic development of Sava Reinsurance Company and the Sava Re Group, and in mid 2010 it adopted the strategic guidelines for 2011–2015. The Company has used a dynamic planning model, which uses the Group's strategic plan as its basis, also in the past.

In 2010, the Supervisory Board, within its statutory mandate, also oversaw the Company's internal audit. It approved the annual internal audit plan for 2010, and the annual internal audit report for 2010–2012. It also considered the internal audit reports for the second half of 2009, and considered and adopted the annual internal audit report for 2009. It considered the internal audit report for the first half of 2010 and the report of Group Internal Audit for the period 1 July–30 September 2010. All documents relating to internal auditing were presented by the Director of Group Internal Audit. The Supervisory Board considers that all internal audit reports were independent and objective, and that comments and findings of the internal auditor were taken into consideration by the Management Board. It further notes that internal audit found no significant or material irregularities in the Company's operations.

In addition to the above-mentioned documents, in 2010 the Supervisory Board also considered the Unaudited Annual Report of Sava Reinsurance Company and the Sava Re Group 2009, as well as its interim reports for the periods January–March 2010 and January–September 2010 and the Unaudited Financial Report of the Sava Re Group and Sava Reinsurance Company for the Period January–June 2010.

In 2010, the Supervisory Board adopted the Annual Report of Sava Reinsurance Company and the Sava Re Group 2009, and presented it at the General Meeting together with the Report on Internal Audit 2009, the Supervisory Board's own report for 2009, and its own opinion on the Annual Report 2009.

Together with the Management Board, it proposed resolutions to be adopted by the General Meeting, and pursuant to the Companies Act ZGD-1, the Supervisory Board proposed to shareholders an external auditor for the 2010 financial year.

Also in 2010, the Supervisory Board closely monitored the Company's investment activities, especially as capital market conditions worsened in 2008 and 2009. The Management Board has the duty to report to the Audit Committee and the Supervisory Board on Sava Reinsurance Company's investment portfolio.

In addition to overseeing the operations of Sava Reinsurance Company as the controlling company, the Supervisory Board more intensively monitored developments in the subsidiaries together with proposals of the Management Board to satisfy the capital requirements of the subsidiaries Sava osiguranje, Belgrade, Sava Montenegro, Podgorica, Sava životno osiguranje, Belgrade and Velebit usluge, Zagreb.

In accordance with its powers, the Supervisory Board decided to enlarge the Management Board due to the increased complexity of operations of the Company and the Sava Re Group, and appointed a fourth member to the Management Board together with amending the Rules on the Management Board.

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 the statutory requirements.

AUDIT COMMITTEE

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 joint-stock company), appointed a three-member Audit Committee. Apart from that, it appointed no other permanent committee.

Composition of the Audit Committee

On 20 July 2009, the Supervisory Board appointed a new Audit Committee in the following composition: Mateja Treven (Chairperson), Slaven Mićković (Member), Blanka Vezjak (Member). Blanka Vezjak is an external member with many years experience in auditing.

Upon the resignation of Mateja Treven as Member and Chairperson of the Audit Committee on 15 December 2010, the Supervisory Board appointed Mateja Lovšin Herič.

Activities of the Audit Committee

The Audit Committee of the Supervisory Board met eight times in 2010.

The Audit Committee considered all relevant issues within its terms of reference and offered the Supervisory Board professional assistance by giving opinions and preparing proposals. The Supervisory Board is of the opinion that the composition of the Audit Committee is appropriate and that it had all prerequisites for working effectively.

ANNUAL REPORT 2010

Within its statutory mandate, the Supervisory Board examined the Annual Report of Sava Reinsurance Company and the Sava Re Group 2010. It noted that it was clear and transparent, as well as fully compliant with contents and disclosure requirements under the Companies Act, International Accounting Standards and specific regulations (Insurance Act) and implementing regulations adopted on the basis of such specific regulations.

The Supervisory Board was also presented with the opinion of the auditor KPMG Slovenija, d.o.o., who audited the Annual Report of the Sava Re Group and Sava Reinsurance Company, and carried out audits in the Group subsidiary companies. Based on its examination of the Annual Report, as well as on the opinion of the external auditor and that of the Audit Committee, the Supervisory Board considers that the Annual Report gives a true and fair view of assets and liabilities, the financial position and cash flows of Sava Reinsurance Company and the Sava Re Group. The Supervisory Board hereby approves the Annual Report of Sava Reinsurance Company 2010.

IN CONCLUSION

Even though the business environment remains very difficult and competition is becoming more intense, the

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Supervisory Board is optimistic about the future of the Sava Re Group. Our optimism largely rests on the good organisation of the Company, its human capital as well as on the solid business results of Sava Reinsurance Company. In 2011 we expect to see continued improved profitability of the Sava Re Group.

The Group has a clear development strategy towards accelerated growth. It is sufficiently staffed to implement this ambitious strategy. In addition to its day-to-day activities, the Supervisory Board will give special attention to overseeing the implementation of strategic goals and will, within its means and powers, offer the Management Board its full support.

This report has been prepared in accordance with Article 282 of the Companies Act (ZGD-1).

Branko Tomažič
Chairman of the Supervisory Board of
Sava Reinsurance Company

6 Opinion of the Appointed Actuary to the Annual Report

I have performed an actuarial investigation of the amount of technical provisions set aside by Sava Reinsurance Company as at 31 December 2010. The actuarial investigation was performed pursuant to the Insurance Act (ZZavar) and relevant executive acts.

My task was to verify whether proper records have been kept by the Company for evaluating the liabilities of its reinsurance operations. Adequate technical provisions are the responsibility of the Company's Management Board; the appointed actuary has to express an opinion on the adequacy of technical provisions relative to the liabilities of the Company arising out of or in relation to reinsurance contracts, and to verify compliance with statutory regulations. In respect to reinsurance contracts entered into during the year, it was my duty to establish whether the premiums and income earned thereon are sufficient, on reasonable actuarial assumptions, and taking into account the other financial resources of the Company that are available for the purpose, to enable the Company to meet its commitments in respect of these contracts. It is also my duty to verify the adequacy of the liability fund; to determine the amount of the required solvency margin of the Company and the effect of the Company's business strategy on the amount of the required solvency margin and on the capital adequacy position.

I am convinced that the actuarial investigation carried out provides sufficient ground for my opinion below.

The records for the valuation of reinsurance liabilities of Sava Reinsurance Company are adequate. Technical provisions have been set aside in compliance with regulations and in adequate amounts regarding the liabilities arising out of or in relation to reinsurance contracts. Premiums for reinsurance contracts and other financial resources of the Company available for this purpose, on reasonable actuarial assumptions, enable Sava Reinsurance Company to continuously meet its commitments in respect of these contracts.

The value of the liability fund exceeds gross technical provisions. Liability funds are invested in compliance with regulations on limitations and diversification. By applicable law, the available solvency margin of Sava Reinsurance Company greatly exceeds its required solvency margin.

Based on the above, I hereby give my unqualified opinion.

Ljubljana, 9 March 2011

Katja Vavpetič
Appointed Actuary of Sava Reinsurance Company

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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 of 8 December 2009 ("Code"), except for the deviations expressly explained below.

Recommendation 1: The goals that the Company pursues are not expressly laid down in its Articles of Association. Instead, they are laid down in its business plan and budget, as well as in its medium-term strategic plan.

Recommendations 2, 2.1, 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 2011 the Company is planning to draw 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 the post and couriers. The policy which has been in use so far has not impeded the functioning of the Supervisory Board. If need arises, the Supervisory Board will start using information technology for the said purpose, as recommended by the Code.

Recommendation 8.7: 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 stipulate additional requirements for the position of Management Board member. In addition, Management Board members must obtain a licence from the Insurance Supervision Agency before they can start their term of office. Such licence is being issued only in relation to carrying out the function of board member in 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 it 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. Likewise, all members also participate in all Supervisory Board 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 are 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 Nomination Committee was appointed only until the election of new Supervisory Board members (shareholder representatives) in the General Meeting.

Recommendation 20.2: The Company does not have a single document for the prevention of insider trading. The content of recommendation 20.2 is largely set out in internal acts or implemented in practice. In 2011 the Company will bring this area in line with recommendation 20.2 of the Code.

This statement relates to the Company's operations from 1 January 2010 up to the date of the statement.

Ljubljana, 15 April 2011

The Management Board of
Sava Reinsurance Company
Zvonko Ivanušič, Chairman

The Supervisory Board of
Sava Reinsurance Company
Branko Tomažič, Chairman

Jošt Dolničar, Member

Srečko Čebron, Member

Mateja Treven, Member

8 Statement on Company Management Pursuant to Article 70 of the Companies Act (ZGD-1)

Sava Reinsurance Company ("the Company"), a company traded on an organised securities market, hereby makes the following statement pursuant to Article 70(5) of the Companies Act (ZGD-1):

1. Compliance with the Corporate Governance Code and other management details

The Company uses the Corporate Governance Code for Public Joint-Stock Companies of 8 December 2009 "the Code", except for the deviations expressly explained in the Statement of Compliance with the Corporate Governance Code for Public Joint-Stock Companies of 31 March 2011, which forms an integral part of this annual report. The wording of 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 Board, rules of procedure of the Management Board, and certain other internal acts pertaining to Group management. The Articles of Association and rules of procedure of the Supervisory Board are available from the Company's official website (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 financial reporting. 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, foreign counterparties and retrocessionaires);
- 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);
- control of the supervisors of employees handling financial information.

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, and at controlling the completeness and accuracy of data entry and processing.

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 Board, the Audit Committee and the Company's Supervisory Board.

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 as adopted by the EU and the controlling company's guidelines, within the time limits set out in the Company's financial calendar. Reporting packages have inbuilt cross controls that ensure information consistency, and are also reviewed 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 General Meeting decides the following:
- adoption of the annual report, unless adopted by the Supervisory Board or if the Management Board and Supervisory Board have left the decision about the adoption of the annual report to the General Meeting of Shareholders;
- the use of distributable profit, at the proposal of and based on a report by the Management Board;

- appointment and removal of Supervisory Board members;
- granting of discharges to the Management and Supervisory Board members;
- adoption of amendments to the Articles of Association;
- measures to increase and reduce the capital;
- dissolution of the Company and its transformation in terms of status;
- appointment of the auditor, at the proposal of the Supervisory Board; and
- other matters in compliance with the law and these 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 publishes calls for the General Meeting through the SEOnet system provided by the Ljubljana Stock Exchange and through its website, and in printed form in the daily newspaper Delo or Finance or Dnevnik or in the Official Gazette of the Republic of Slovenia.

Participation at the General Meeting:
To attend the General Meeting and exercise voting rights, shareholders must send the Company a registration form no later than by the end of the fourth day prior to the session of the General Meeting and must be registered holders of shares listed in the central register of book-entry securities at the end of the fourth day prior to the session of the General Meeting. 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

THE MANAGEMENT BOARD IN 2010

Composition of the Company's Management Board:
- Zvonko Ivanušič, Chairman of the Management Board
- Jošt Dolničar, Member
- Srečko Čebron, Member

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

Major responsibilities of the Management Board:
- to run and organise the operations of the Company and the Group;
- to represent the Company;
- to be responsible for legality of operations of the Company;
- to adopt the development strategy of the Company and Group, together with the Supervisory Board;
- to approve the annual business plan and budget of the Company and Group, 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 distributable profit;
- to implement the resolutions adopted by the General Meeting and the Supervisory Board.

THE SUPERVISORY BOARD IN 2010

Composition of the Company's Supervisory Board:
- Branko Tomažič, Chairman
- Mateja Lovšin Herič, Deputy Chairperson
- Mateja Treven, Member (up until 15 December 2010)
- Slaven Mićković, Member
- Nada Zidar, Member (employee representative)
- Aleš Mirnik, Member (employee representative)

On 3 July 2009, the General Meeting elected, for a four-year term of office, the Supervisory Board in the above composition to start their term of office on 14 July 2009. Mateja Treven, Member of the Supervisory

Board (shareholder representative) and Chairperson of the Audit Committee of Sava Re's Supervisory Board, tendered her irrevocable notice of resignation from both functions on 15 December 2010, prior to the expiration of her 4-year term of office. This resignation was tendered because on 5 October 2010, Mateja Treven was appointed Member of the Management Board of Sava Reinsurance Company.

Employee representatives were appointed by the Workers' Council, also for a four-year term of office, starting 10 June 2007.

Mode of operation of the Supervisory Board:

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

Major responsibilities of the Supervisory Board:

- to approve the annual business plan and budget of the Company and the Group 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 oversee 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 and the Group;
- 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 review the proposal regarding appropriation of the distributable 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 joint-stock company), appointed a three-member Audit Committee. Apart from that, it appointed no other permanent committee.

THE AUDIT COMMITTEE

On 20 July 2009, the Supervisory Board appointed a new Audit Committee in the following composition:

- Mateja Treven, Chairperson (up until 15 December 2010)
- Mateja Lovšin Herič, Chairperson (as of 15 December 2010)
- Slaven Mićković, Member
- Blanka Vezjak, Member
- Upon the resignation of Mateja Treven as Member and Chairperson of the Audit Committee on 15 December 2010, the Supervisory Board appointed Mateja Lovšin Herič.

Mode of operation of the Supervisory Board's Audit Committee:

The duties and terms of reference of the Audit Committee of the Supervisory Board are set out the Companies Act (ZGD-1), the Audit Committee's charter and rules of procedure, the Supervisory Board's rules of procedure, and other autonomous legal acts (e.g., Recommendations for Audit Committees).

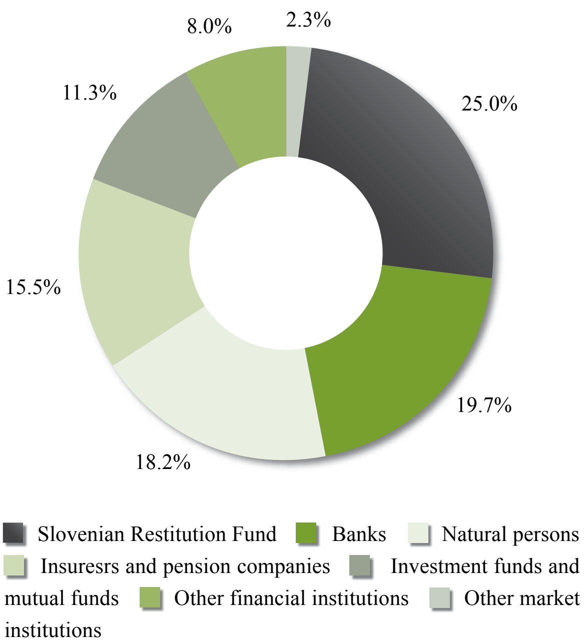
Major responsibilities of the Audit Committee of the Supervisory Board:

- to monitor the efficiency of the Company's internal controls, internal 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 review and monitor the independency of the auditor of the Company's annual report, in particular if additional non-auditing services are provided by it;
- to propose to the Supervisory Board a candidate auditor of the Company's 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 in determining the main areas of auditing;

- to participate in the drafting of the contract between the auditor and the Company;
- to co-operate with the auditor in auditing the Company's annual report, 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 2010.

1. Breakdown of share capital



A list of the top ten shareholders as at year-end 2010 including the number of 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 stakeholders under the Takeover Act (ZPre-1)

As at year-end 2010, Sava Re's qualified stakeholders as defined in Article 77 of the Takeover Act were the following:

- Slovenian Restitution Fund (SOD): 25.0%
- Abanka d.d.: 7.0%
- Poteza naložbe d.o.o. – in bankruptcy proceedings: 5.0%

4. Holders of securities carrying special control rights

Sava Reinsurance Company issued no securities carrying special control rights.

5. Employee share schemes

Sava Reinsurance Company has no employee share scheme.

6. Restrictions of voting rights

Sava Reinsurance Company does not restrict voting rights.

7. Shareholders' agreements restricting share or voting right transferability

Sava Reinsurance Company is not aware of such agreements between shareholders.

8. Rules on appointment/removal of members of management/supervisory bodies and on amendments to the Articles of Association

- appointment/removal 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

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that meet the legally prescribed conditions set out in the Companies Act and the Insurance Act may be appointed members of the Sava Reinsurance Company 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/removal of Supervisory Board members

Pursuant to its Articles of Association, the Supervisory Board supervises the Companies operations and performs other tasks in accordance with the applicable regulations and the Company's Articles of Association and other internal acts. The Supervisory Board is composed of six members, of whom four members (shareholders representatives) are elected by the Company's General Meeting of Shareholders, and two members (employee representatives) are elected by the Company's workers council, which is to inform the General Meeting of Shareholders of its resolution. Shareholder representatives of the Supervisory Board 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 the Supervisory Board. Supervisory Board members who are shareholder representatives may be recalled by the General Meeting for reasons as prescribed by law.

- amendments to the Articles of Association

The Company'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 Company's 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

The Company protects itself against the risk of losses by means of reinsurance of its own account (retrocession). Retrocession contracts 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, retrocessionaires could terminate their relevant contracts.

11. Agreements between an entity and members of its management/supervisory bodies on compensation in case of (i) resignation, (ii) dismissal without cause or (iii) employment relationship termination due to any bid specified in the Takeover Act.

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.

Ljubljana, 15 April 2011

The Management Board of
Sava Reinsurance Company d.d.
Zvonko Ivanušič, Chairman

The Supervisory Board of
Sava Reinsurance Company d.d.
Branko Tomažič, Chairman

Jošt Dolničar, Member

Srečko Čebron, Member

Mateja Treven, Member

When riding the winds,
we always do so with a view
to a smooth landing.

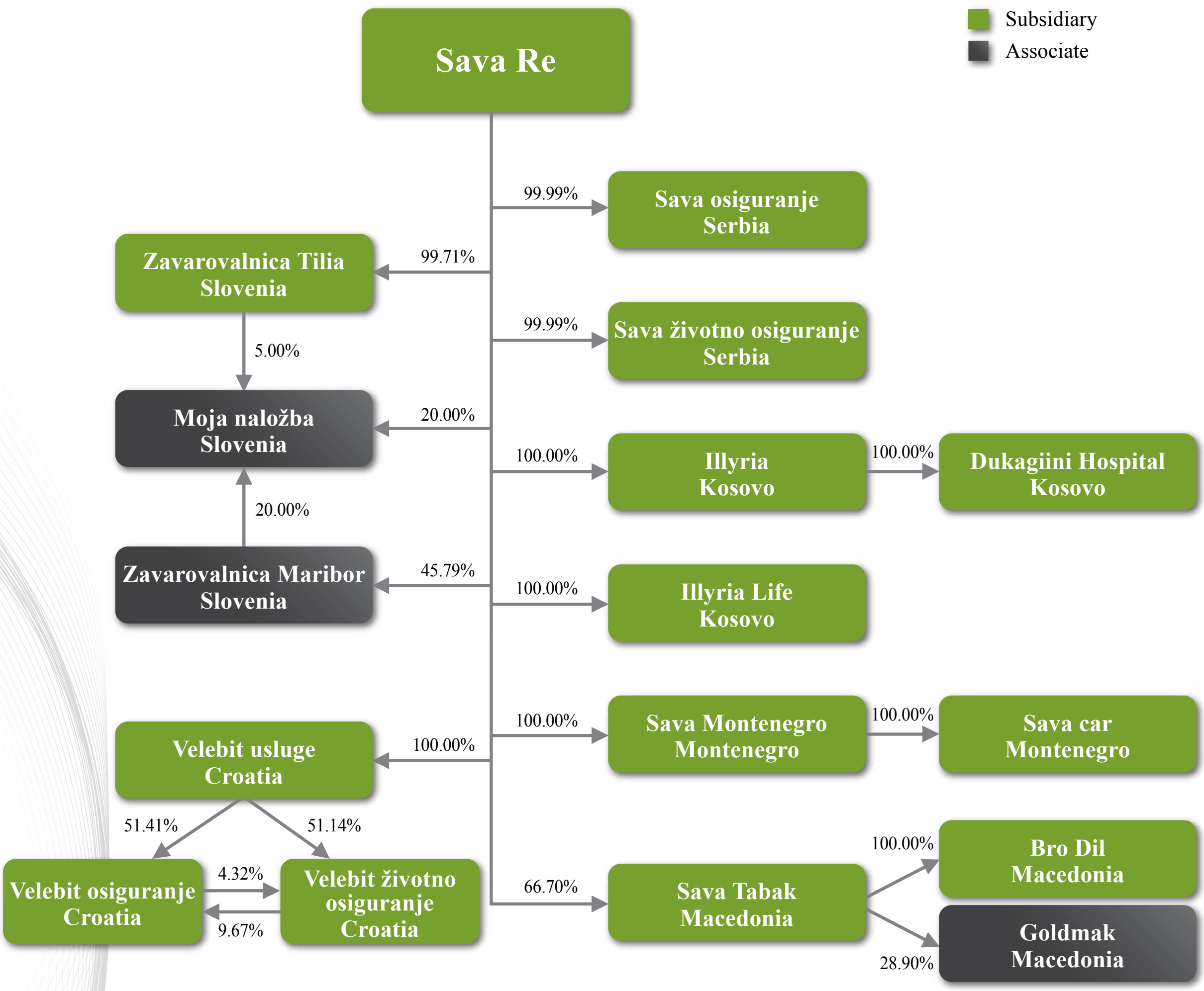
Sava Re Group and Sava Reinsurance Company Business Report 2010

9 Sava Re Group and Associate Companies

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

9.1 Sava Re Group structure including associate companies

Sava Re Group structure including associate companies as at 31 December 2010



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9.2 Activities of the Sava Re Group and its associate companies

Sava Re, the Group parent, is a reinsurance company. The Group includes two composite insurers, the subsidiary Zavarovalnica Tilia and the associate company Zavarovalnica Maribor. The insurers Sava osiguranje, Belgrade, Sava Tabak, Skopje, Illyria, Pristina, Sava Montenegro, Podgorica, and Velebit osiguranje, Zagreb are non-life insurers. Sava životno osiguranje, Belgrade, Illyria Life, Pristina and Velebit životno osiguranje, Zagreb are life insurance companies; Sava Invest, Skopje is a fund management company and the associate company Moja naložba, Maribor is a pension company. The indirect subsidiary Bro-Dil, Macedonia is a stock broking firm (wholly-owned by the insurer Sava Tabak), Dukagjini Hospital is a special purpose vehicle for the foundation of a hospital in Kosovo (wholly-owned by the insurer Illyria), Sava Car, Podgorica is a vehicle inspection company (wholly-owned by the insurer Sava Montenegro).

9.3 Company profiles of Sava Re Group members and associates as at 31 December 2010

At year-end 2010, the following companies were members of the Sava Re Group or associate companies:

Company name	Sava Reinsurance Company	Zavarovalnica Maribor	Zavarovalnica Tilia	Moja naložba	Sava osiguranje
Registered office	Dunajska cesta 56, 1000 Ljubljana, Slovenia	Cankarjeva 3, 2507 Maribor, Slovenia	Seidlova cesta 5, 8000 Novo mesto, Slovenia	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia	Bulevar vojvode Mišića 51, 11000 Beograd, Serbia
Company ID number	5063825	5063400	5063426	1550411	17407813
Business activity	reinsurer	composite insurer	composite insurer	pension company	non-life insurer
Basic capital (EUR)	39,069,099	42,626,092	14,317,673	6,301,109	6,554,683
Book value of equity interest (EUR)		19,518,487	14,276,152	2,148,678	6,554,027
Equity interests (voting rights) held by Group members:	Zavarovalnica Maribor: 4.45%	Sava Reinsurance Company: 45.79%	Sava Reinsurance Company: 99.71%	Sava Reinsurance Company: 20.0% Zavarovalnica Maribor: 20.0% Zavarovalnica Tilia: 5.0%	Sava Reinsurance Company: 99.99%
Governing bodies	**Management Board**	**Management Board**	**Management Board**	**Management Board**	**Board of Directors**
	Zvonko Ivanušič (Chair), Jošt Dolničar, Srečko Čebron	Drago Cotar (Chair.), David Kastelic, Marko Planinšec, Srečko Čarni	Andrej Kavšek (Chair), Tadej Avsec	Lojze Grobelnik (Chair), Igor Pšunder	Duško Jovanović (Chair), David Kastelic, Maja Krumberger, Goran Miličević, Goran Pitić, Jošt Dolničar
	Supervisory Board	**Supervisory Board**	**Supervisory Board**	**Supervisory Board**	**Supervisory Board**
	Branko Tomažič (Chair), Mateja Lovšin Herič, Slaven Mićković, Aleš Mirnik, Nada Zidar	Matjaž Kovačič (Chair), Dušan Čeč, Janez Komelj, Manja Skernišak, Edi Kosi, Robert Ciglarič	Zvonko Ivanušič (Chair), Jošt Dolničar, Zdenka Tomc	Andrej Plos (Chair), Uroš Lorenčič, Marko Planinšec, Mojca Androjna, Hermina Kastelec, Igor Marinič, Dušan Šuligoj	Dušan Čeč (Chair), Janez Komelj, Slobodan Kopanja
Position in the Group	parent, reinsurer	associated insurance company	subsidiary insurance company	associated company	subsidiary insurance company

Company name	Illyria	Sava Tabak	Sava Montenegro	Bro-Dil	Sava životno osiguranje
Registered office	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Zagrebska br.28 A, 1000 Skopje, Macedonia	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro	Ulica 27 mart broj 5/4, Skopje, Macedonia	Bulevar vojvode Mišića 51, 11000 Beograd, Serbia
Company ID number	70152892	4778529	02303388	5256372	20482443
Business activity	non-life insurer	non-life insurer	non-life insurer	stock brokerage firm	life insurer
Basic capital (EUR)	3,228,050	2,982,323	6,157,637	75,661	3,797,745
Book value of equity interest (EUR)	3,228,050	1,989,209	6,157,637	50,466	3,797,365
Equity interests (voting rights) held by Group members	Sava Reinsurance Company: 100%	Sava Reinsurance Company: 66.7%	Sava Reinsurance Company: 100%	Sava Tabak: 100%	Sava Reinsurance Company: 99,99%
Governing bodies	**Managing Director**	**Executive Director** Rok Moljk	**Executive Director**	**Executive Director**	**Board of Directors**
	Fatmir Gashi	Chief Operating Directors: Blaže Srbinovski, Peter Skvarča	Nebojša Šćekić	Iskra Kostova	Vladimir Đurić (Chair), Polona Pirš, Matej Herlec
	Board of Directors	**Board of Directors**	**Board of Directors**	**Board of Directors**	**Supervisory Board**
	Sergej Simoniti (Chair), Rok Moljk, Fatmir Gashi, Primož Močivnik, Uroš Lorenčič	Jošt Dolničar (Chair), Rok Moljk, David Kastelic, Zagorac Tumbovski, Milan Viršek	Milan Viršek (Chair), Jošt Dolničar, Edita Rituper	Jordan Ralupovski (Chair), Melita Gugulovska, Mirče Kitanoski	Milan Viršek (Chair), Milojka Kolar, Samo Selan
Position in the Group	subsidiary insurance company	subsidiary insurance company	subsidiary insurance company	indirect subsidiary stock brokerage firm	subsidiary insurance company

Company name	Illyria Life	Velebit usluge	Velebit osiguranje	Velebit životno osiguranje	Dukagjini Hospital
Registered office	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Savska 144 a, 10000 Zagreb, Croatia	Savska 144 a, 10000 Zagreb, Croatia	Savska 144 a, 10000 Zagreb, Croatia	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo
Company ID number	70520893	2146282	2269937	2269929	70587513
Business activity	life insurer	wholesale, retailer	non-life insurer	life insurer	hospital
Basic capital (EUR)	3,285,893	10,221,982	10,563,213	9,065,810	1,800,000
Book value of equity interest (EUR)	3,285,893	10,221,982	5,952,370	4,836,610	1,800,000
Equity interests (voting rights) held by Group members	Sava Reinsurance Company: 100%	Sava Reinsurance Company: 100%	Velebit usluge: 51.41% Velebit životno osiguranje: 9.67%	Velebit usluge: 51.14% Velebit osiguranje: 4.32%	Illyria: 100%
Governing bodies	**Managing Director**	**Managing Director**	**Management Board**	**Management Board**	**Managing Director**
	Ramis Ahmetaj	Rok Moljk	Dražen Kulić (Chair), Krešimir Vrbić	Tibor Kralj (Chair), Kristina Cvitanović - Zorić	Mentor Basha
	Board of Directors		**Supervisory Board**	**Supervisory Board**	
	Primož Močivnik (Chair), Ramis Ahmetaj, Fatmir Gashi, Uroš Lorenčič, Rok Moljk		Milan Viršek (Chair), Dragutin Sokačić, Srečko Čebron, Primož Močivnik, Josip Šeremet	Rok Moljk (Chair), Pero Ćosić, Iris Vencelj, Uroš Lorenčič, Dražen Srdoč	
Position in the Group	subsidiary insurance company	subsidiary	indirect subsidiary insurance company	indirect subsidiary insurance company	indirect subsidiary

Company name	Sava Car
Registered office	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro
Company ID number	02806380
Business activity	research and analysis
Basic capital (EUR)	65,000
Book value of equity interest (EUR)	65,000
Equity interests (voting rights) held by Group members	Sava Montenegro: 100%
Governing bodies	**Executive Director** Marijana Babić
Position in the Group	indirect subsidiary

10 Mission, Vision and Social Responsibility

What we value

We build relationships within the Company responsibly, sincerely and respectfully. We value people and their efforts to create a better society.

We are dedicated to our clients because we believe that by providing quality services, we are building long-term relationships. Exceeding customer expectations is what we aim for.

We believe that success and reputation fosters employee commitment, satisfaction, inventiveness and proficiency.

Why we exist

By commitment and constant progress we ensure security and quality of life. We offer professional and personal development to our employees, we are partners to our insureds and give them our full support, and to our shareholders, we ensure an adequate return on equity.

What we aspire to

We aspire to become the most recognisable insurance group in emerging markets (Europe, Asia), providing insurance, reinsurance and ancillary services of the highest quality. We aspire to meet the expectations of all our stakeholders and to be able to offer a complete range of products so that our clients can select the optimal level of financial safety based on their specific needs.

How are we to achieve these goals

With a positive climate, good business culture, continuous training and investments in the knowledge of employees, we contribute to a continuous development of insurance and ancillary products. By monitoring market developments, timely responses and adjustments, prudent planning and professional judgements, the Group will consistently meet profit targets and consequently generate an adequate return on equity.

Social responsibility

In respect of employees

We provide to our employees opportunities for personal development and lifelong learning.

In respect of the environment

Step by step yet steadily, we are building a friendly relationship with our natural environment by saving energy and supporting environmentally friendly activities.

10.1 Goals achieved by Group companies in 2010

- Group net profit of EUR 5.5m exceeded the amount budgeted with the lion's share contributed by the controlling company and by Zavarovalnica Tilia. Both companies performed in line with expectations, while a positive effect on the result was also contributed by the associate Zavarovalnica Maribor. The Group realised a 3.5% return on equity, surpassing its target by 0.3 percentage points. However, some Group companies have yet to achieve expected results.
- Gross premiums written were slightly below target but satisfactory in view of the current economic conditions in Western Balkan markets and bearing in mind the Groups efforts in avoiding growth in unprofitable lines of business. The Group met its target regarding the share of foreign-sourced premium, which increased by 4.3 percentage points to 50.2%.
- Most Group members managed to decrease their expense ratios compared to 2009 to meet their targets, but this was not achieved on the Group level, particularly because of the smaller commission income Sava Reinsurance Company received on reinsurance cessions.

The key goals of the Sava Re Group are increasing profitability in individual classes of business, improving cost effectiveness and strengthening the Group's recognition.

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- Technical provisions grew on the Group level, which contributes to greater stability of 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 performance of Group companies.
- All Group companies were directed towards stronger growth of their agency networks, which will support future premium growth.

10.2 Sava Re Group strategy highlights

The Sava Re Group has a rolling 5-year plan. The strategy is taken from the 5-year plan for the period 2011–2015. The long-term plan of the Group is to grow gross premiums written and increase market shares in markets where the Group is already present with target growth rates for individual companies set so as to still allow profitable growth (the net profit to premium ratio of key classes of business is a major factor in setting growth targets).

It is vital to keep reducing expense ratios in the Group in order to meet the annual target net combined ratio of 95% for each Group company as well as on the Group level.

After its individual members have brought their technical provisions in line with European actuarial standards and by the end of the medium-term, the Group is planning to generate a return on equity of 9%.

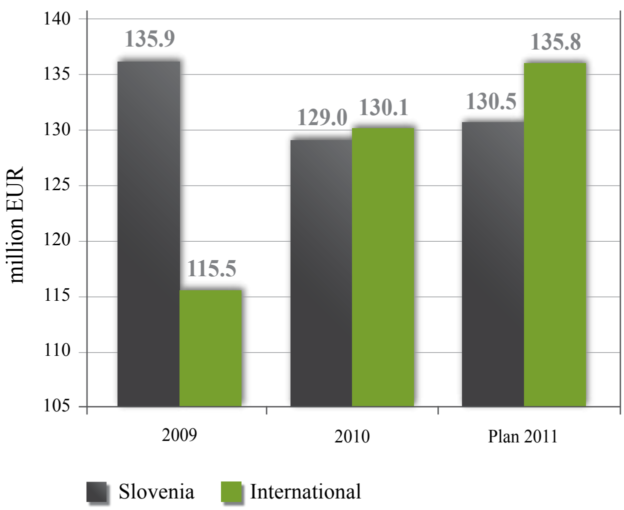
The Group will promote activities for better recognition of individual Group companies within the Group, and of the Group within target regions.

An important step is the planned converging of IT systems towards chosen solutions to improve responsiveness to clients and to be able to correct results towards goals set. Active management of innovative ideas and sharing of good practices among Group members will also significantly contribute towards realising long-term goals.

10.3 Plans of the Sava Re Group for 2011

- Strengthening the position held by its insurance companies in their local insurance markets with a 3.7% growth in consolidated gross premiums written (growth in non-consolidated insurance premiums of more than 8% and decline in reinsurance premium of 3%);
- Containing of operating expenses;
- Expanding the agency network;
- Optimising the investment portfolio composition;
- Employing highly qualified experts, intra-Group training and transfer of know-how;
- Generating a 5.4% return on equity on the Group level.

Target gross consolidated premium income – Slovenian/International



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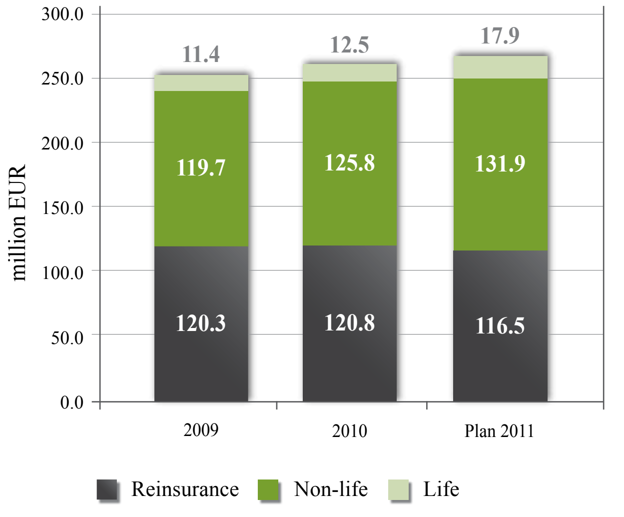
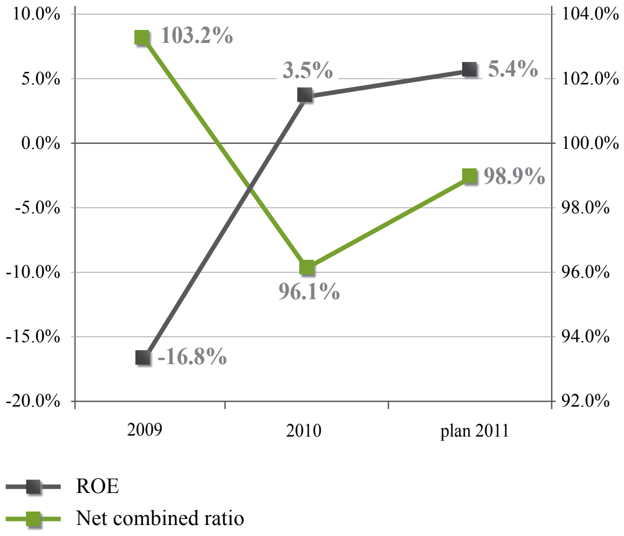
Target gross consolidated premium income by operating segment



Development of target consolidated combined ratios and ROE



10.4 Goals achieved by Sava Re

- The net profit of Sava Reinsurance Company was higher than budgeted and totalled EUR 7.2m. The Group realised a 4.7% return on equity, surpassing its target by 0.7 percentage points.
- Premium income was higher than planned; the Company achieved a 15.9% premium growth with foreign-sourced business, which now generates an equal share of the total premium as domestic business.
- The net incurred loss ratio, a measure of portfolio profitability, was 66.2% in 2010, an improvement by 9.6 percentage points over the prior year and better than planned. 2010 was a benign loss year, but loss ratios also improved as a result of measures the Company took to restructure the reinsurance portfolio as well as actions taken by Slovenian subsidiary and associate companies to improve profitability.
- The net expense ratio was 30.1% in 2010, about the same as in the prior year.
- In 2010 the net combined ratio, a measure of profitability (calculated as the sum of the incurred loss ratio and the expense ratio including administrative expenses), was 96.3%. This is an improvement of 9.2 percentage points over the prior year and 3.6 percentage points better than budgeted.
- Sava Reinsurance Company did not meet target return rates with the investment portfolio. Although realised investment income was larger than budgeted, investment expenses also turned out to be larger than anticipated. The main negative impact on the investment return was the bankruptcy of the company Poteza Naložbe and the compulsory settlement of the company Poteza Skupina (a negative impact of about EUR 1.8m). In addition, Sava Reinsurance Company incurred an investment loss on its strategic investments of EUR 0.4m.

We achieved our strategic goal of equal shares of foreign-sourced and domestic reinsurance premium income. Also in the Slovenian portfolio, we managed to bring down the combined ratio through a number of measures.

10.5 Sava Reinsurance Company strategy highlights

In order to mitigate its double exposure (to the reinsurance portfolio and its consolidated statements), Sava Reinsurance Company is planning to continue reducing the volume of its quota share treaties with its Slovenian affiliates, taking into account any impact on the capital adequacy position of individual companies. As a result, we are planning modest premium growth, as domestic reinsurance premium is expected to decline by an annual 6% rate.

Sava Reinsurance Company will take advantage of opportunities in the international reinsurance markets to achieve profitable growth (8% average annual growth). In order to grow premium, the Company will also take advantage of opportunities to enlarge its share of non-proportional coverages in the portfolio structure. Larger growth rates are planned especially on Asian markets.

In the future, the return on equity target will be assisted by adequate returns on the investment portfolio and adequate returns on investments in subsidiary companies.

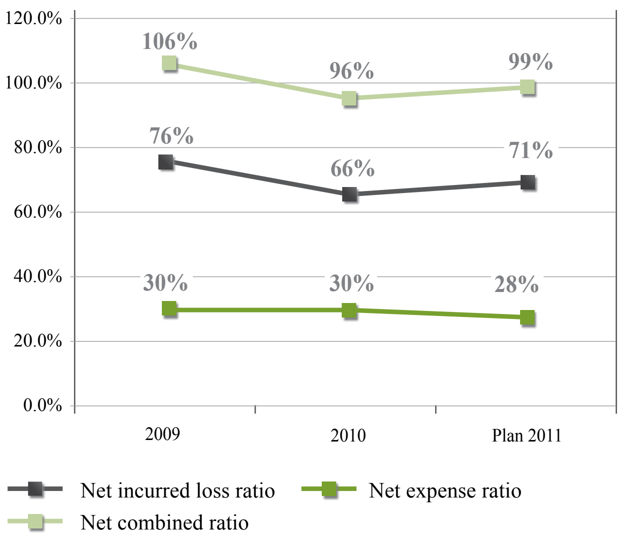
The Company looks to diversify its reinsurance portfolio geographically. It generated the largest premium growth in Asian markets where the Company also sees the largest future growth potential.

10.6 Plans of Sava Reinsurance Company for 2011

- Growth in the share of foreign-sourced gross premiums written – portfolio diversification (the foreign-sourced portfolio to account for 52.4% of the total premium);
- Mitigation of double exposure to subsidiary and associate companies (decline in premiums from Slovenia of 8.4%);
- 1.5% investment return (including strategic investments and cost of subordinated debt);
- Improvement of net expense ratio to 27.7% and net combined ratio of 99.1%.

Target structure of reinsurance premium

Target loss ratios of Sava Reinsurance Company



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11 Business Environment

11.1 Slovenia

Major economic indicators for Slovenia[2]

	2010	2009
Real change in GDP (percent)	1.2	-8.1
GDP (million EUR)	36,061	35,384
Registered unemployment rate (percent)	10.7	9.1
Average inflation (percent)	1.8	0.9
Population (million)	2.0	2.0
GDP per capita (EUR)	18,031	17,692
Insurance premiums (million EUR)	2,094	2,074
Insurance premium per capita (EUR)	1,047	1,037
Average monthly salary, December (EUR)	989	957

- Amid weaker foreign demand (particularly from the euro area) in the second half of 2010, the manufacture of motor vehicles and exports of road vehicles declined significantly. Modest growth is a result of weaker demand due to the phase-out of measures in most countries.

- The rise in the number of registered unemployed, a total of 110,021 at year-end, was larger than usual for the season. The main reasons for the rise in the number of people who lost their jobs were termination of temporary employment contracts and termination due to business reasons or compulsory winding-up. Companies hired labour depending on orders received.

- Relatively modest price growth mainly reflected weak economic activity, which influenced moderate core inflation, but the greatest contribution to growth came from higher excise duties and other taxes, and higher energy prices. Strong growth in global commodity and food prices in 2010 started to pass through along the food supply chain towards the end of the year.

- The number of insolvent business entities increased once again last year. AJPES records show that among the business entities with outstanding matured liabilities for more than five consecutive days in a month, the number of legal entities increased by more than one fifth, on average, in 2010. In 2010, AJPES started collecting data on insolvency also for sole traders and other natural persons carrying out registered activities. The number of these increased by nearly one half between January and December, while the average amount of outstanding liabilities rose by over two thirds. Last year, there was an increase in the number of bankruptcies filed both by legal entities and by natural persons (sole traders).

- The crisis in the construction industry grew more acute in 2010. Investment activities are modest; liquidity and default remains a problem; the number of employed persons is falling. In 2010 the construction industry received less payment for completed building projects than in 2005.

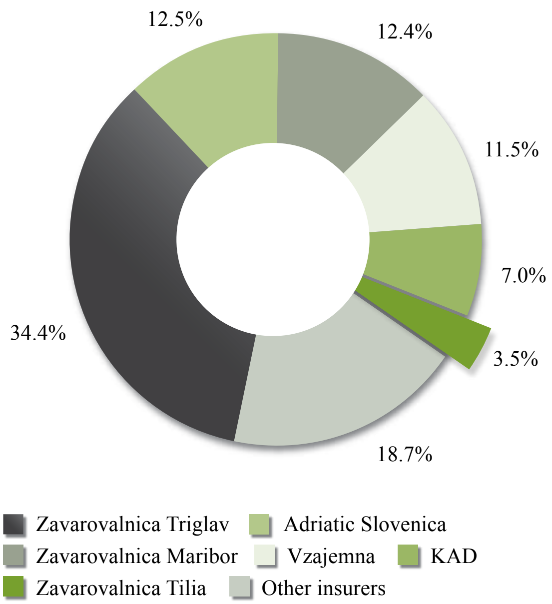
- Weaker demand, increased unemployment and deteriorated payment behaviour are factors that among other things affected the volume of insurance premium generated in the Slovenian market. In 2010, gross premiums in the Slovenian market grew by a modest 1.0%.

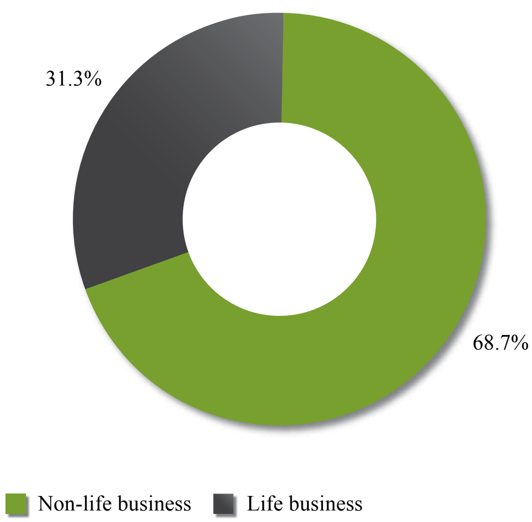
2. Source: UMAR, Economic Mirror, January 2011, February 2011.

Gross premiums written by type of business (life/non-life)[3]

(EUR)	Non-life business	Life business	Total
Gross premiums written			
2010	1,438,329,461	656,013,340	2,094,342,801
2009	1,442,797,200	631,526,587	2,074,323,787
Index	**99.7**	**103.9**	**101.0**
Gross claims paid			
2010	997,208,866	245,624,162	1,242,833,028
2009	1,051,433,557	188,495,331	1,239,928,888
Index	**94.8**	**130.3**	**100.2**

The Slovenian insurance market





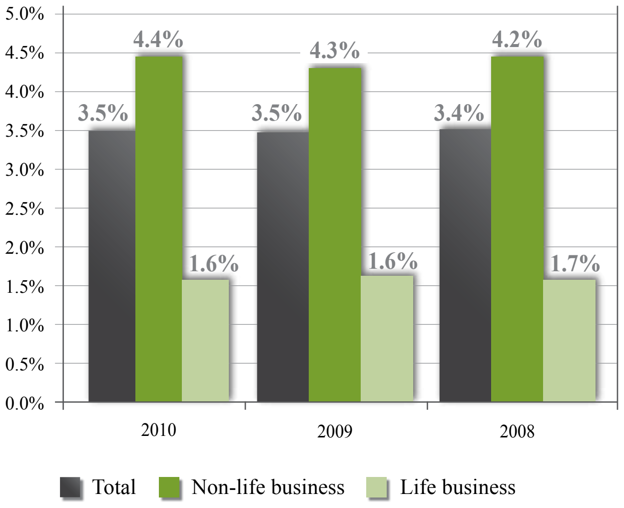
Market shares of Slovenian insurance companies

(million EUR, except percentages)	2010		2009		2008	
	Premium	As % of total	Premium	As % of total	Premium	As % of total
Zavarovalnica Triglav	719.9	34.4%	743.1	35.8%	752.7	37.3%
Adriatic Slovenica	261.2	12.5%	260.6	12.6%	256.7	12.7%
Zavarovalnica Maribor	259.6	12.4%	266.0	12.8%	251.7	12.5%
Vzajemna	240.3	11.5%	249.8	12.0%	234.9	11.6%
KAD	147.5	7.0%	139.2	6.7%	132.4	6.6%
Zavarovalnica Tilia	73.8	3.5%	72.2	3.5%	68.2	3.4%
Slovenia – total	**2,019.6**	**100.0%**	**2,075.3**	**100.0%**	**2,094.3**	**100.0%**

Slovenian insurance premium fell by 2.7% in 2010.

3. Source: Slovenian Insurance Association.

Market shares of Zavarovalnica Tilia in the Slovenian insurance market



Premiums and market shares in the Slovenian reinsurance market

(EUR)	2010		2009	
	Gross premiums written	Market share	Gross premiums written	Market share
Sava Reinsurance Company	142,861,784	54.3%	147,082,330	56.3%
Triglav Re	120,167,238	45.7%	114,027,127	43.7%
Total	263,029,022	100.0%	261,109,457	100.0%

Sava Reinsurance Company lost 2 percentage points of market share in 2010 but still holds over 50%. The drop in market share is a result of the drop in gross premiums ceded to the Company by Slovenian cedants (mitigation of double exposure on the Slovenian market).

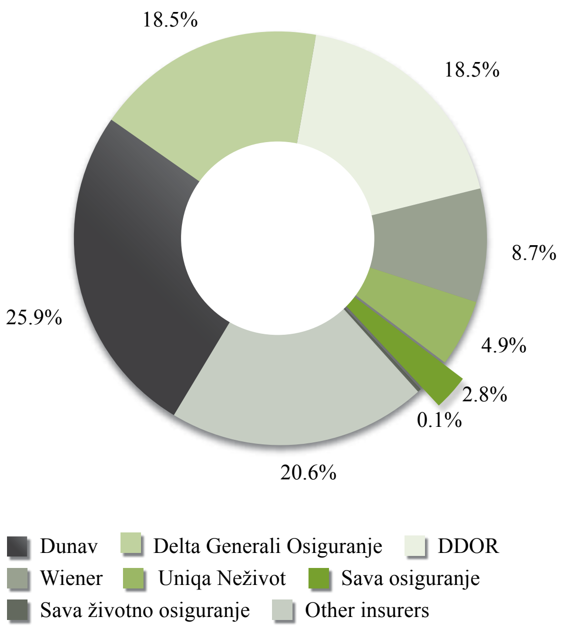
11.2 Serbia

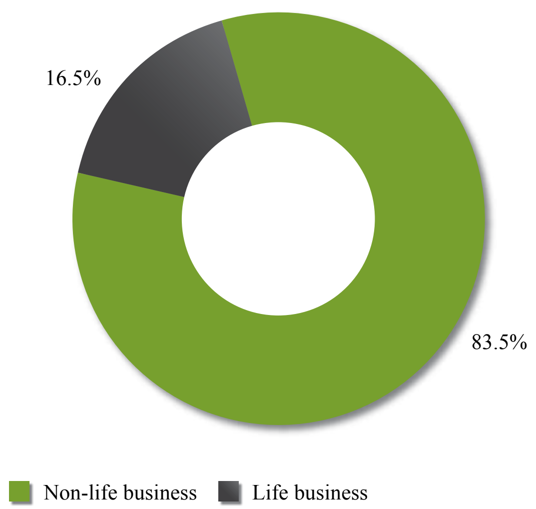
Major economic indicators for Serbia[4]

	2010	2009
Real change in GDP (percent)	1.7	-3.1
GDP (million RSD)	3,034,000	2,815,000
GDP (million EUR)	29,525	30,012
Registered unemployment rate (percent)	20.0	16.9
Average inflation (percent)	6.8	8.6
Population (million)	7.4	7.4
GDP per capita (EUR)	3,990	4,056
Insurance premiums (million EUR)	550	571
Insurance premium per capita (EUR)	74	77
Average monthly net salary (EUR)	332	338

- Serbia is struggling with an economic crisis that has caused a sharp drop in exports to Western Europe and a decline in production. The main economic challenges remain unemployment and limited income from exports. The Government and Central Bank are seeking to keep inflation at about 6% and the budget deficit at about 3% of GDP, and thereby qualify for international aid. In 2010 the unemployment rate was 20% and one of the highest in Europe.

The Serbian insurance market[5]





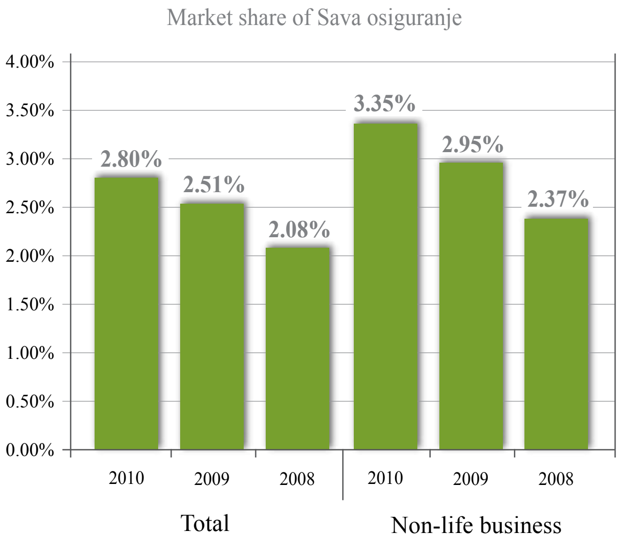
4. Source: www.izvoznookno.si, Ministry of Finance of the Republic of Serbia.
5. Source: Serbian National Bank.

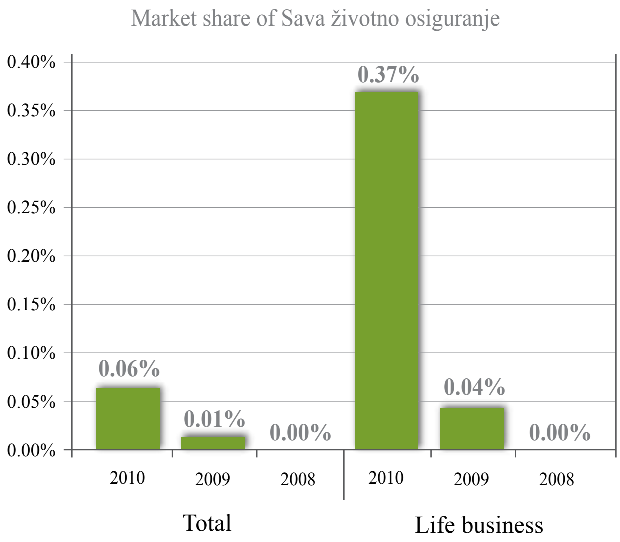
Market shares of Serbian insurance companies

(million EUR, except percentages)	2010		2009		2008	
	Premium	As % of total	Premium	As % of total	Premium	As % of total
Dunav	142.6	25.9%	156.5	27.4%	181.0	28.2%
Delta Generali Osiguranje	101.8	18.5%	100.0	17.5%	104.8	16.3%
DDOR	101.8	18.5%	119.1	20.9%	161.4	25.1%
Wiener	47.7	8.7%	47.9	8.4%	54.1	8.4%
Uniqa Neživot	26.9	4.9%	24.7	4.3%	25.5	4.0%
Sava osiguranje	15.4	2.8%	14.3	2.5%	13.4	2.1%
Sava životno osiguranje	0.3	0.1%	0.0	0.0%	0.0	0.0%
Serbia - total	**550.0**	**100.0%**	**570.8**	**100.0%**	**642.8**	**100.0%**
Average annual exchange rate of the Bank of Slovenia	102.7600		93.7970		81.1875	

Insurance premiums in Serbia fell by 3.6% in 2010 (in the local currency, the market produced a 5.6% growth).

Market shares of Sava osiguranje and Sava životno osiguranje in the Serbian insurance market





The Serbian insurance market is not a developed one and according to the degree of development (measured by the ratio of premiums written to GDP and the ratio of premiums written per capita) is well below the EU average. This indicates that the insurance market has large growth potential.

There are 22 insurers and 4 reinsurers operating in the Serbian insurance market. Seven insurance companies transact only life business, nine only non-life business, and six are composite insurance companies. In terms of ownership, 19 are predominantly foreign-owed and 7 are predominantly domestically-owned. Premium written in the period 1 January—30 September 2010 totalled RSD 43.2bn (EUR 420.3m), a 5.6% increase over the same period in the prior year. Of the total premium, 85.2% related to non-life business and 14.8% to life business.

The development of the Serbian insurance market slowed down due to the economic crisis. After all, insurance is a commodity that the average consumer is quick to give up in times of crisis.

Although Serbian regulations allow insurers to invest a relatively high share in equities listed at the Belgrade stock exchange, insurers had no large exposures that would impact the industry significantly when the BELEX fell. Government securities held by insurers, however, showed no significant negative trends, which is primarily a result of the underdeveloped financial and securities market in Serbia.

In mid 2009, the Compulsory Motor Insurance Act was adopted. A guarantee fund was established as a separate legal entity and public authorities were transferred to the Association of Serbian Insurers. Basic legal solutions fully comply with EU Directives in the field; however, the implementation of some solutions were delayed because of both EU membership and the economic capacity of citizens and insurers. Solutions that are fully compliant with EU regulations will be implemented upon Serbia's integration into the EU.

11.3 Macedonia

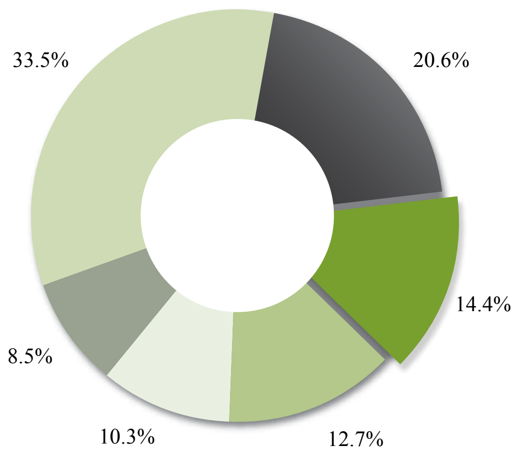
Major economic indicators for Macedonia[6]

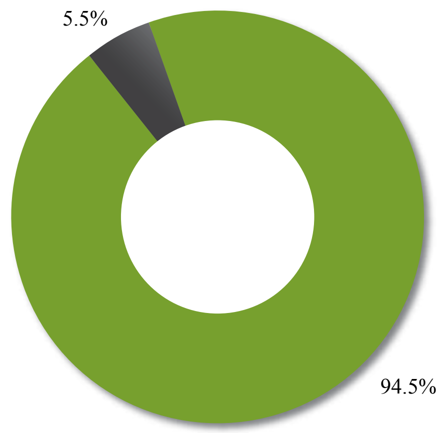
	2010	2009
Real change in GDP (percent)	1.2	-0.8
Nominal GDP (million MKD)	416,900	405,100
Nominal GDP (million EUR)	6,778	6,571
Registered unemployment rate (percent)	32.4	32.2
Average inflation (percent)	1.7	-0.6
Population (million)	2.0	2.0
GDP per capita (EUR)	3,389	3,286
Insurance premiums ('000 EUR)	105,375	100,284
Insurance premium per capita (EUR)	53	50
Average monthly net salary, January–June (EUR)	331	326

- The economic crisis has also hit Macedonia. Numerous companies went out of business and many people lost their jobs. The country is facing liquidity problems. In 2010 the economy did strengthen somewhat primarily due to increased private and public consumption, while exports remained broadly flat. Exports are expected to rise gradually in 2011 and the economy is forecast to expand by 3%.
- Government priorities are structural reforms in exports, investments in technological progress, infrastructure development and reform of public finance, public health system and the judiciary. They also seek to accelerate investments. In the long run, this policy is expected to improve the standard of living, average salaries, employment and increase GDP, although many reforms have so far been more or less unsuccessful. In addition, Macedonia is struggling with the persistent nature of the informal economy, which is estimated to account for about 20% of GDP.

6. Source: EMIS database, www.izvoznookno.si.

The Macedonian insurance market[7]



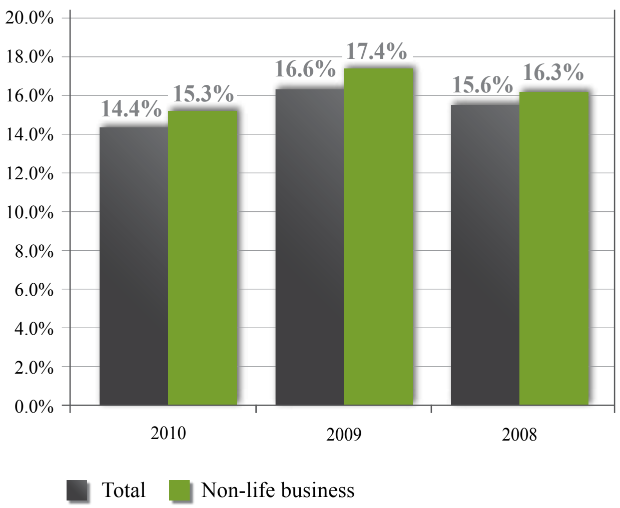


Market shares of Macedonian insurance companies

('000 EUR, except percentages)	2010		2009		2008	
	Premium	As % of total	Premium	As % of total	Premium	As % of total
Vardar	21,659.0	20.6%	21,349.4	21.3%	22,176.4	21.3%
Sava Tabak	15,204.1	14.4%	16,600.2	16.6%	16,267.7	15.6%
QBE	13,416.5	12.7%	14,778.1	14.7%	19,218.6	18.5%
Eurolink	10,847.6	10.3%	9,942.7	9.9%	9,823.5	9.4%
Osiguritelna Polisa	8,996.7	8.5%	8,218.3	8.2%	932.5	0.9%
Macedonia – total	**105,374.9**	**100.0%**	**100,283.9**	**100.0%**	**104,082.4**	**100.0%**
Average annual exchange rate of the Bank of Slovenia		61.5050		61.6490		61.6971

Macedonian insurance premiums grew by 5.1% in 2010.

Market share of Sava Tabak in the Macedonian insurance market



There are 14 insurers operating in the Macedonian insurance market. Twelve companies are non-life insurers; two companies transact life insurance business. In terms of ownership, six companies are completely foreign-owned (Winner, Insig, Eurolink, Uniqa, Albsig and Croatia neživot); six companies are predominantly foreign-owned (Sava Tabak, Vardar, QBE Makedonija, Evroins, Croatia život, Grawe); one insurance company is completely domestically owned. All insurers must follow regulations issued by the supervisory agency, which only started operating in 2009. In addition, the country has 13 registered insurance brokers (generating 14.94% of the total premium) and 5 insurance agencies (generating 1.5% of the total premium).

It is expected that the keener competition in all areas will contribute to the increased availability of quality insurance products and that it will boost the overall level

7. Source: National Insurance Bureau of the Republic of Macedonia.

of awareness of individuals and businesses about the need for and benefits of insurance.

It is anticipated that the very difficult crisis years of 2009 and 2010 that affected the economy including the insurance industry will be followed by a year of growth in the insurance sector.

Key factors to affect results in compulsory lines of insurance business in 2011:

- amount of premium,
- disregarding of unitary premium tariffs,
- number of unregistered vehicles,
- maximum no-claims bonus of 25% as from 8 August 2011,
- unacceptability of unitary criteria for bodily injury compensation,
- 50% increase in existing minimum sums insured (as of 1 January 2011),
- combination of motor liability and green card in a single product.

11.4 Montenegro

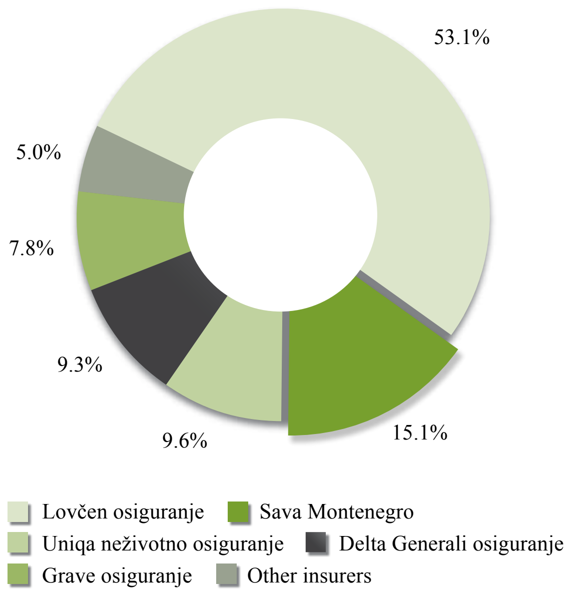
Major economic indicators for Montenegro[8]

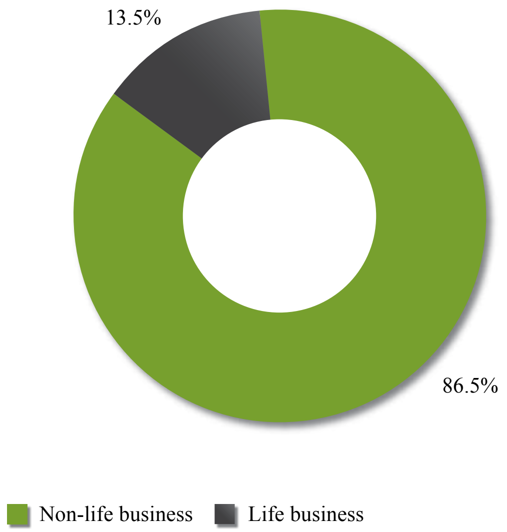
	2010	2009
Real change in GDP (percent)	0.5	-5.7
GDP (million EUR)	3,201	2,981
Registered unemployment rate (percent)	11.7	11.4
Average inflation (percent)	0.7	3.4
Population (million)	0.6	0.6
GDP per capita (EUR)	5,335	4,968
Insurance premiums (million EUR)	63	66
Insurance premium per capita (EUR)	105	109
Average monthly net salary, January–June (EUR)	473	463

- According to the International Monetary Fund, in 2010-2011 Montenegro will primarily need to look for fiscal stability and reducing public debt, while implementing vital structural reforms for better flexibility and stability of the labour market and for boosting competitiveness of exports. Furthermore, they need to improve the economic climate and push forward privatisation, the speediness of which will serve as an indicator of the Government's willingness to go ahead with reforms agreed with the IMF and set out in the commercial part of the Stabilisation and Association Agreement of the candidate for entry in the European Union effective as of 1 January 2008.
- In addition, the Montenegrin banking sector carries some risks. The main challenges of the banking sector are reduced savings and an overall lack of investment opportunities. Over the past years, real estate prices and equities had risen sharply. When in 2009 the trend stopped, it strongly affected banks that invested in such assets. Since there is a very weak demand for bank equities of the domestic private sector, the Government will need to prepare a plan to rescue the state-owned bank, which will most probably involve a recapitalisation.

8. Source: www.izvoznookno.si, Ministry of Finance of Montenegro.

The Montenegrin insurance market[9]



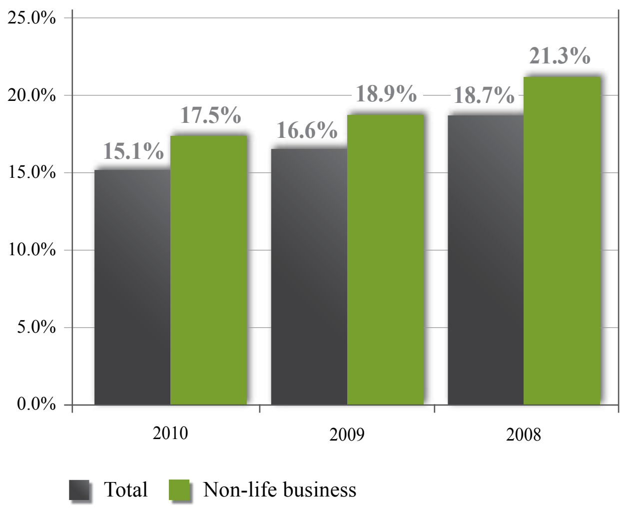


Market shares of Montenegrin insurance companies

(million EUR, except percentages)	2010		2009		2008	
	Premium	As % of total	Premium	As % of total	Premium	As % of total
Lovćen osiguranje	33.3	53.1%	35.8	54.6%	36.9	60.9%
Sava Montenegro	9.5	15.1%	10.9	16.6%	11.4	18.7%
Uniqa neživotno osiguranje	6.0	9.6%	2.7	4.2%	0.4	0.6%
Delta Generali osiguranje	5.8	9.3%	5.1	7.7%	1.2	2.0%
Grawe osiguranje	4.9	7.8%	4.9	7.5%	5.7	9.4%
Montenegro – total	62.8	100.0%	65.6	100.0%	60.6	100.0

Montenegrin insurance premium fell by 4.3% in 2010.

Market share of Sava Montenegro on the Montenegrin insurance market



9. Source: Insurance Supervisor of Montenegro.

There are ten insurance companies operating in the Montenegrin market, four of which are non-life insurers, five life insurers and one is a composite insurance company. As at 30 June 2010, the insurance industry employed 627 people. The insurer Lovćen employed about 44% and Sava Montenegro about 18% of all people employed in insurance.

In 2009 the insurance industry made a loss of EUR 9.2m, a loss that increased by 117% from 2008 (EUR –4.2m). In 2009 eleven insurers operated in the market, of which five made a total profit of EUR 2.3m and six made a loss of EUR 11.5m. The loss of Lovćen Insurance Company accounted for 64.2% of the total market loss, the loss of Sava Montenegro for 23.3%.

The Montenegrin non-life insurance market is characterised by poor payment behaviour and fierce competition, especially as regards commission, particularly in motor liability business. It is estimated that in 2010 gross premiums written will turn out to have decreased (a decline of about 3.8%).

11.5 Kosovo

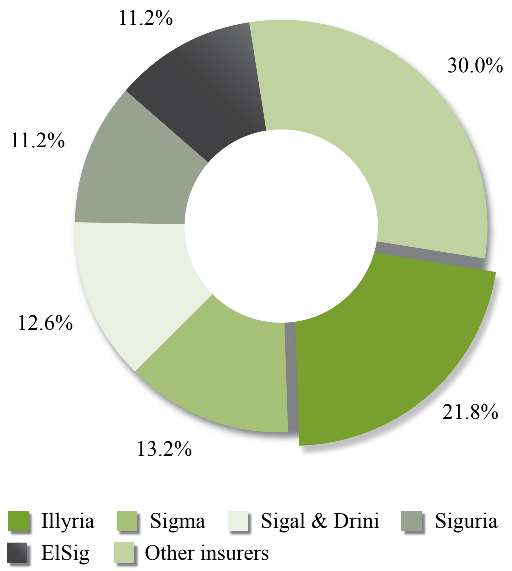
Major economic indicators for Kosovo[10]

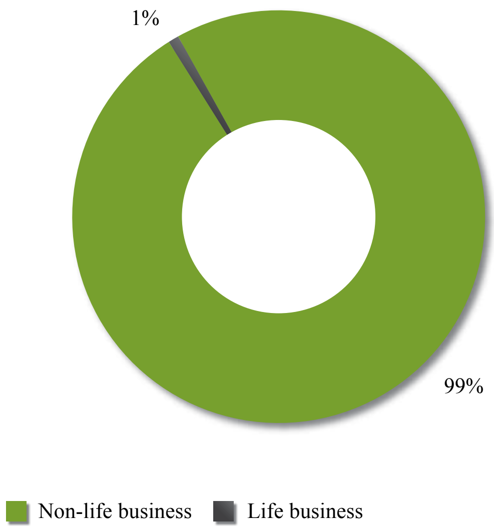
	2010	2009
Real change in GDP (percent)	4.8	4.0
GDP (million EUR)	4,163	3,912
Registered unemployment rate (percent)	45.0	45.4
Average inflation (percent)	1.5	-2.4
Population (million)	2.2	2.2
GDP per capita (EUR)	1,892	1,778
Insurance premiums (million EUR)	72	68
Insurance premium per capita (EUR)	33	31
Average monthly net salary (EUR)	240	246

- In May 2010, Kosovo reached an agreement for a EUR 110m loan with the IMF, which will also unfreeze EUR 227m in other grants. The European Union has been a major donor to Kosovo over the past decade. EU and World Bank funds accounted for about 8% of the Kosovan 2010 budget. The 2010 budget totalled EUR 1.46bn. The Government has no near-term plans to issue euro bonds or to ask for other loans soon, but it will need to deal with the social crisis that dominates Kosovo. Economic and social conditions were much worse in 2010 than two years earlier when it gained independence. To improve the economy, it is vital to restructure industry and attract foreign investment. However, Kosovo will only be able to attract foreign investors if it can manage energy supply and improve the business environment.

10. Source: EMIS database, www.tradingeconomics.com, www.tradingeconomics.com.

Market shares of the Kosovan insurance market 2010[11]





Market shares of Kosovan insurance companies

(million EUR, except percentages)	2010		2009		2008	
	Premium	As % of total	Premium	As % of total	Premium	As % of total
Illyria	15.5	21.8%	16.1	23.7%	10.9	19.3%
Sigma	9.4	13.2%	9.7	14.3%	7.3	13.0%
Sigal & Drini	8.9	12.6%	8.4	12.4%	1.3	13.1%
Siguria	8.0	11.2%	8.6	12.6%	6.1	17.0%
ElSig	7.9	11.2%	5.9	8.8%	0.3	2.9%
Illyria Life	0.7	1.0%	0.1	0.2%	0.0	-
Kosovo – total	71.2	100.0%	67.8	100.0%	56.4	100.0%

Kosovan insurance premiums grew by 5.1% in 2010.

11. Source: Central Bank of the Republic of Kosovo, Monthly Statistics Bulletin No. 112, internal data of Illyria.

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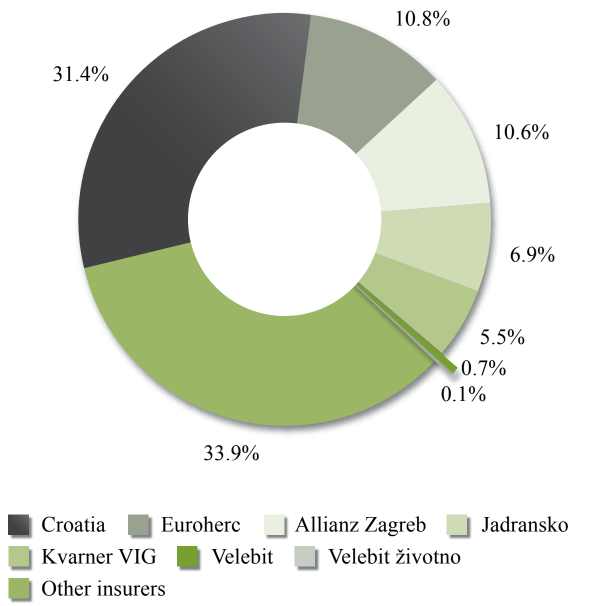
11.6 Croatia

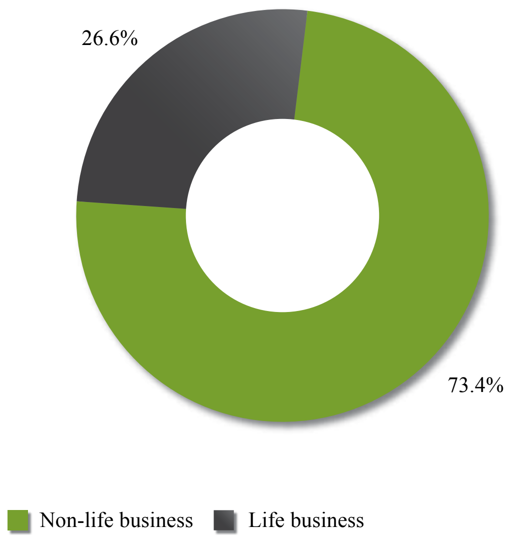
Major economic indicators for Croatia[12]

	2010	2009
Real change in GDP (percent)	-1.4	-5.8
GDP (million EUR)	44,714	45,376
Registered unemployment rate (percent)	18.8	14.9
Average inflation (percent)	1.1	2.4
Population (million)	4.4	4.4
GDP per capita (EUR)	10,162	10,313
Insurance premiums (million EUR)	1,249	1,282
Insurance premium per capita (EUR)	284	291
Average monthly net salary (EUR)	722	724

- In 2010 Croatia witnessed a lesser decline in economic activity than in 2009, while a reversal of the negative trend is expected to be seen in the period 2011–2012, beginning with a 1.6% growth in 2011 and continuing with a 2.5% growth in 2012. In the coming years, private consumption will recover at about the same rate as GDP.
- Economic policy is and will remain directed by EU entry and by meeting EU entry requirements. The main anti-crisis measure of the Government prepared jointly with the Croatian National Bank is the improvement of liquidity by lowering the reserve requirement, which would increase funds available for loans.

The Croatian insurance market[13]





12. Source: Centar za makroekonomske analize Hrvatska Gospodarska Komora, www.izvoznookno.si.
13. Source: Croatian Insurance Bureau.

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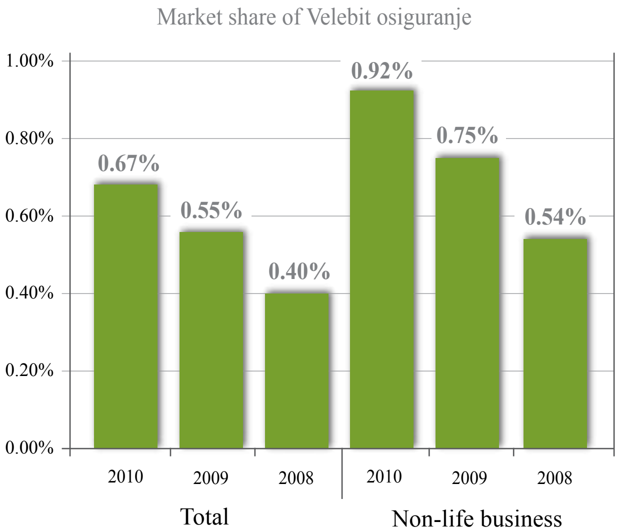
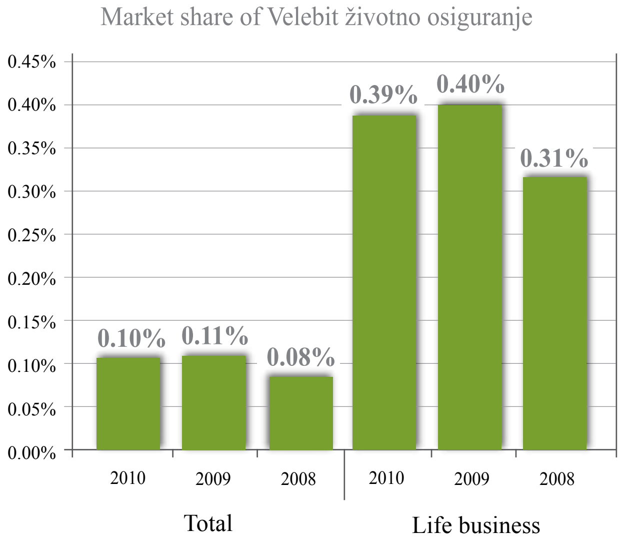
Market shares of Croatian insurance companies

(million EUR, except percentages)	2010		2009		2008	
	Premium	As % of total	Premium	As % of total	Premium	As % of total
Croatia	391.7	31.4%	413.4	32.2%	449.1	33.5%
Euroherc	135.4	10.8%	142.2	11.1%	150.4	11.2%
Allianz Zagreb	132.9	10.6%	134.4	10.5%	155.2	11.6%
Jadransko	86.6	6.9%	90.1	7.0%	94.2	7.0%
Kvarner VIG	69.1	5.5%	73.6	5.7%	74.8	5.6%
Velebit	8.4	0.7%	7.1	0.6%	5.3	0.4%
Velebit životno	1.3	0.1%	1.4	0.1%	1.1	0.1%
Croatia – total	**1,248.6**	**100.0%**	**1,282.2**	**100.0%**	**1,340.0**	**100.0%**
Average annual exchange rate of the Bank of Slovenia		7.4040		7.3400		7.2239

Croatian insurance premium fell by 2.6% in 2010.

Market shares of Velebit osiguranje and Velebit životno osiguranje





In 2010, there were 25 insurers and two reinsurers operating in the Croatian insurance market. Of the 25 insurers, six are life insurers, nine are non-life insurers and ten are composite insurance companies. Ten insurers are predominantly domestically-owned and 15 insurers are predominantly foreign-owned.

The insurance industry employs about 11,000 people, representing 27% of all employees in the finance sector. Thus insurance companies are a major employer in the finance sector.

The most important distribution channel for non-life business are employee agents (with 48% of the premium), followed by own sales force (24%) and agencies (21%). In life business, the most important distribution channel are agencies (with 42% of the premium), followed by employee agents (27%).

11.7 Global reinsurance markets[14]

Reinsurance markets – non-life business

- In 2010 global reinsurers achieved record capitalisation levels. Reinsurance rates continued to soften despite some major natural catastrophe losses. Premium growth was roughly nil or weak. Combined ratios are increasing. Cat losses were up from 2009, but in line with long-term averages.
- Investment portfolios generated more income than in previous years mostly on account of capital gains, even though interest rates fell.
- After nine months of 2010, return on equity for reinsurance activities was 11%, which is slightly less than in 2009 (but significantly better than the 2% ROE in 2008).

The table below shows forecasts of non-life premium growth rates for international markets, which will affect the operations of Sava Reinsurance Company.

	2008	2009	2010	2011	2012
Global	-1.4%	0.2%	1.3%	2.8%	3.7%
Japan	-4.0%	-1.1%	1.7%	1.9%	1.9%
Germany	-2.6%	3.3%	-1.0%	1.8%	2.5%
France	0.8%	1.3%	0.8%	1.6%	2.0%
Italy	-3.8%	-2.8%	-0.4%	1.7%	3.3%
Emerging markets	7.1%	3.8%	7.4%	8.4%	7.3%
Emerging Asia	7.9%	16.1%	17.7%	13.2%	9.7%
Western Europe	7.1%	-5.6%	-0.5%	4.1%	5.9%
Africa	2.7%	3.8%	4.4%	6.9%	5.2%
Middle East	4.5%	4.1%	7.7%	9.1%	8.9%

Reinsurance markets – life business

- Although already highly concentrated, L&H industry consolidation continued in 2010.
- Traditional Life & Health reinsurance is being challenged by low primary premium growth and declining cession rates. However, demand is still strong for large reinsurance transactions of various forms (e.g. structured life reinsurance solutions).

14. Based on Swiss Re: Global Insurance Review 2010 and Outlook 2011/12.

12 Shareholders and Share Trading

As at 31 December 2010, the share capital of Sava Reinsurance Company totalled EUR 39,069,099 and was divided into 9,362,519 non-par-value shares. Shares, all being registered shares, were issued in a dematerialised form and entered in the central securities registry under the POSR symbol. All pertain to the same class and are freely transferable without restrictions. The Management Board of Sava Reinsurance Company is not aware of any shareholders' agreement restricting share transferability.

The ordinary (regular) shares of Sava Reinsurance Company give their holders the following rights:

- to participate in the Company's control, with one share carrying one vote at the General Meeting;
- to participate in the Company's profits (dividends); and
- to receive part of the Company's assets when it is wound up.

A major influence on movements of the Sava Re share price is the general condition in Slovenian capital markets, which in 2010 was characterised by negative trends and low liquidity. The market price of the POSR share stood at 48% of book value.

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

Trading in the POSR share in 2010

As at year-end 2010, Sava Reinsurance Company had 5,481 shareholders, compared to 5,712 at 31 December 2009.

As at 31 December 2010, Sava Reinsurance Company held 210 treasury shares, representing 0.002% of all shares outstanding. In 2010, the Company did not buy back any treasury shares.

The table below shows the top ten shareholders of Sava Reinsurance Company as at 31 December 2010.

Top ten shareholders of Sava Reinsurance Company as at 31 December 2010

Shareholder	No. of shares	Holding (%)
Slovenian Restitution Fund	2,340,631	25.0%
Abanka d.d.	655,000	7.0%
Poteza naložbe d.o.o.—in bankruptcy proceedings	468,125	5.0%
Pišljar Marjan	444,345	4.7%
Nova KBM d.d.	435,925	4.7%
Zavarovalnica Maribor d.d.	416,433	4.4%
Zaprti vzajemni pokojninski sklad za javne uslužbence	320,346	3.4%
KD Galileo, fleksibilna struktura naložb	250,000	2.7%
Kapitalska družba d.d.—SODPZ[15]	238,109	2.5%
NFD 1 delniški investicijski sklad d.d.	201,315	2.2%
Total	5,770,229	61.6%

Source: Central securities register KDD d.d.

As at 31 December 2010, 96.9% of shareholders were Slovenian and 3.1% foreign.

Shareholder Structure of Sava Reinsurance Company as at 31 December 2010

	Domestic investors	Foreign investors
Banks	17.2%	2.5%
Other financial institutions[16]	33.0%	0.0%
Natural persons	18.0%	0.1%
Investment funds and mutual funds	10.9%	0.4%
Other commercial companies	2.3%	0.0%
Insurers and pension companies	15.5%	0.0%
Total	96.9%	3.1%

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

As at 31 December 2010, members of the Management Board and of the Supervisory Board held 1,535 shares, representing 0.016% of total shares outstanding.

POSR shares held by Management/Supervisory Board members as at 31 December 2010

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

Source: Central securities register KDD d.d.

15. Compulsory Supplementary Pension Insurance Fund.
16. Of this 25% relates to the Slovenian Restitution Fund.

As at year-end 2010, the net profit per share was EUR 0.77[17]. As at year-end 2010, the consolidated net profit per share was EUR 0.59.

As at 31 December 2010, the book value per share was EUR 16.68[18]. At 31 December 2010, the consolidated book value per share was EUR 16.52.

Trading in the POSR share on the stock exchange

(EUR)	
Average price 1 January–31 December 2010	9.46
Share price at 31 December 2010	8.00
Trading volume in the period 1 January–31 December 2010	5,139,500
Period low 1 January–31 December 2010	7.60
Period high 1 January–31 December 2010	14.35

In 2010, the Company did not pay dividends.

In 2010, the Company did not have conditional equity.

17. Net profit/loss for the period / no. of shares excl. treasury shares (9,362,309).
18. Equity at 31 December 2010 / no. of shares (9,362,519).

13 Performance and Business Results

A glossary of selected insurance terms and calculation methodologies for ratios is given in the appendix to this annual report.

Key financial data

(EUR)	Sava Re Group			Sava Reinsurance Company		
	2010	2009	Index	2010	2009	Index
Gross premiums written	259,103,050	251,416,588	103.1	142,861,784	147,082,330	97.1
Net premiums earned	231,874,029	217,427,839	106.6	123,497,230	119,096,865	103.7
Gross claims paid	131,269,604	149,390,360	87.9	78,092,872	100,807,961	77.5
Net claims incurred	140,009,961	147,818,236	94.7	81,740,116	90,257,788	90.6
Operating expenses including acquisition costs	82,807,924	76,532,093	108.2	37,167,769	35,438,665	104.9
Investment income	24,950,660	22,350,395	111.6	9,831,163	12,566,932	78.2
Investment expenses	10,235,493	23,701,131	43.2	7,282,878	18,961,340	38.4
Net profit/loss for the year	5,520,670	-28,216,212	-19.6	7,193,724	-12,598,645	257.1

13.1 Net premiums earned

Net premiums earned

(EUR)	Sava Re Group			Sava Reinsurance Company		
	2010	2009	Index	2010	2009	Index
Gross premium - Slovenia	129,022,307	135,930,348	94.9	71,450,127	85,450,863	83.6
Gross premiums written - international	130,080,743	115,486,240	112.6	71,411,657	61,631,467	115.9
Total gross premiums written	259,103,050	251,416,588	103.1	142,861,784	147,082,330	97.1
Total net written premium	233,801,898	222,272,651	105.2	121,250,679	121,721,359	99.6
Change in net unearned premiums	-1,927,869	-4,844,812	239.8	2,246,551	-2,624,495	285.6
Net premiums earned	231,874,029	217,427,839	106.6	123,497,230	119,096,865	103.7

Sava Re Group

The Sava Re Group recorded a 3.1% growth in gross premiums written in 2010. This growth was mainly generated by the Slovenian insurer Zavarovalnica Tilia (growth of EUR 1.6m), the Kosovan insurer Illyria (EUR 1.2m) and the Serbian insurer Sava osiguranje (EUR 1.0m). In 2010 the Croatian non-life insurer Velebit osiguranje and the life insurer Velebit životno osiguranje were for the first time fully included in the consolidated financial statements (in 2009 the two insurers were included only in the second half of the year). The two Croatian insurers contributed EUR 5.4m to the premium growth.

Consolidated gross premiums written recorded growth in all operating segments.

Consolidated gross premiums written by region

(EUR)	2010	2009	Index	Structure 2010
Slovenia	129,022,307	135,930,348	94.9	49.8%
International	130,080,743	115,486,240	112.6	50.2%
Total	259,103,050	251,416,588	103.1	100.0%

The consolidated gross premiums written from Slovenia fell by 5.1% due to a drop in the consolidated reinsurance premium sourced in Slovenia (13.4%). Thus the share of this premium decreased to account for 49.8% (2009: 54.1%) of the total consolidated premium income. Premiums from abroad recorded a 12.6% growth, which is a result of the growth in the consolidated reinsurance premium from abroad (15.9%) and the growth in premiums written of almost all group members. The share of foreign-sourced premium increased to account for 50.2% (2009: 45.9%) of the total consolidated gross premiums written.

Consolidated gross premiums written by Group operating segment

(EUR)	2010	2009	Index	Structure 2010
Reinsurance business	120,812,843	120,343,800	100.4	46.6%
Non-life business	125,757,228	119,665,563	105.1	48.5%
Life business	12,532,979	11,407,225	109.9	4.8%
Total	259,103,050	251,416,588	103.1	100.0%

Consolidated reinsurance premium[19] grew by 0.4% in 2010. The consolidated gross premiums written from Slovenia fell by 13.4% due to reduced quota-share reinsurance business, while foreign-sourced consolidated reinsurance premiums grew by 15.9%.

Non-life gross premiums written rose by 5.1% compared to the prior year. Non-life business includes health business that in 2010 is only provided by the Kosovan insurer Illyria. This business generated premiums of EUR 6.1m in 2010.

Consolidated life gross premiums written rose by 9.9% compared to the prior year. The increase in life premium is primarily due to premium growth in the Kosovan and Croatian life insurers. The life premium of Zavarovalnica Tilia recorded a 1.5% drop in 2010.

Consolidated net premiums written grew by 5.2%, which is primarily due to growth in the net premiums of Zavarovalnica Tilia (growth of EUR 7.0m because of reduced quota-share reinsurance), Illyria (growth of EUR 1.0m due to an increase in health business) and Velebit osiguranje (growth of EUR 3.9m – in 2009 only the second half year was included in the consolidated statements).

Consolidated net unearned premiums grew due to a larger business volume generated by Zavarovalnica Tilia, who produced the largest growth in primary insurance premium.

Consolidated net premiums earned, which include the change in net unearned premiums, increased by 6.6% compared to 2009. This growth is a result of the above mentioned movements in items used in calculating net premiums earned.

Sava Reinsurance Company

In 2010, Sava Reinsurance Company wrote gross premiums of EUR 142.9m, which is 2.9% less than in 2009.

Premiums assumed from domestic cedants decreased 16.4% compared to 2009, which is in line with the Company's strategy of lowering its exposure to the Slovenian insurance market. In the domestic premium

19. The consolidated reinsurance premium comprises gross premiums written less premiums from Group subsidiaries.

structure, the major share of reinsurance premium again relates to the cedants Zavarovalnica Maribor and Zavarovalnica Tilia.

Foreign-sourced reinsurance premiums increased 15.9.0% from 2009. In 2010, the largest share of foreign-sourced premium was written in Austria (12.1%), followed by South Korea (8.8%), Malaysia (7.2%), Italy (6.1%), Croatia (5.8%), China (5.5%), Sweden (5.5%) and Spain (5.0%). In 2010, the largest increases on 2009 were recorded by Malaysia (growth of EUR 4.4m), South Korea (growth of EUR 3.4m), China (growth of EUR 2.4m), Sweden (growth of EUR 1.7m), and Japan (growth of EUR 1.3m).

Gross premium written includes premiums from subsidiaries in the markets of the former Yugoslavia. In 2009, premiums of the mentioned companies accounted for 7.8% (2009: 9.0%) of the total foreign-sourced premiums written.

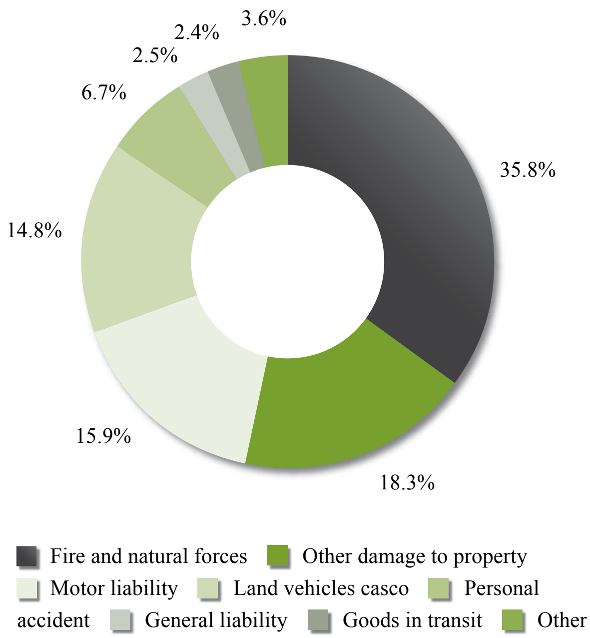
There was an increase in the percentage share of foreign-sourced premium, which accounted for 50.0% of total premiums written (2009: 41.9%).

In 2010, Sava Reinsurance Company wrote net reinsurance premiums of EUR 121.2m, which is 0.4% less than in 2009. Net premiums written recorded a smaller drop than gross premiums written, while the share of retained premium increased by 2.1 percentage points to 84.9%.

The change in net unearned premiums (1 January 2010–31 December 2010), which is used in the calculation of net premiums earned, was a decrease of EUR 2.2m. The decline in net unearned premiums follows the decrease in gross premiums written.

Net premiums earned, which include the change in net unearned premiums, increased by 3.7% compared to the prior year.

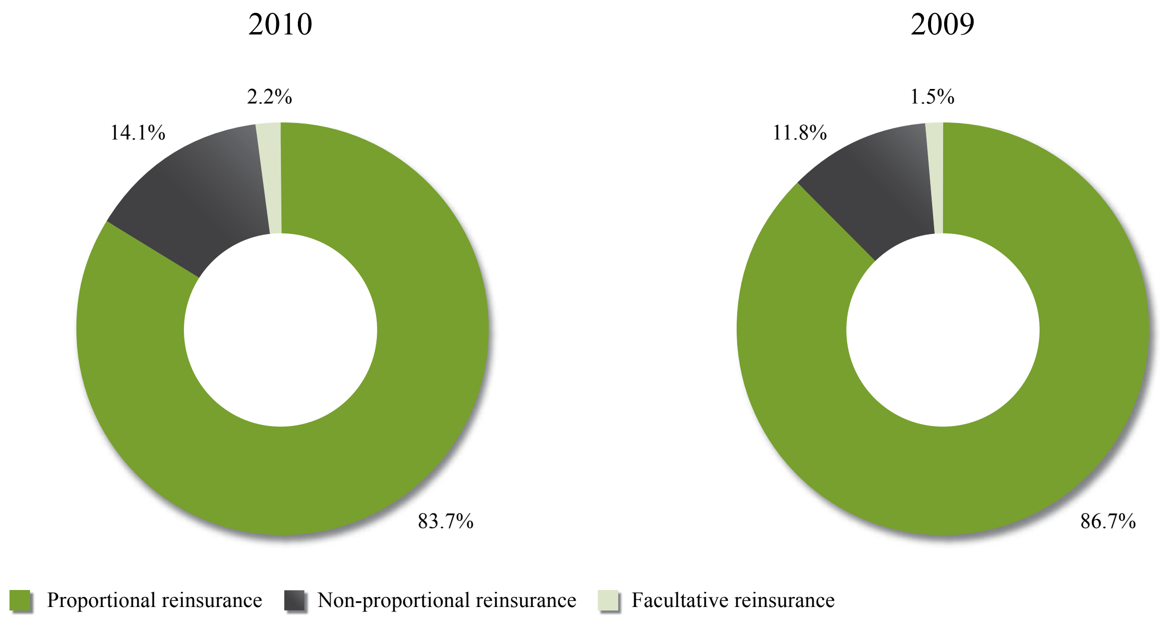
Gross premiums written in 2010 by class of business



The above chart demonstrates that in 2010, fire and natural forces accounted for the largest share of gross premiums written, and increased 21.9%. This increase is mainly attributable to the growth in premiums written abroad, where fire business dominates. The share of the other damage to property class was 18.3% in 2010, down 3.3 percentage points from 2009. The share of motor business decreased by 3.5 percentage points compared to the prior year as a result of smaller volumes of proportional coverages with the Slovenian cedants.

Absolute amounts of gross premiums written by class of business are shown in the section Performance indicators, together with their growth/contraction as compared to 2009.

Gross premiums written by form of reinsurance



In 2010 the structure of gross premiums by form of reinsurance has changed somewhat, similar to the change in 2009: proportional reinsurance continues to dominate even though the share decreased by 6.2% compared to the prior year. The reduced premium in proportionate reinsurance is a result of a continuous lowering in quota-share reinsurance business ceded by two Slovenian insurers. Proportional reinsurance from abroad increased by 11.2%. Non-proportional reinsurance recorded a 15.9% growth (growth in foreign-sourced non-proportional business), while facultative business generated growth of 43.0%.

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Net earned premiums by class of business

(EUR)	Sava Re Group		Sava Reinsurance Company	
	2010	2009	2010	2009
Personal accident	17,947,325	17,959,891	10,089,870	10,655,216
Health	6,129,473	3,793,047	0	0
Land vehicles casco	35,967,347	41,974,360	18,580,387	19,792,554
Aircraft hull	360,157	329,801	355,548	323,324
Ships hull	1,829,222	1,344,446	1,782,591	1,299,562
Goods in transit	3,732,793	3,354,681	3,231,443	3,017,523
Fire and natural forces	43,597,787	32,182,880	40,263,302	29,137,505
Other damage to property	26,938,994	29,326,320	20,673,637	23,199,779
Motor liability	72,947,927	66,856,192	23,272,022	26,143,104
Aircraft liability	154,848	318,637	143,616	310,851
Liability for ships	323,485	291,522	284,878	269,528
General liability	5,028,266	4,866,317	3,070,233	3,259,361
Credit	1,664,255	1,705,323	915,362	913,632
Suretyship	272,829	219,737	182,640	173,746
Miscellaneous financial loss	404,115	453,817	314,331	364,418
Legal expenses	56,460	107,034	12,991	17,526
Assistance	1,781,816	973,394	18,516	74,895
Life business	4,540,391	3,151,451	213,459	49,630
Unit-linked life	8,196,539	8,218,989	92,404	94,712
Total non-life	219,137,099	206,057,399	123,191,367	118,952,523
Total life	12,736,930	11,370,440	305,863	144,342
Total	**231,874,029**	**217,427,839**	**123,497,230**	**119,096,865**

13.2 Net claims incurred

Net claims incurred

(EUR)	Sava Re Group			Sava Reinsurance Company		
	2010	2009	Index	2010	2009	Index
Gross claims paid - Slovenia	74,652,098	97,552,594	76.5	47,167,290	71,469,870	66.0
Gross claims paid - international	56,617,506	51,837,766	109.2	30,925,582	29,338,091	105.4
Total gross claims paid	131,269,604	149,390,360	87.9	78,092,872	100,807,961	77.5
Total net claims paid	118,003,570	117,695,956	100.3	66,448,306	70,871,474	93.8
Change in the net provision for outstanding claims	22,006,391	30,122,280	73.1	15,291,810	19,386,313	78.9
Net claims incurred	**140,009,961**	**147,818,236**	**94.7**	**81,740,116**	**90,257,788**	**90.6**

Sava Re Group

The Sava Re Group recorded a 12.1% drop in gross claims paid. 2010 was a year with few major natural catastrophic events compared to 2009, but this drop in claims was also achieved because all Group companies (i) are more selective in writing business, (ii) have taken actions to improve profitability of certain products and (iii) restricted premium growth in classes of business and products that are not profitable. This fall in gross claims paid was mainly contributed by Sava Reinsurance Company with a 22.5% (EUR 22.7m) drop in gross claims paid and by Sava Montenegro with a 29.8% (EUR 1.8m) fall in claims. The largest increase in claims paid in absolute terms was recorded by Zavarovalnica Tilia (EUR 1.6m, in line with premium growth), Serbian insurer Sava osiguranje (EUR 1.4m), Kosovan company Illyria (EUR 1.2m; in line with premium growth in health business) and Croatian insurer Velebit osiguranje (EUR 1.7m; the Company was included in the consolidated statements only in the second half of 2009). All the above companies recorded similar growth in gross premiums.

Gross claims paid by region

(EUR)	2010	2009	Index	Structure 2010
Slovenia	74,652,098	97,552,594	76.5	56.9%
International	56,617,506	51,837,766	109.2	43.1%
Total	131,269,604	149,390,360	87.9	100.0%

Consolidated gross claims paid in Slovenia fell by 23.5% mainly due to a drop (41.3%) in the consolidated reinsurance claims paid for Slovenian business. Thus these claims as a percentage of total consolidated gross claims paid decreased from 65.3% in 2009 to 56.9% in 2010. 2009 was a very unfavourable loss year with hail storms, which makes it less suitable as a measure of performance in 2010; the year 2010, by contrast, was a very favourable loss year even compared to a more-year average. Claims from abroad recorded a 9.2% growth, which is a result of the growth in the consolidated reinsurance claims from abroad (8.4%) and the growth in gross claims paid in almost all Group members. The share of foreign-sourced claims increased to account for 43.1% (2009: 34.7%) of the total consolidated claims paid.

Consolidated net claims incurred fell as a result of both a favourable claims development and the effects of improvements Group members made to the their portfolios.

Consolidated gross claims paid by Group operating segment

(EUR)	2010	2009	Index	Structure 2010
Reinsurance business	64,213,311	86,396,330	74.3	48.9%
Non-life business	64,442,773	61,376,186	105.0	49.1%
Life business	2,613,520	1,617,844	161.5	2.0%
Total	131,269,604	149,390,360	87.9	100.0%

The drop in consolidated gross claims paid in the reinsurance segment[20] relates to the controlling company. These claims as a percentage of total consolidated gross claims paid decreased by 8.9 percentage points in 2010.

In 2010 consolidated gross claims paid from the non-life segment grew by 5.0%, which is in line with the growth in gross premiums written (5.1%).

Gross benefits paid in respect of life business grew by 61.5% (EUR 1.0m) primarily due to Zavarovalnica Tilia and Croatian company Velebit životno osiguranje.

20.Consolidated reinsurance claims comprise gross claims paid less claims received by Sava Reinsurance Company from subsidiaries.

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Gross paid loss ratios

(EUR)	2010	2009
Reinsurance business	53.2%	71.8%
Non-life business	51.2%	51.3%
Life business	20.9%	14.2%
Total	50.7%	59.4%

Paid loss ratios for 2010 indicate improved performance in the reinsurance and non-life segments. Life insurers in the Group are predominantly greenfield operations (except Zavarovalnica Tilia) so the small share of claims paid (endowment, death, etc.) is normal.

Consolidated net claims paid increased by 0.3% in 2010 (gross claims paid down 12.1%). Net claims paid increased slightly despite a drop in gross claims paid as a result of a decrease in retroceded claims in the controlling company (of EUR 18.3m).

The change in the consolidated net claims provision, which is used to calculate net claims incurred, was an increase of EUR 22.0m. This large increase in net claims provisions was mostly due to Sava Reinsurance Company (EUR 15.3m). Other companies who grew net claims provisions are: Velebit osiguranje (EUR 1.8m), Sava osiguranje (EUR 1.7m), Sava Montenegro (EUR 1.3m) and Sava Tabak (EUR 1.2m). The increase in the controlling company relates to large growth in foreign-sourced business over recent years, while subsidiaries strengthen claims provisions also in order to bring them in line with EU reserving standards.

Consolidated net claims incurred, which include the change in the claims provision, decreased by 5.3% compared to the prior year. The decrease is a result of movements in above-mentioned items, which are used in calculating net claims incurred.

Sava Reinsurance Company

In 2010, gross reinsurance claims totalled EUR 78.1m, down 22.5% from 2009.

Gross reinsurance claims from Slovenia decreased by 34% compared to 2009. While in 2008 and 2009 Slovenia was hit by hail storms, 2010 was a more benevolent year in terms of natural disasters, and this is the reason why Slovenian cedants recorded fewer claims. A contribution to better claims figures also came from restructuring to improve the portfolios of Slovenian cedants.

Gross reinsurance claims associated with the foreign-sourced portfolio increased by 5.4% over 2009. The reason for the mentioned rise in claims on the foreign-sourced portfolio is an increased volume of business in this part of the portfolio (foreign-sourced premium income rose by 15.9%).

In 2010, net reinsurance claims totalled EUR 66.4m, down 6.2% from 2009. Net claims recorded a significantly smaller decline than gross claims, which is due to retroceded claims. These were lower by 61.1% in 2010 compared to the prior year. This drop is due to the fact that there were no major claims in excess of Sava Reinsurance Company's retention in 2010.

The change in the net claims provision (1 January 2010–31 December 2010), which together with net claims paid is used to calculate net claims incurred, was an increase of EUR 15.3m. The increase relates to the growth in foreign-sourced business over the recent years and the growth in non-proportional coverages in this regard, for which relatively large claims provisions were set aside in the first two years of treaties regardless whether any claims were incurred (IBNR).

Net claims incurred, which include the change in the claims provision, decreased by 9.4% compared to the prior year.

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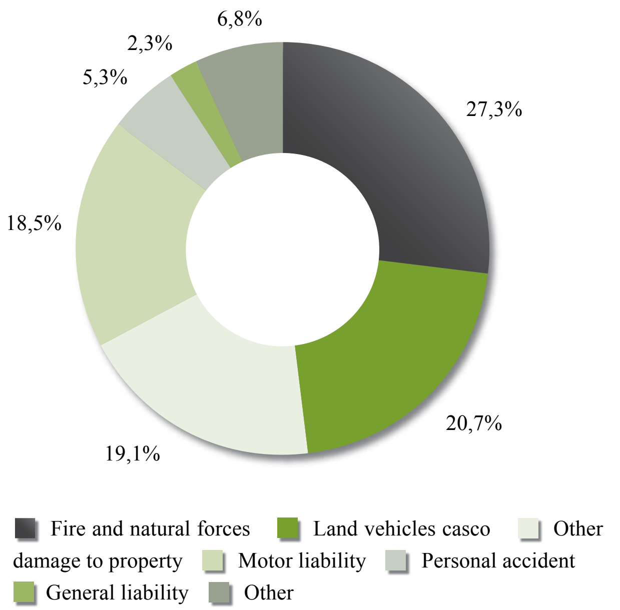
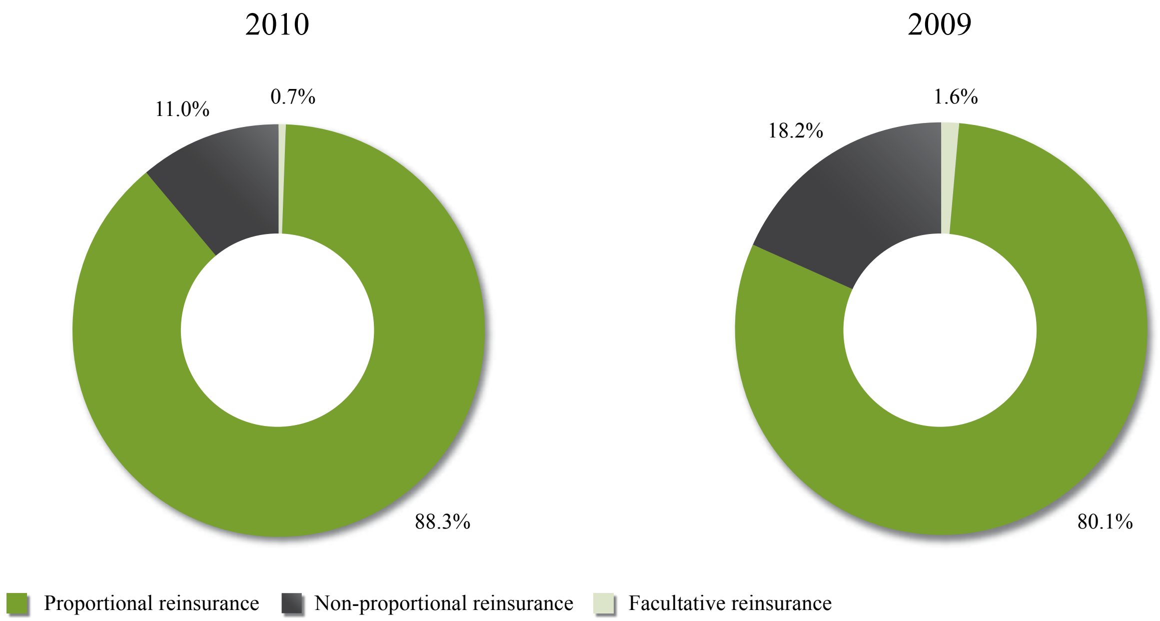
Gross claims paid in 2010 by class of business



In 2010 gross claims paid were dominated by fire (accounting for 27.3%) and land vehicles casco (20.7%). Other damage to property accounted for 19.1% of all gross claims paid. In 2009 gross claims paid were dominated by fire and other damage to property (jointly accounting for 50.8%). The share of motor business increased from 38.5% in 2009 to 39.1% in 2010. This is because hail storm claims in previous years impacted primarily property business (fire and other damage to property).

Absolute amounts of gross claims paid by class of business are shown in the section Performance indicators, together with their movements as compared to 2009.

Gross claims paid by form of reinsurance



The structure of gross claims by form of reinsurance changed slightly in 2010 with an increase in claims on proportional business. Claims on proportional reinsurance business decreased by 14.7% compared to the prior year, non-proportional claims by 53.3% and facultative claims by 65.7%. The decline in claims is a result of the decrease in claims by domestic cedants. In 2010 claims of domestic cedants fell by 34.0%, while premiums fell by 16.4%. In 2010 proportional claims of domestic cedants were lower by 25.5% (EUR 14.6m), non-proportional claims by 65.3% (EUR 8.3m). As there were no major claims on non-proportional coverages, their share in the overall claims structure decreased.

Net claims incurred by class of business

(EUR)	Sava Re Group		Sava Reinsurance Company	
	2010	2009	2010	2009
Personal accident	7,195,851	8,151,347	3,830,914	4,866,662
Health	3,033,034	1,888,408	0	0
Land vehicles casco	28,269,333	32,960,563	14,117,278	17,450,962
Aircraft hull	221,076	156,724	221,076	156,725
Ships hull	1,392,312	2,199,494	1,369,081	2,113,828
Goods in transit	2,258,269	1,802,558	2,167,864	1,687,664
Fire and natural forces	30,511,769	22,228,224	28,714,951	21,092,400
Other damage to property	15,435,074	26,878,133	11,556,760	24,455,469
Motor liability	41,266,562	43,933,889	13,779,438	14,582,719
Aircraft liability	-25,836	312,536	-24,484	311,047
Liability for ships	197,444	-18,970	195,226	-25,957
General liability	4,453,256	3,954,324	3,194,477	2,970,418
Credit	1,052,538	2,129,039	642,964	1,173,095
Suretyship	154,006	555,260	182,758	443,199
Miscellaneous financial loss	1,765,964	-1,052,554	1,757,057	-1,079,702
Legal expenses	179	-1,318	179	-124
Assistance	262,336	81,227	8,391	21,636
Life business	1,007,790	839,316	-2,207	23,236
Unit-linked life	1,559,004	820,035	28,393	14,510
Total non-life	137,443,167	146,158,884	81,713,930	90,220,042
Total life	2,566,794	1,659,351	26,186	37,746
Total	**140,009,961**	**147,818,235**	**81,740,116**	**90,257,788**

13.3 Movements in technical provisions

Movements in gross and net technical provisions

(EUR)	Sava Re Group			Sava Reinsurance Company		
	31 Dec 2010	1 Jan 2010	Index	31 Dec 2010	1 Jan 2010	Index
Gross unearned premiums	87,101,437	86,012,274	101.3	41,861,443	44,042,916	95.0
Gross provision for outstanding claims	197,489,172	184,313,617	107.1	131,492,898	123,869,342	106.2
Gross mathematical provisions	15,228,730	13,363,461	114.0	0	0	-
Provision for bonuses, rebates and cancellations	544,113	463,528	117.4	203,540	226,569	89.8
Other gross technical provisions	2,923,797	4,130,024	70.8	384,094	1,588,019	24.2
Technical provisions for the benefit of policyholders who bear the investment risk	23,626,363	17,953,979	131.6	0	0	-
Total gross technical provisions	**326,913,612**	**306,236,883**	**106.8**	**173,941,974**	**169,726,846**	**102.5**
Net unearned premiums	83,855,444	82,697,482	101.4	39,596,820	41,843,371	94.6
Net provision for outstanding claims	180,986,269	159,704,092	113.3	116,231,221	100,939,412	115.1
Net mathematical provisions	15,228,424	13,363,438	114.0	0	0	-
Net provision for bonuses, rebates and cancellations	544,113	463,528	117.4	203,540	226,569	89.8
Other net technical provisions	2,938,460	3,154,954	93.1	384,094	1,569,144	24.5
Technical provisions for the benefit of policyholders who bear the investment risk	23,626,363	17,953,979	131.6	0	0	-
Total net technical provisions	**307,179,073**	**277,337,473**	**110.8**	**156,415,674**	**144,578,495**	**108.2**

Sava Re Group

The total consolidated gross technical provisions increased by 6.8% in 2010. The largest nominal increase was recorded by Zavarovalnica Tilia (EUR 7.4m), Sava Reinsurance Company (EUR 4.2m) and Velebit osiguranje (EUR 2.7m).

Gross unearned premiums grew by 1.3%, which is related to the growth in gross premiums written (3.1%). Sava Reinsurance Company recorded a rise in unearned premiums at the end of 2010 compared to the beginning of the year (by EUR 2.2m), while Zavarovalnica Tilia recorded a drop by EUR 1.9m.

Gross claims provisions grew by 7.1% (gross claims paid fell by 12.1%). Nearly all Group members increased their claims provisions: Sava Reinsurance Company by EUR 7.6m, Velebit osiguranje by EUR 2.1m, and Sava Montenegro by EUR 1.3m.

The growth in mathematical provisions was 14.0%, mainly due to Zavarovalnica Tilia where mathematical provisions grew by EUR 1.2m.

Other gross technical provisions (including the provision for unexpired risks) decreased in 2010 by EUR 2.1m, while the provision for bonuses, rebates and cancellations grew by EUR 80,585.

The technical provision for the benefit of life insurance policyholders who bear the investment risk is established only by Zavarovalnica Tilia. They increased by 31.6%.

The consolidated net technical provisions moved in line with gross items in 2010 and very similar to the gross provision.

Sava Reinsurance Company

The fall in gross unearned premiums (5.0%) in 2010 is larger than the drop in gross premiums written (2.9%), which reflects the change in the portfolio structure: due to the 15.9% growth in non-proportional reinsurance business against a 6.2% growth in proportional reinsurance business, the share of the latter in the portfolio structure decreased from 87.8% to 84.5%; no unearned premium is accounted for non-proportional reinsurance business that is renewed at the year-end, which is why total unearned premiums have grown faster than premiums. The mentioned change in the portfolio structure is due to the decrease in quota share reinsurance business from Slovenian cedants and the growth in the foreign-sourced portfolio.

The gross provision for outstanding claims increased by 6.2% in 2010. The gross provision for outstanding claims relating to domestic business decreased by 9.4%, while the claims provision for foreign-sourced business increased by 38.1%. With Slovenian cedants, the decrease in the claims provision is a result of (i) the above mentioned shrinkage of this part of the portfolio, (ii) a favourable loss year without major loss events, and (iii) the hail storm payments made over the past underwriting years. The relatively larger growth in the claims provision relating to the international portfolio against a 15.9% growth in premium is due to a continuously large premium growth in this part of the portfolio over the past underwriting years, which is reflected in the claims provision with a delay.

> The growth in provisions was mainly driven by the increase in claims provisions for foreign-sourced business, which grew at a high pace over the recent years.

Provisions for bonuses, rebates and cancellations remained relatively low. In these, Sava Reinsurance Company participates through the quota share treaty of Slovenian cedants.

Other technical provisions comprise only the provision for unexpired risks, which decreased by 75.8% in 2010. This decrease is due to the above mentioned favourable loss development in 2010, which lowers the expected combined ratios. Of the classes of business that require such a provision, the expected combined ratio improved in motor casco and ships hull, while it deteriorated in the suretyship class. In 2010 it was not necessary to set aside such provisions for the retroceded part of the portfolio.

Net unearned premiums move similarly to gross ones, while net claims provisions recorded a larger growth than gross claims provisions. This is a result of continued payments relating to the catastrophic hail storm losses of 2008 and 2009 and some older motor liability claims, and the absence of any new major losses that would be subject to retrocession. As mentioned above, other technical provisions include the provision for unexpired risk; a calculation on the retrocession level of the portfolio for 2010 showed that this provision is no longer necessary.

13.4 Operating expenses

Operating expenses

(EUR)	Sava Re Group			Sava Reinsurance Company		
	2010	2009	Index	2010	2009	Index
Acquisition costs	45,070,933	43,163,747	104.4	31,939,417	34,031,527	93.9
Change in deferred acquisition costs (+/-)	-790,635	-766,032	103.2	969,641	-379,669	-255.4
Other operating expenses	41,007,388	38,852,672	105.5	6,420,606	6,224,228	103.2
Income from reinsurance commission and share in the balance on the reinsurance account (-)	-2,479,762	-4,718,294	52.6	-2,161,895	-4,437,421	48.7
Net operating expenses	82,807,924	76,532,093	108.2	37,167,769	35,438,665	104.9

Expense ratios[21]

	Sava Re Group		Sava Reinsurance Company	
	2010	2009	2010	2009
Gross expense ratio	33.2%	32.6%	26.9%	27.4%
Administrative expense ratio	15.8%	15.5%	4.5%	4.2%
Net expense ratio	35.7%	35.2%	30.1%	29.8%

Sava Re Group

Acquisition costs grew 4.4% compared to 2009 as a result of the growth (3.1%) in gross premiums written. Most Group companies recorded larger acquisition costs, the costs of the Croatian companies Velebit osiguranje and Velebit životno osiguranje[22] recorded the largest growth, i.e., by EUR 1.2m (full year figure included in the consolidation).

Administrative expenses of the Group increased by 5.5% due to both the larger expenses of Zavarovalnica Tilia and the first full-year inclusion of the Croatian insurers Velebit osiguranje and Velebit životno osiguranje into the consolidated financial statements (in 2009 they were included only for 6 months).

Reinsurance commission income, which is charged against gross operating expenses, dropped by 47.4%. The drop in this income is a result of movements in Sava Reinsurance Company commision income (decreased of EUR 2.3m).

Net operating expenses recorded an 8.2% increase, which is related to the above-mentioned items.

Sava Reinsurance Company

In 2010 acquisition costs dropped by 6.1%, including a 2.2% movement in deferred acquisition costs. This drop is due to gross premiums written, which decreased by 2.9% compared to the prior year.

Administrative expenses increased by 3.2% from 2009 (EUR 196,379) mainly as a result of increased labour costs and consultancy services.

21. The calculation of ratios is explained in the appended glossary.
22. In 2009 the companies were only included in the financial statements in the second half of the year; in 2010 they have been included in the full year.

Reinsurance commission income, which is charged against gross operating expenses, fell by 51.3% (EUR 2.3m) as a result of a smaller volume of retroceded business and poorer loss ratios achieved over the past years; this reduces commission income of Sava Reinsurance Company that is tied to loss ratios.

13.5 Financial investments

Sava Re Group

At the end of 2010, the investment portfolio of the Sava Re Group totalled EUR 364.0m, an increase by EUR 28.3m over 2009. The improved conditions in capital markets and the positive cash flow from insurance business had a positive effect on the investment portfolio.

Total financial investments

(EUR)	31 Dec 2010	31 Dec 2009	Index
Deposits and money market instruments	129,563,385	90,825,019	142.7
Government bonds	75,678,951	78,650,190	96.2
Corporate bonds	73,928,404	70,736,066	104.5
Structured products	0	1,563,830	0.0
Shares (excluding strategic shares)	11,482,158	17,052,682	67.3
Mutual funds	24,158,534	30,627,902	78.9
Loans granted	1,845,220	2,504,443	73.7
Land and buildings	4,906,918	5,773,564	85.0
Other	163,160	402,553	40.5
Strategic shares and interests	42,322,366	37,646,479	112.4
Total investments	**364,049,095**	**335,782,728**	**108.4**
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,405,629	5,768,874	128.4
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,716,699	17,861,634	132.8
Total	**395,171,423**	**359,413,236**	**109.9**

In 2010, the structure of the Group investment portfolio was changed. The portfolio structure was adjusted to the new circumstances in capital markets; major changes came from the restructuring of the investment portfolio by the controlling company and recapitalisations carried out in subsidiaries.

Thus investments in deposits increased by 42.7% as the Group sought to mitigate market risk in the investment portfolio. Proceeds from the sale of equities and mutual funds were invested in deposits. In addition, the share of deposits increased due to recapitalisations in subsidiaries, who invested funds in deposits to comply with capital adequacy requirements and requirements relating to technical provisions.

The Group (especially the controlling company and Zavarovalnica Tilia) decreased investments in structured

The Group invested assets grew as a result of both positive cash flows from core business and favourable conditions in capital markets. The Group generated a positive return on investments of 3.6% through restructuring its investment portfolio.

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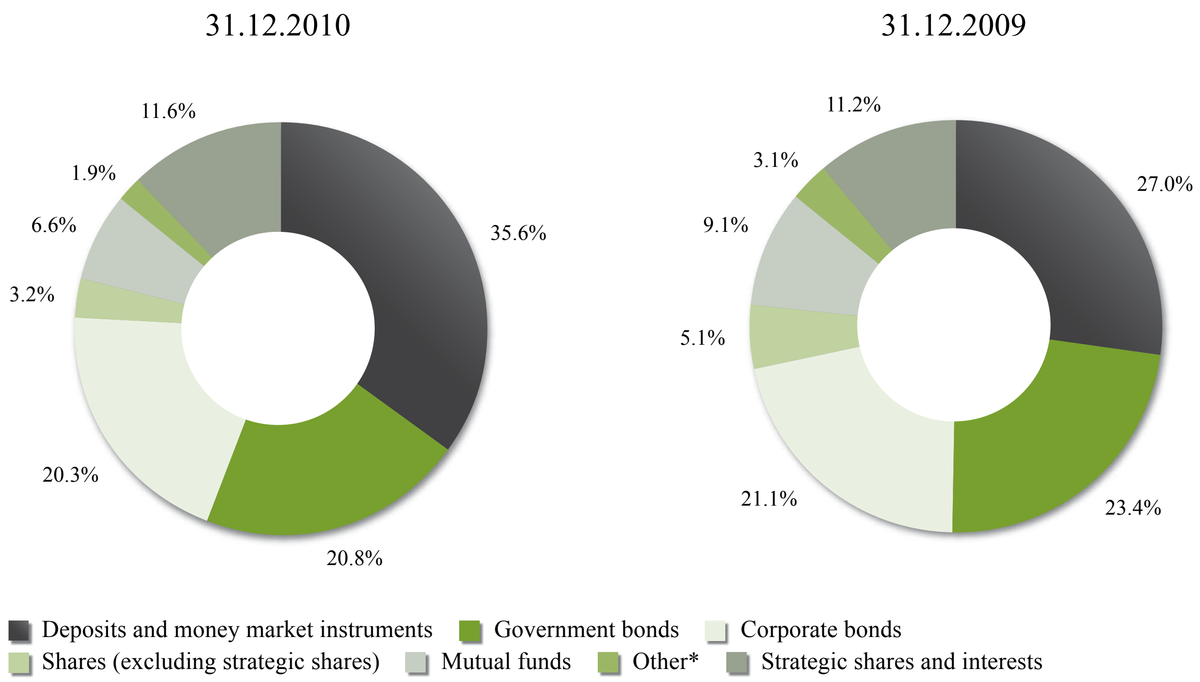
products, shares and mutual funds. This decrease was in response to the Group's strategy to reduce market risk exposure of the investment portfolio. Investments in these types decreased by a total of EUR 12m.

The increase in the share of strategic shares and interests (subsidiary and associate companies) is a result of the profits made by Zavarovalnica Maribor and Moja naložba. In accordance with accounting policies, the Group adds to the investment amount the share of net profit of associate companies that relates to the Sava Re Group.

Investments for the benefit of life-insurance policyholders who bear the investment risk also increased in 2010. The growth of EUR 5.9m is the combined effect of premium growth in unit-linked life business of EUR 4.0m and fair-value revaluation of unit-linked investment coupons of EUR 1.9m.

Structure of the investment portfolio



*This item comprises loans, land and buildings, structured products and other types.

Rates of investment return of the Sava Re Group

2010 was a successful year for Sava Re Group investments as the Group managed to achieve a positive investment return by restructuring its investment portfolio. Below, return on investments in 2010 is shown by investment types and compared against the 2009 investment return.

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Investment return of the Sava Re Group investment portfolio

	31 Dec 2010	31 Dec 2009
Deposits and money market instruments	4.0%	5.4%
Government bonds	5.2%	5.5%
Corporate bonds	3.1%	1.4%
Structured products	0.0%	-20.7%
Shares (excluding strategic shares)	-11.9%	4.0%
Mutual funds	2.0%	-11.0%
Loans granted	-1.3%	-8.2%
Land and buildings	2.4%	1.3%
Other	25.0%	84.2%
Strategic shares and interests	11.7%	-23.6%
Total	**3.6%**	**-1.4%**
Investments for the benefit of life-insurance policyholders who bear the investment risk	9.5%	21.3%

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 and loan taken up by the controlling company with the Hypo Bank for use by a subsidiary.

Return on the total Group investment portfolio was 3.6% in 2010, up 5.0 percentage points from 2009.

In 2010 investments in deposits generated a slightly lower return as in 2009 because of the lower interest rates and because of the impairment loss on Poteza Naložbe commercial notes of EUR 0.4m recorded upon the initiation of bankruptcy proceedings against the company.

The returns on government and corporate bonds in the Group portfolio in 2010 remained at approximately the same levels as in the prior year. The return on corporate bonds is smaller than the return on government bonds due to the impairment loss on the Poteza Group bond of EUR 1.5m, which the controlling company realised because of the initiation of compulsory settlement proceedings against Poteza Group.

The negative return on equities relates to impairment losses on unquoted shares (of EUR 2.3m) recognised by the controlling company in 2010. The return on mutual fund investments is positive because of realising capital gains.

The large return on strategic shares and interests relates to the profit made by Zavarovalnica Maribor and Moja naložba. This is because in the consolidated financial statements, the Group recognises as investment income the part of net profits generated by affiliates that pertains to the Sava Re Group.

The return on investments for the benefit of life insurance policyholders who bear the investment risk is 9.5% and fell by 11.8% compared to 2009, due to a more moderate growth in unit-linked investment coupons.

Sava Reinsurance Company

In 2010 the investment portfolio of Sava Reinsurance Company grew by EUR 27.7m to EUR 320.5m[23]. The 2009 investments already include the 100% share in Illyria as the consideration for the 49% interest of EUR 8.5m was paid only on 3 January 2011. The improved conditions in capital markets and the positive cash flow from reinsurance business of EUR 14.2m had a positive effect on the investment portfolio.

23. Investments do not include deposits with cedants totalling EUR 7.4m (2009: EUR 5.8m).

Structure of the investment portfolio

(EUR)	31 Dec 2010	31 Dec 2009	Index
Deposits and money market instruments	73,003,230	41,632,018	175.4
Government bonds	46,620,807	48,109,961	96.9
Corporate bonds	62,258,372	65,124,250	95.6
Structured products	0	1,563,830	-
Shares (excluding strategic shares)	9,350,409	15,019,995	62.3
Mutual funds	16,172,633	24,991,847	64.7
Loans	6,702,331	5,702,997	117.5
Land and buildings	160,920	1,244,886	12.9
Strategic shares and interests	106,236,355	89,436,602	118.8
Total	320,505,056	292,826,386	109.5

In 2010, the structure of the Company's investment portfolio changed. The move towards fixed-income investments was in response to the uncertain conditions in capital markets in order to reduce market risks and ensure a stable return on investments. Investments in affiliated companies increased as a result of the continued expansion of the Group.

Investments in affiliates thus increased by EUR 16.8m (18.8%) from 2009. The increase in investments in affiliated companies is due to the acquisition of a 49% interest in Illyria (EUR 8.9m) and Illyria Life (EUR 2.3m), the recapitalisation in Sava Montenegro, Sava osiguranje, Sava životno osiguranje and Velebit usluge (in total EUR 6.4m) and due to the impairment loss on the investment in Sava Tabak of EUR 0.4m.

As the uncertainty in capital markets persisted, the Company opted mostly for short-term fixed-income investments (deposits and money market instruments), which is why their share increased by 75.4% compared to 2009. If capital markets stabilise in 2011, the Company will replace this part of the portfolio with other investment types.

The change in the share of equities (excluding strategic shares) is a result of a number of factors. The amount decreased due to impairment losses (EUR 2.6m), the cancellation of asset management contracts (EUR 2m), due to sales (EUR 0.7m) and fair value revaluation (EUR 0.4m).

The decrease in the share of mutual fund investments is a result of the change in the investment policy as Sava Reinsurance Company, in response to the financial crisis, decided to reorganise the investment portfolio in order to mitigate market risk.

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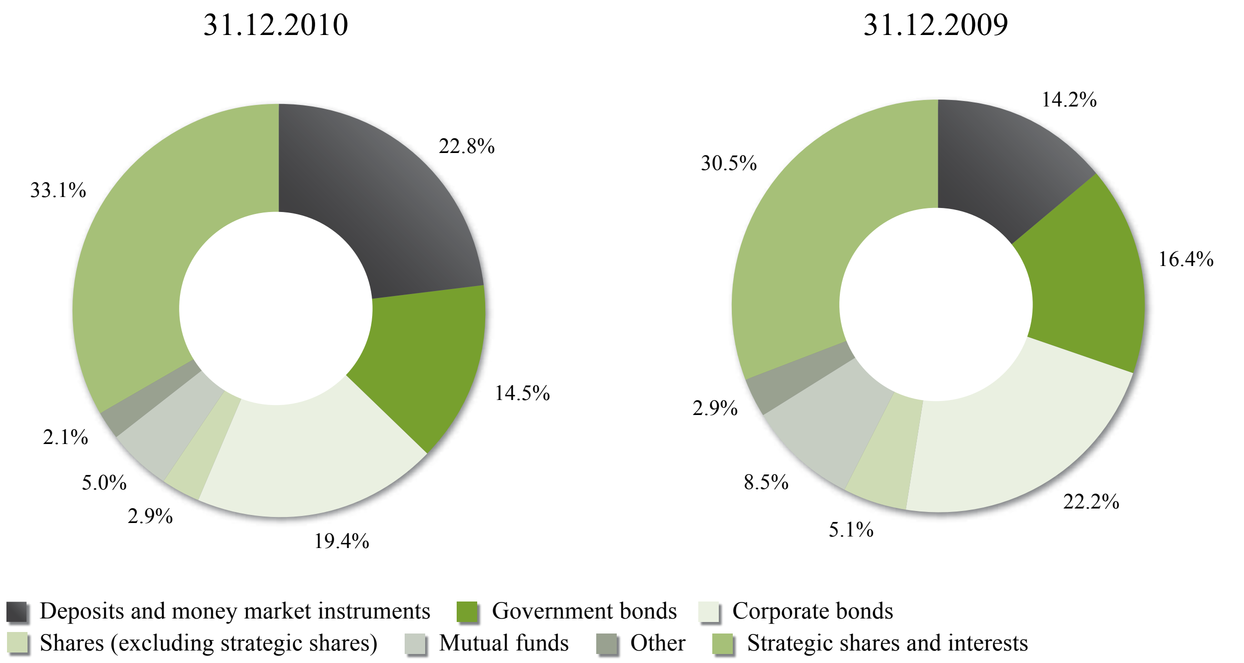
Structure of the investment portfolio



Return on investments of Sava Reinsurance Company

In 2010, the return on the investment portfolio was affected by the portfolio restructuring and the lasting effects of the financial crisis. Below, return on investments in 2010 is shown by investment types and compared against the 2009 investment return.

Investment return

	31 Dec 2010	31 Dec 2009
Deposits and money market instruments	2.4%	3.5%
Government bonds	5.0%	5.4%
Corporate bonds	2.5%	1.3%
Structured products	0.0%	-15.0%
Shares (excluding strategic shares)	-15.7%	2.2%
Mutual funds	3.7%	-14.4%
Loans	2.0%	2.0%
Land and buildings	8.0%	9.5%
Other	n/a	-0.3%
Strategic shares and interests	-0.4%	-6.4%
Total	0.8%	-2.3%
Total excl. expenses relating to subordinate debt	1.3%	-1.7%
Excl. affiliated companies	1.4%	-0.5%
Excluding affiliates and subordinate debt	2.1%	0.3%

To calculate return on investments, Sava Reinsurance Company uses the arithmetic average of the total investment amount as at five dates in the year under report. Return on investments is then calculated as net investment income as a percentage of the average investment amount in the year. The total return is then reduced by the expenses relating to the subordinate debt.

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Return on the entire investment portfolio of Sava Reinsurance Company was 0.8% in 2010, down 3.1 percentage points from 2009. The total return on the investment portfolio in 2010 is low mainly due to impairment losses of EUR 5.0m.

Investments in deposits were less profitable in 2010 than the previous year. This is owing to the impairment losses on Poteza Naložbe commercial notes of EUR 0.4m that the Company had to recognise following the announcement of bankruptcy proceedings.

In 2010 the Company managed to realise capital gains with government and corporate bonds so that the return on these two investment types are high despite the impairment of the Poteza Group bond of EUR 1.5m following the initiation of compulsory settlement proceedings.

The negative return on shares (excl. strategic shares) in 2010 is a result of the impairment loss on unquoted equities of EUR 2.3m and on quoted equities of EUR 0.2m.

In 2010 Sava Reinsurance Company realised a positive return with mutual funds by realising net capital gains of EUR 1m.

Also in 2010 the return generated by subsidiaries was a negative one as Sava Reinsurance Company had to recognise impairment losses on the investment in Sava Tabak of EUR 0.4m because the company did not meet targets.

13.6 Other investments of Sava Reinsurance Company in the insurance industry

In addition to its investments in subsidiaries and associates, at 31 December 2010, Sava Reinsurance Company held investments in other companies in the insurance industry as shown in the table below.

Other investments of Sava Reinsurance Company in the insurance industry

	Holding (%) as at 31 Dec 2010
Slovenia	
Skupina prva, zavarovalniški holding, d.d.	4.04%
EU and other international	
Croatia Lloyd, d.d. za reosiguranje, Zagreb, Croatia	0.41%
Bosna reosiguranje, d.d., Sarajevo, Bosnia and Herzegovina	0.49%
Dunav Re, a.d.o., Belgrade, Serbia	1.12%

14 Financial Position of the Group and the Company

Sava Re Group

At 31 December 2010, total assets of the Sava Re Group stood at EUR 578.4m, an increase of 3.2% over 2009.

Consolidated total assets

(EUR)	31 Dec 2010	31 Dec 2009	Index	Structure 2010	Structure 2009
ASSETS	578,385,408	560,711,611	103.2	100.0%	100.0%
Intangible assets	23,289,847	23,846,535	97.7	4.0%	4.3%
Property and equipment	26,711,597	24,830,829	107.6	4.6%	4.4%
Deferred tax assets	2,236,081	2,368,845	94.4	0.4%	0.4%
Investment property	4,906,918	5,773,564	85.0	0.8%	1.0%
Financial investments in associated companies	42,322,366	37,646,479	112.4	7.3%	6.7%
Financial investments	324,225,440	298,131,559	108.8	56.1%	53.2%
Funds for the benefit of policyholders who bear the investment risk	23,716,699	17,861,634	132.8	4.1%	3.2%
Reinsurers' share of technical provisions	19,734,539	28,899,410	68.3	3.4%	5.2%
Receivables	88,067,303	96,209,971	91.5	15.2%	17.2%
Deferred acquisition costs	17,318,841	17,404,467	99.5	3.0%	3.1%
Other assets	753,985	1,130,971	66.7	0.1%	0.2%
Cash and cash equivalents	4,026,603	5,617,457	71.7	0.7%	1.0%
Non-current assets held for sale	1,075,190	989,887	108.6	0.2%	0.2%

The largest part of assets are financial investments, which increased by 8.8% compared to end-of 2009. The increase is a result of positive cash flow from core business, primarily from the controlling company and Zavarovalnica Tilia (consolidated net cash from operating activities in 2010 totalled EUR 48.7m).

The second largest asset item are receivables, the share of which decreased by 2 percentage points due to a decrease in receivables of the controlling company. This was a result of a smaller reinsurance premium income on the Slovenian market.

Financial investments in associates account for 7.3% of assets, up by 12.4%. This increase is due to the profit contributed by both Zavarovalnica Maribor and Moja naložba of EUR 5m.

Another item that changed by more than EUR 5m is funds for the benefit of policyholders who bear the investment risk. The growth of EUR 5.9m is the combined effect of premium growth in unit-linked life business of EUR 4.0m and fair-value revaluation of unit-linked investment coupons of EUR 1.9m.

Reinsurers' share of technical provisions grew 31.7% compared to 31 December 2009, which is due to the fact that 2009 was a year of large losses when large reinsurance coverages were impacted.

Consolidated equity and liabilities

(EUR)	31 Dec 2010	31 Dec 2009	Index	Structure 2010	Structure 2009
LIABILITIES AND EQUITY	578,385,408	560,711,611	103.2	100.0%	100.0%
Equity	154,684,609	161,677,406	95.7	26.7%	28.8%
Basic capital	39,069,099	39,069,099	100.0	6.8%	7.0%
Share premium	25,417,396	33,003,756	77.0	4.4%	5.9%
Profit reserves	85,362,019	80,279,744	106.3	14.8%	14.3%
Treasury shares	-1,774	-1,774	100.0	0.0%	0.0%
Fair value reserve	-121,460	543,937	-22.3	0.0%	0.1%
Retained earnings	557,800	13,524,831	4.1	0.1%	2.4%
Net profit/loss for the year	2,385,891	-12,341,747	-19.3	0.4%	-2.2%
Translation reserve	-2,427,213	-1,685,177	144.0	-0.4%	-0.3%
Equity attributable to equity holders of the controlling company	*150,241,758*	*152,392,668*	*98.6*	*26.0%*	*27.2%*
Non-controlling interest in equity	*4,442,851*	*9,284,738*	*47.9*	*0.8%*	*1.7%*
Subordinated liabilities	31,177,758	31,135,777	100.1	5.4%	5.6%
Technical provisions	303,287,248	288,282,904	105.2	52.4%	51.4%
Technical provision for the benefit of life insurance policyholders who bear the investment risk	23,626,363	17,953,979	131.6	4.1%	3.2%
Other provisions	768,854	872,101	88.2	0.1%	0.2%
Deferred tax liabilities	186,610	385,659	48.4	0.0%	0.1%
Other financial liabilities	2,667,101	3,173,918	84.0	0.5%	0.6%
Liabilities from operating activities	33,716,371	40,176,908	83.9	5.8%	7.2%
Other liabilities	28,270,496	17,052,958	165.8	4.9%	3.0%

The technical provisions item is the largest item of equity and liabilities; in 2010 the share of technical provisions grew by 1 percentage point to account for 52.4% of equity and liabilities. The amount of gross technical provisions was higher by 5.2% at the end of 2010. This growth is due to the growth in technical provisions of the controlling company, due to the growth in portfolios of subsidiaries and partly due to one-off adjustments of provisions by some Group companies relating to past underwriting years.

The next largest item is equity, which accounts for 26.7% of the liabilities side. The reduction in the amount of capital by 4.3% is a result of movements in its components as follows:

- share premium decreased following the acquisition of a 49% interest in Illyria, Kosovo by the controlling company;
- profit reserves increased as a result of the allocation of profits by Sava Reinsurance Company and Zavarovalnica Tilia;
- the fair value reserve decreased by EUR 0.6m;
- retained profits were lower due to the net profit in 2009;
- the foreign currency translation adjustment has a larger negative value due to negative effects of translation differences;

Liabilities from operating activities, representing 5.8% of the liabilities side, dropped by 16.1%. This drop is a result of a more favourable loss development in 2010.

Another item that changed by more than EUR 5m is technical provisions for the benefit of policyholders who bear the investment risk. This item increased by 31.6% over the figure last year, its movements in line with policyholders funds.

Sava Reinsurance Company

At 31 December 2010, total assets were EUR 418.3m, an increase of 3.5% over 2009.

Total assets

(EUR)	31 Dec 2010	31 Dec 2009	Index	Structure 2010	Structure 2009
ASSETS	418,350,613	404,105,057	103.5	100.0%	100.0%
Intangible assets	178,615	181,818	98.2	0.0%	0.0%
Property and equipment	2,451,169	1,808,628	135.5	0.6%	0.4%
Deferred tax assets	2,073,687	2,112,682	98.2	0.5%	0.5%
Investment property	160,920	1,244,886	12.9	0.0%	0.3%
Financial investments in Group companies and in associates	106,236,355	89,436,601	118.8	25.4%	22.1%
Financial investments	221,513,409	207,913,774	106.5	52.9%	51.5%
Reinsurers' share of technical provisions	17,526,300	25,148,351	69.7	4.2%	6.2%
Receivables	58,673,864	65,638,369	89.4	14.0%	16.2%
Deferred acquisition costs	9,191,801	10,263,816	89.6	2.2%	2.5%
Other assets	175,299	225,689	77.7	0.0%	0.1%
Cash and cash equivalents	169,193	130,442	129.7	0.0%	0.0%

At the end of 2010, the largest part of assets remained financial investments, which increased by 6.5% compared to 2009. The share of financial investments in the structure of assets thus increased by 1.4 percentage points. The next largest item are investments in affiliates, which increased by 18.8% as a result of recapitalisations and the acquisition of a 49% interest in the Kosovan subsidiaries. Receivables, accounting for 14% of assets, decreased by 10.6% compared to 2009, which is due to the smaller business volume from Slovenia.

Equity and liabilities

(EUR)	31 Dec 2010	31 Dec 2009	Index	Structure 2010	Structure 2009
LIABILITIES AND EQUITY	418,350,613	404,105,057	103.5	100.0%	100.0%
Equity	156,138,328	149,995,279	104.1	37.3%	37.1%
Basic capital	39,069,099	39,069,099	100.0	9.3%	9.7%
Share premium	33,003,752	33,003,752	100.0	7.9%	8.2%
Profit reserves	83,236,430	79,639,568	104.5	19.9%	19.7%
Fair value reserve	-2,767,816	-1,717,140	161.2	-0.7%	-0.4%
Net profit/loss for the year	3,596,862	0	-	0.9%	0.0%
Subordinated liabilities	31,177,758	31,135,777	100.1	7.5%	7.7%
Technical provisions	173,941,974	169,726,846	102.5	41.6%	42.0%
Other provisions	112,165	170,448	65.8	0.0%	0.0%
Deferred tax liabilities	86,161	323,814	26.6	0.0%	0.1%
Other financial liabilities	2,901,061	2,900,613	100.0	0.7%	0.7%
Liabilities from operating activities	31,997,763	37,345,543	85.7	7.6%	9.2%
Other liabilities	21,995,403	12,506,736	175.9	5.3%	3.1%

At the end of 2010, the technical provisions item was the largest item of equity and liabilities. At 31 December 2010, technical provisions accounted for 41.6% of equity and liabilities, an increase of 2.5% in the amount of technical provisions.

The second largest item is equity with a 37.3% share in the structure. Equity increased by 4.1%. This growth is a result of the increase in the net profit of EUR 3.6m. In 2010 the amount of equity decreased due to the increase in the negative amount of the fair value reserve, an increase of 61.2% over 2009 (EUR 1.1m). Liabilities from operating activities, accounting for 7.6% of equity and liabilities, fell by 14.3%, mainly as a result of a more favourable loss development. There were no significant changes in subordinated liabilities. These mainly relate to a subordinate loan in the amount of EUR 31.1m.

Calculated under local legislation, Sava Reinsurance Company had a large surplus of available solvency margin over required solvency margin of EUR 21.6m.

15 Risk Management

Risk management is discussed in greater detail in the Risk Management section of the notes to the financial statements.

Sava Re Group

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.

All subsidiaries set technical provisions in compliance with their local regulations; therefore, as early as in 2009 the Group strengthened technical provisions, seeking to arrive at a uniform approach to technical provisions based on actuarial principles.

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

On 25 November 2009, the European Parliament and Council adopted the Solvency II Directive[24], which introduced new capital adequacy rules for insurance and reinsurance companies. Member states must implement the Directive by 1 January 2013. This will significantly affect the dynamics of setting up an integrated system of risk management within the Group.

Sava Reinsurance Company

Under the Insurance Act (ZZavar), Sava Reinsurance Company must at all times maintain capital that is adequate in relation to the amount and type of policies and contracts written, and risks assumed thereby. Furthermore, Sava Reinsurance Company must at all times be able to meet liabilities when due (liquidity), and able to continuously meet all of its liabilities in the long term (solvency).

Sava Reinsurance Company is mainly exposed to underwriting, market, liquidity, credit and operational risks. These risks are specified in detail in the Risk management section of the notes to the financial statements, together with the estimated exposures to and measures to reduce such risks.

The Group implements systematic risk management procedures in all its activities and processes.

24. Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance.

16 Internal Audit Function

Internal auditing in Sava Reinsurance Company ("the Company") is carried out by the Group Internal Audit ("GIA") based on its charter. The GIA is an autonomous organisational part functionally and organisationally separate from other parts of the Company and reports directly to the Management Board. Its position in the Company ensures autonomy and independence of operation.

Also in 2010, the GIA assisted the Sava Re Group in reaching the goals set by fostering planned, orderly risk evaluation, improving the effectiveness of risk management procedures and risk management in general, thus adding value by giving independent and impartial assurance and by providing consulting services.

The GIA reports regularly – on a quarterly basis – to the Management Board, the Audit Committee and the Supervisory Board on the results of auditing operations, on reviewing if internal control systems are appropriate and effective, on breaches and irregularities found and on overseeing the implementation of recommendations.

Regular reviews have also been targeted to establishing the probability of fraud, and exposure and vulnerability to IT risks. In fields subject to internal auditing, internal control systems have been set up and are operating so as to prevent fraud.

As part of developing the internal audit function, the GIA has started transferring internal auditing methodologies to internal audit services of other Group members. The GIA revised its charter to include amendments of the International Standards for the Professional Practice of Internal Auditing, effective as of 1 January 2011.

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17 Organization, Employees and Know-How

The table below shows the number of employees calculated on a full-time equivalent basis.

Employment figures for Group members

	31 Dec 2010	31 Dec 2009	Change
Zavarovalnica Tilia, Slovenia	383	396	-13
Sava osiguranje, Serbia	277	293	-16
Velebit osiguranje, Croatia	154	140	14
Illyria, Kosovo	154	147	7
Sava životno osiguranje, Serbia	147	80	67
Sava Tabak, Macedonia	124	113	11
Sava Montenegro, Montenegro	114	100	14
Illyria Life, Kosovo	81	36	45
Velebit životno osiguranje, Croatia	76	75	1
Sava Reinsurance Company, Slovenia	65	61	4
Bro-Dil, Macedonia	4	5	-1
Sava Car, Montenegro	1	0	1
Sava Invest, Macedonia	0	3	-3
Dukagjini Hospital, Kosovo	0	0	0
Total	1.580	1.449	131

Sava Re Group

In 2010 Illyria Life and Sava životno recorded a large increase in the number of employees as a result of building a sales network, which greatly increased the number of agents in the two companies.

Supporting services in the Group companies were optimising organisational structures throughout 2010.

In 2010 the controlling company organised three workshops for Group members: one in the field of finance, accounting and controlling, one on marketing and one actuarial workshop.

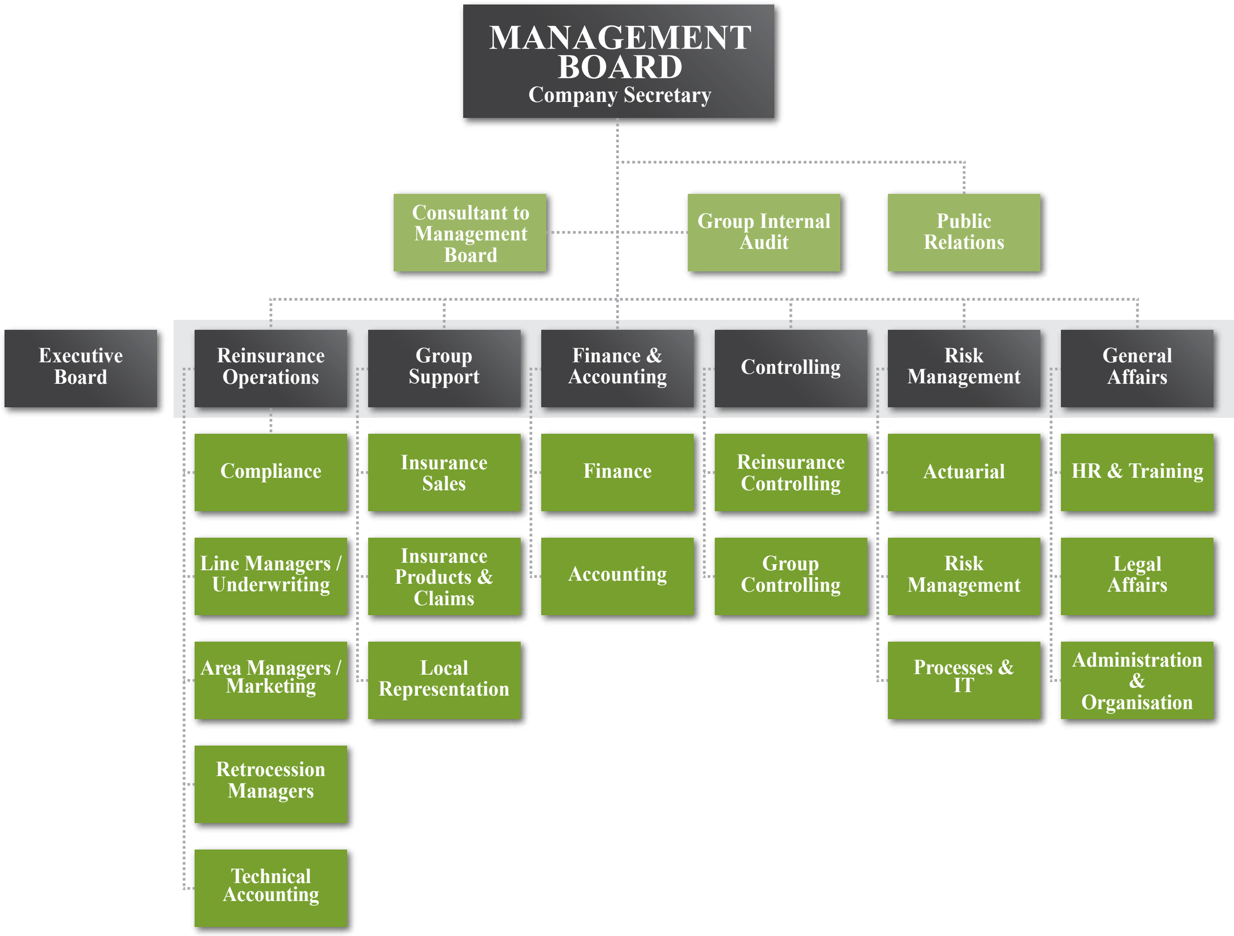
Sava Reinsurance Company

In 2010, Sava Reinsurance Company employed seven new staff members: one staff member in General Affairs, two in Reinsurance Operations, one in Risk Management, one in Public Relations, one in Finance & Accounting and one in Group Internal Audit. New employments are mainly substitutes for staff members who left the Company. During 2010, three staff members left the Company.

Know-how

The employees of Sava Reinsurance Company take part in education and training from all professional fields that the Company covers. By providing targeted training opportunities, we seek to offer staff members opportunities for personal and career development. In addition, Sava Reinsurance Company organises training for all staff members in the form of one-day workshops; in 2010 we organised a workshop on effective communication.

Organisational chart of Sava Reinsurance Company at 31 December 2010



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18 Business Processes and IT Support

Sava Re Group

In 2010, the main focus was on unifying information and communication technologies.

The insurers Zavarovalnica Tilia and Sava Montenegro entered the central Navision finance and accounting system, while at Sava osiguranje, all necessary preliminary arrangements and training were carried out in order for production to start in 2011. Towards the end of the year, Sava Tabak also bought software to set up the Navision system.

Last year Sava Reinsurance Company and Zavarovalnica Tilia successfully implemented the server infrastructure virtualisation and prepared a joint tender for communication infrastructure to be used on the Sava Re Group level. The Company wishes to find a provider who could ensure a safe, reliable and optimal virtual private network servicing all Group members which would not only facilitate requests for data but also cut inter-Group communication costs. In 2010 the Group received two offers, but will continue seeking additional offers in early 2011 when it also intends to set up the system. As the two companies host important applications used by the entire Group, the modernisation of the communication system will be followed by setting up mutually interchangeable locations that will provide even better security and availability of the information system.

Furthermore, Sava Reinsurance Company and Zavarovalnica Tilia jointly entered upon the selection of contractors for the hire of print services and electronic document archiving, thus achieving important cost savings. Zavarovalnica Tilia implemented both solutions in 2010; Pozavarovalnica is expected to join these projects in 2011.

Sava Reinsurance Company

As regards process technology, we modernised and optimised descriptions of processes in reinsurance operations, and finance and accounting. Each process description includes details of implementers and supervisors as well as a description of main risks that the process is exposed to. The Management Board assigned to both areas (reinsurance operations, finance and accounting) persons who are responsible for continuous updating and optimising of business processes.

In 2010 the Company thoroughly consolidated its server infrastructure. The contract signed with the selected contractor in 2009 was realised at the beginning of 2010 with the provision of additional software and by implementing server virtualisation. Thereby, the Company not only obtained additional computer capacity, but also an information environment that is more reliable, secure and optimal for use. When the Company expanded its office area it also upgraded its cable and communications infrastructure. In 2010 the switchboard and telephone sets were replaced in order to meet larger needs, make use of additional options and in order to synchronise communication technology on the Group level.

As regards software, the Company continued to upgrade standard desktop applications and acquired 20 additional Microsoft Office licences.

At the end of 2010, a contract was signed for the acquisition of the Tagetik planning and consolidation tool. Thereby, Sava Reinsurance Company wishes to improve and automate the consolidation process, planning and monthly reporting of Sava Re Group members. This tool is expected to reduce manual data manipulation, thereby minimising errors and improving access to data on the basis of which decisions are made.

19 Performance Indicators for Sava Reinsurance Company[25]

Development of gross premiums written

(EUR, except indices)	2010	2009	Index
	1	2	1/2
Personal accident	9,612,536	11,029,270	87.2
Land vehicles casco	21,109,828	23,393,421	90.2
Aircraft hull	348,786	415,511	83.9
Ships hull	2,104,229	1,385,419	151.9
Goods in transit	3,473,123	3,046,634	114.0
Fire and natural forces	51,179,725	41,982,426	121.9
Other damage to property	26,085,753	31,810,586	82.0
Motor liability	22,719,116	26,980,210	84.2
Aircraft liability	185,674	390,187	47.6
Liability for ships	283,207	276,855	102.3
General liability	3,538,608	3,861,549	91.6
Credit	702,388	996,653	70.5
Suretyship	199,354	144,066	138.4
Miscellaneous financial loss	729,701	820,029	89.0
Legal expenses	7,379	16,683	44.2
Assistance	27,992	80,198	34.9
Life business	366,204	252,121	145.2
Unit-linked life	188,181	200,512	93.9
Total non-life	142,307,398	146,629,697	97.1
Total life	554,385	452,633	122.5
Total	142,861,784	147,082,330	97.1

25. Performance indicators are given pursuant to the Decision on annual report and quarterly financial statements of insurance companies – SKL 2009 (Official Gazette of the Republic of Slovenia, nos. 47/09).

Net premiums written as a percentage of gross premiums written

(EUR, except percentages)	Gross premiums written	Net premiums written	2010	2009
	1	2	2/1	
Personal accident	9,612,536	9,496,826	98.8%	99.0%
Land vehicles casco	21,109,828	17,574,021	83.3%	85.2%
Aircraft hull	348,786	348,901	100.0%	89.1%
Ships hull	2,104,229	1,944,689	92.4%	93.6%
Goods in transit	3,473,123	3,286,464	94.6%	95.4%
Fire and natural forces	51,179,725	41,644,758	81.4%	76.3%
Other damage to property	26,085,753	20,685,379	79.3%	74.0%
Motor liability	22,719,116	21,279,320	93.7%	93.6%
Aircraft liability	185,674	141,903	76.4%	79.9%
Liability for ships	283,207	278,105	98.2%	98.7%
General liability	3,538,608	2,974,137	84.0%	82.8%
Credit	702,388	702,388	100.0%	100.0%
Suretyship	199,354	199,354	100.0%	100.0%
Miscellaneous financial loss	729,701	380,445	52.1%	41.3%
Legal expenses	7,379	7,379	100.0%	100.0%
Assistance	27,992	27,992	100.0%	100.0%
Life business	366,204	186,215	50.8%	27.0%
Unit-linked life	188,181	92,404	49.1%	47.2%
Total non-life	142,307,398	120,972,060	85.0%	82.9%
Total life	554,385	278,619	50.3%	35.7%
Total	142,861,784	121,250,679	84.9%	82.8%

Development of gross claims paid

(EUR, except indices)	2010	2009	Index
	1	2	1/2
Personal accident	4,156,706	4,074,313	102.0
Land vehicles casco	16,160,267	23,137,652	69.8
Aircraft hull	43,579	131,312	33.2
Ships hull	1,737,237	908,335	191.3
Goods in transit	1,999,170	1,559,413	128.2
Fire and natural forces	21,345,841	26,859,587	79.5
Other damage to property	14,938,553	24,275,958	61.5
Motor liability	14,408,335	15,648,795	92.1
Aircraft liability	27,903	118,622	23.5
Liability for ships	49,199	43,563	112.9
General liability	1,801,371	2,106,234	85.5
Credit	1,017,063	1,086,609	93.6
Suretyship	117,254	162,663	72.1
Miscellaneous financial loss	171,850	592,688	29.0
Legal expenses	179	0	-
Assistance	20,375	19,011	107.2
Life business	55,925	42,747	130.8
Unit-linked life	42,067	40,459	-
Total non-life	77,994,880	100,724,755	77.4
Total life	97,993	83,206	117.8
Total	78,092,872	100,807,961	77.5

Loss ratios

(EUR, except percentages)	Gross premiums written	Gross claims paid	2010	2009
	1	2	2/1	
Personal accident	9,612,536	4,156,706	43.2%	36.7%
Land vehicles casco	21,109,828	16,160,267	76.6%	100.0%
Aircraft hull	348,786	43,579	12.5%	31.6%
Ships hull	2,104,229	1,737,237	82.6%	65.6%
Goods in transit	3,473,123	1,999,170	57.6%	51.2%
Fire and natural forces	51,179,725	21,345,841	41.7%	64.0%
Other damage to property	26,085,753	14,938,553	57.3%	76.3%
Motor liability	22,719,116	14,408,335	63.4%	58.0%
Aircraft liability	185,674	27,903	15.0%	30.4%
Liability for ships	283,207	49,199	17.4%	15.7%
General liability	3,538,608	1,801,371	50.9%	54.5%
Credit	702,388	1,017,063	144.8%	109.0%
Suretyship	199,354	117,254	58.8%	113.3%
Miscellaneous financial loss	729,701	171,850	23.6%	72.3%
Legal expenses	7,379	179	-	-
Assistance	27,992	20,375	72.8%	23.7%
Life business	366,204	55,925	15.3%	26.3%
Unit-linked life	188,181	42,067	22.4%	20.2%
Total non-life	142,307,398	77,994,880	54.8%	68.8%
Total life	554,385	97,993	17.7%	23.7%
Total	**142,861,784**	**78,092,872**	**54.7%**	**68.7%**

Administrative expenses as percentage of gross premiums written (EUR)

Gross premiums written	Administrative expenses	2010	2009
1	2	2/1	
142,861,784	6,420,606	4.5%	4.2%

Acquisition costs as percentage of gross premiums written (EUR)

Gross premiums written	Acquisition costs	2010	2009
1	2	2/1	
142,861,784	32,909,058	23.0%	22.9%

Net investment income as percentage of average investments

(EUR)	Average investments	Investment income	Investment expenses	Net investment income 2010	Net investment income 2009
Liability fund	123,052,602	5,837,958	2,581,671	2.7%	2.4%
Capital fund	185,325,663	3,872,763	4,701,207	-0.5%	-5.3%
Total	**308,378,266**	**9,710,720**	**7,282,878**	**0.8%**	**-2.3%**

Net provisions for outstanding claims as percentage of net earned premiums

(EUR, except percentages)	Net provision for outstanding claims	Net premiums earned	2010	2009
	1	2	1/2	
Personal accident	7,503,274	10,089,870	74.4%	73.4%
Land vehicles casco	7,222,996	18,580,387	38.9%	39.2%
Aircraft hull	269,631	355,548	75.8%	28.5%
Ships hull	1,959,983	1,782,591	110.0%	174.3%
Goods in transit	2,108,671	3,231,443	65.3%	64.3%
Fire and natural forces	29,823,753	40,263,302	74.1%	57.7%
Other damage to property	18,050,739	20,673,637	87.3%	79.5%
Motor liability	36,268,771	23,272,022	155.8%	132.2%
Aircraft liability	299,297	143,616	208.4%	112.7%
Liability for ships	433,157	284,878	152.1%	106.5%
General liability	10,874,553	3,070,233	354.2%	290.4%
Credit	727,967	915,362	79.5%	120.6%
Suretyship	117,223	182,640	64.2%	29.8%
Miscellaneous financial loss	441,784	314,331	140.5%	-44.0%
Legal expenses	3	12,991	0.0%	0.0%
Assistance	5,404	18,516	29.2%	23.2%
Life business	110,469	213,459	51.8%	280.7%
Unit-linked life	13,547	92,404	14.7%	0.1%
Total non-life	116,107,205	123,191,367	94.2%	84.7%
Total life	124,016	305,863	40.5%	96.6%
Total	**116,231,221**	**123,497,230**	**94.1%**	**84.8%**

Gross profit/loss for the period as percentage of net premiums written (EUR)

Gross profit/loss	Net premiums written	2010	2009
1	2	1/2	
8,846,549	121,250,679	7.3%	-11.5%

Gross profit/loss for the period as percentage of average equity (EUR)

Gross profit/loss	Average equity	2010	2009
1	2	1/2	
8,846,549	153,066,804	5.8%	-9.2%

Gross profit/loss for the period as percentage of average assets (EUR)

Gross profit/loss	Average assets	2010	2009
1	2	1/2	
8,846,549	411,227,835	2.2%	-3.5%

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Gross profit/loss for the period per share (EUR)

Gross profit/loss	No. of shares	2010	2009
1	2	1/2	
8,846,549	9,362,519	0.94	-1.50

Net profit/loss for the period as percentage of average equity (EUR)

Net profit/loss	Average equity	2010	2009
1	2	1/2	
7,193,724	153,066,804	4.7%	-8.3%

Available solvency margin as percentage of net premiums written (EUR)

Available solvency margin	Net premiums written	2010	2009
1	2	1/2	
41,829,182	121,250,679	34.5%	47.1%

Available solvency margin as percentage of required solvency margin (EUR)

Available solvency margin	Required solvency margin	2010	2009
1	2	1/2	
41,829,182	20,192,597	207.2%	306.5%

Available solvency margin as percentage of technical provisions (EUR)

Available solvency margin	Technical provisions	2010	2009
1	2	1/2	
41,829,182	173,941,974	24.0%	33.8%

Available solvency margin as percentage of reinsurance receivables plus reinsurers' share of technical provisions (EUR)

Available solvency margin	Reinsurance receivables plus reinsurers' share of technical provisions	2010	2009
1	2	1/2	
41,829,182	75,036,523	55.7%	67.1%

Net premiums written as percentage of average equity and average technical provisions (EUR)

Net premiums written	Average equity	Average technical provisions	2010	2009
1	2	3	1/(2+3)	
121,250,679	153,066,804	171,834,410	37.3%	38.5%

Net premiums written as percentage of average equity (EUR)

Net premiums written	Average equity	2010	2009
1	2	1/2	
121,250,679	153,066,804	79.2%	80.1%

Average technical provisions as percentage of net earned premiums (EUR)

Average net technical provisions	Net premiums earned	2010	2009
1	2	1/2	
150,497,084	123,497,230	121.9%	111.8%

Equity as percentage of net unearned premiums (EUR)

Equity	Net unearned premiums	2010	2009
1	2	1/2	
156,138,328	39,596,820	394.3%	358.5%

Equity as percentage of liabilities and equity (EUR)

Equity	Liabilities and equity	2010	2009
1	2	1/2	
156,138,328	418,350,613	37.3%	37.1%

Net technical provisions as percentage of liabilities and equity (EUR)

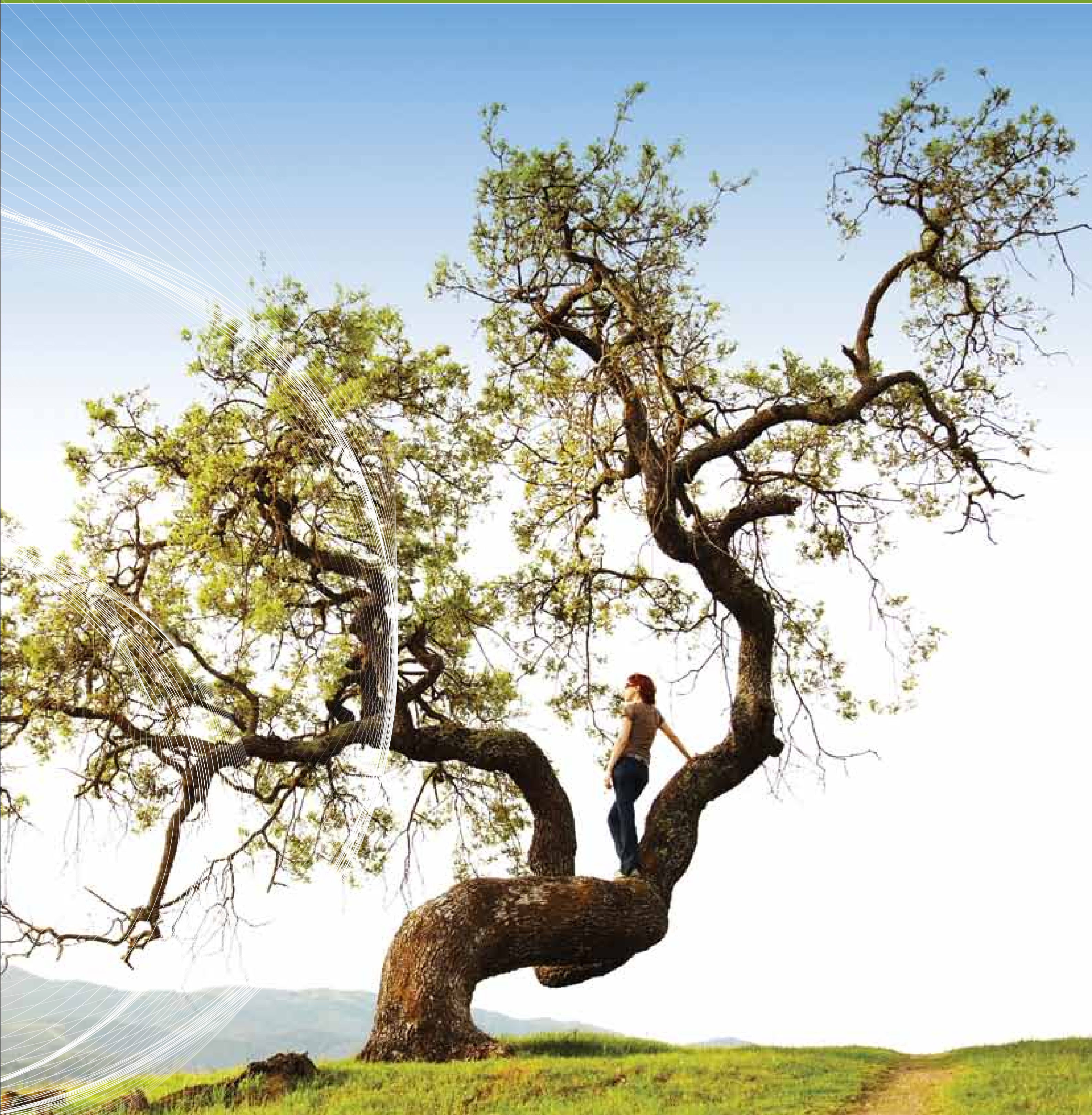
Net technical provisions	Liabilities and equity	2010	2009
1	2	1/2	
156,415,674	418,350,613	37.4%	35.8%

Gross premiums written per employee in regular employment (EUR)

Gross premiums written	Number of employees in regular employment	2010	2009
1	2	1/2	
142,861,784	65	2,214,911	2,262,805

Size is not a priority.
We value more firmness,
trust and resilience.

Consolidated Financial Statements with Notes 2010



20 Auditor's Report

KPMG

Independent Auditor's Report

To the Owners of the SAVA RE Group

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 2010, the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter

Without qualifying our opinion we draw attention to the Note 16 (Revenue reserves) to the consolidated 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.

Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying consolidated 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.
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Ljubljana, 15 April 2011

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.

21 Consolidated Financial Statements

21.1 Consolidated statement of financial position as at 31 December

(EUR)	Note	31 Dec 2010	31 Dec 2009
ASSETS		578,385,408	560,711,611
Intangible assets	**1**	**23,289,847**	**23,846,535**
Property and equipment	**2**	**26,711,597**	**24,830,829**
Deferred tax assets	**3**	**2,236,081**	**2,368,845**
Investment property	**4**	**4,906,918**	**5,773,564**
Financial investments in associated companies	**5**	**42,322,366**	**37,646,479**
Financial investments:	**6**	**324,225,440**	**298,131,559**
- Loans and deposits		130,751,104	62,200,051
- Held to maturity		17,972,005	34,674,131
- Available for sale		171,361,811	194,438,455
- At fair value through profit or loss		4,140,517	6,818,923
Funds for the benefit of policyholders who bear the investment risk	**7**	**23,716,699**	**17,861,634**
Reinsurers' share of technical provisions	**8**	**19,734,539**	**28,899,410**
Receivables	**9**	**88,067,303**	**96,209,971**
Receivables arising out of primary insurance business		32,052,974	33,717,412
Receivables arising out of reinsurance and co-insurance business		49,959,107	53,400,807
Current tax assets		222,510	4,012,543
Other receivables		5,832,712	5,079,209
Deferred acquisition costs	**10**	**17,318,841**	**17,404,467**
Other assets	**11**	**753,985**	**1,130,971**
Cash and cash equivalents	**12**	**4,026,603**	**5,617,457**
Non-current assets held for sale	**13**	**1,075,190**	**989,887**
EQUITY AND LIABILITIES		578,385,408	560,711,611
Equity		**154,684,609**	**161,677,406**
Share capital	14	39,069,099	39,069,099
Share premium	15	25,417,396	33,003,756
Profit reserves	16	85,362,019	80,279,744
Treasury shares	17	-1,774	-1,774
Fair value reserve	18	-121,460	543,937
Retained earnings		557,800	13,524,831
Net profit/loss for the year	19	2,370,698	-12,341,747
Translation reserve		-2,412,020	-1,685,177
Equity attributable to equity holders of the controlling company		*150,241,758*	*152,392,668*
Non-controlling interest in equity	*19*	*4,442,851*	*9,284,738*
Subordinated liabilities	**20**	**31,177,758**	**31,135,777**
Technical provisions	**21**	**303,287,248**	**288,282,904**
Unearned premiums		87,101,437	86,012,274
Mathematical provisions		15,228,730	13,363,461
Provision for outstanding claims		197,489,172	184,313,617
Other technical provisions		3,467,909	4,593,552

(EUR)	Note	31 Dec 2010	31 Dec 2009
Technical provision for the benefit of life insurance policyholders who bear the investment risk	21	23,626,363	17,953,979
Other provisions	22	768,854	872,101
Deferred tax liabilities	3	186,610	385,659
Other financial liabilities	23	2,667,101	3,173,918
Liabilities from operating activities	24	33,716,371	40,176,908
Liabilities from primary insurance business		4,456,727	5,122,163
Liabilities from reinsurance and co-insurance business		26,514,119	34,399,199
Current tax liabilities		2,745,525	655,546
Other liabilities	25	28,270,495	17,052,958

The accounting policies and other notes presented on pages 106–184 form an integral part of these financial statements.

21.2 Consolidated income statement for the year ended 31 December

(EUR)	Note	2010	2009
Net earned premiums	26	231,874,029	217,427,839
Gross premiums written		259,103,050	251,416,588
Written premiums ceded to reinsurers and co-insurers		-25,301,152	-29,143,938
Change in net unearned premiums		-1,927,869	-4,844,812
Income from investments in associates	27	5,055,301	167,497
Profit from investments in equity-accounted associated companies		5,055,301	167,497
Investment income	28	19,895,359	22,182,898
Interest income		11,547,097	10,184,372
Other investment income		8,348,262	11,998,526
Other technical income	29	6,631,556	7,801,858
Commission income		2,479,762	4,718,294
Other technical income		4,151,794	3,083,564
Other income		477,851	822,509
Net claims incurred	30	-140,009,961	-147,818,236
Gross claims paid less income from recourse receivables		-131,269,604	-149,390,360
Reinsurers' and co-insurers' share of claims paid		13,266,034	31,694,404
Change in the net provision for outstanding claims		-22,006,391	-30,122,280
Change in other technical provisions	31	-1,709,438	-3,367,476
Change in technical provisions for policyholders who bear the investment risk	32	-5,711,680	-7,205,795
Expenses for bonuses and rebates		-721,907	-675,655
Operating expenses	33	-85,287,686	-81,250,387
Acquisition costs		-44,280,298	-42,397,715
Other operating expenses		-41,007,388	-38,852,672
Expenses for investments in associates		0	-254,281
Loss arising out of investments in equity-accounted associated companies		0	-254,281
Expenses for financial assets and liabilities	27	-10,235,493	-23,446,850
Impairment losses on financial assets not measured at fair value through profit or loss		-4,976,267	-9,977,608
Interest expense		-1,757,268	-1,926,416
Other investment expenses		-3,501,958	-11,828,686
Other technical expenses	34	-9,627,586	-6,962,929
Other expenses	35	-1,789,999	-5,766,439
Profit/loss before tax		8,840,346	-28,345,446
Income tax expense	36	-3,319,676	129,235
Net profit/loss for the period		5,520,670	-28,216,212
Net profit/loss attributable to equity holders of the controlling company		7,452,974	-25,122,312
Net profit/loss attributable to non-controlling interest		-1,932,304	-3,093,900

The accounting policies and other notes presented on pages 106–184 form an integral part of these financial statements.

21.3 Statement of comprehensive income for the year ended 31 December

(EUR)	2010	2009
PROFIT/LOSS FOR THE YEAR, NET OF TAX	5,520,670	-28,216,212
OTHER COMPREHENSIVE INCOME, NET OF TAX	-1,406,358	10,524,628
Net change in fair value of available-for-sale financial assets	-839,847	12,207,061
Net change recognised in the fair value reserve	1,761,117	10,595,486
Net change transferred from fair value reserve to profit or loss	-2,600,963	1,611,575
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	-14,112	1,795,924
Income tax on other comprehensive income	174,447	-2,797,515
Net gains/losses from translation of financial statements of non-domestic companies	-726,846	-680,842
COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	4,114,311	-17,691,584
Share attributable to controlling interest	6,060,729	-14,612,274
Share attributable to non-controlling interest	-1,946,418	-3,079,310

The accounting policies and other notes presented on pages 106–184 form an integral part of these financial statements.

21.4 Consolidated cash flow statement for the year ended 31 December

(EUR)	Note	2010	2009
A. Cash flows from operating activities			
a.) Items of the income statement	37	22,963,636	10,965,494
1. Net premiums written	26	233,801,898	222,272,651
2. Investment income (other than financial income), financed from:	27	8,057,167	11,460,810
- technical provisions		6,343,443	7,503,586
- other sources		1,713,724	3,957,224
3. Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables		7,109,407	8,624,367
4. Net claims paid	30	-118,003,570	-117,695,956
5. Expenses for bonuses and rebates		-721,907	-675,655
6. Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	33	-84,063,871	-78,645,877
7. Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:		-8,478,226	-21,774,714
- technical sources		-5,276,582	-7,758,374
- other sources		-3,201,644	-14,016,340
8. Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	34, 35	-11,417,585	-12,729,368
9. Tax on profit and other taxes not included in operating expenses	36	-3,319,676	129,236
b.) Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the statement of financial position		12,789,170	-2,451,336
1. Change in receivables from primary insurance	9	1,664,438	-6,129,912
2. Change in receivables from reinsurance	9	3,441,700	-5,729,850
3. Change in other receivables from (re)insurance business	9	-170,729	3,602,774
4. Change in other receivables and other assets	9	3,590,525	4,469,141
5. Change in deferred tax assets	3	132,764	3,491,421
6. Change in inventories		79,348	86,489
7. Change in liabilities arising out of primary insurance	24	-665,437	-989,112
8. Change in liabilities arising out of reinsurance business	24	-7,885,081	-5,011,862
9. Change in other operating liabilities	25	12,096,837	3,645,161
10. Change in other liabilities (except unearned premiums)		703,855	-210,498
11. Change in deferred tax liabilities		-199,049	324,913
c.) Net cash from/used in operating activities (a + b)		35,752,806	8,514,158
B. Cash flows from investing activities			
a.) Cash receipts from investing activities		621,932,418	799,486,804
1. Interest received from investing activities and from:		11,651,851	10,184,372
- investments financed from technical provisions		9,460,939	7,960,748
- other investments		2,190,912	2,223,624
2. Cash receipts from dividends and from participation in the profit of others, relating to:		5,241,642	705,214
- investments financed from technical provisions		78,788	119,195
- other investments		5,162,854	586,019
4. Proceeds from sale of property and equipment, financed from:		45,226	1,847,343
- technical provisions		5,560	531,463
- other sources		39,666	1,315,881
5. Proceeds from sale of long-term financial investments, financed from:		89,049,848	167,922,055
- technical provisions		59,967,179	53,365,848
- other sources		29,082,669	114,556,206

(EUR)	Note	2010	2009
6. Proceeds from sale of short-term financial investments, financed from:		515,943,851	618,827,820
- technical provisions		393,719,098	388,015,922
- other sources		122,224,753	230,811,898
b.) Cash disbursements in investing activities		**-647,370,078**	**-811,941,136**
1. Purchase of intangible assets		-523,601	-1,254,710
2. Purchase of property and equipment, financed from:		-2,997,104	-5,784,711
- technical provisions		-1,532,856	-790,715
- other sources		-1,464,248	-4,993,996
3. Purchase of long-term financial investments, financed from:		-83,801,683	-150,261,837
- technical provisions		-73,772,589	-48,353,643
- other sources		-10,029,093	-101,908,194
Purchase of financial investments in subsidiaries, financed from:		0	-15,320,243
- other sources		0	-15,320,243
4. Purchase of short-term financial investments, financed from:		-560,047,690	-639,319,634
- technical provisions		-411,367,741	-403,486,947
- other sources		-148,679,949	-235,832,686
c.) Net cash from/used in investing activities (a + b)		**-25,437,660**	**-12,454,332**
C. Cash flows from financing activities			
a.) Cash receipts from financing activities		**0**	**0**
b.) Cash disbursements in financing activities		**-11,905,999**	**-4,571,337**
1. Interest paid		-1,757,268	-1,926,417
3. Repayment of long-term financial liabilities		0	-2,591,538
4. Repayment of short-term financial liabilities		-10,148,731	-53,382
c.) Net cash from/used in financing activities (a + b)		**-11,906,000**	**-4,571,337**
C2. Closing balance of cash and cash equivalents		4,026,604	5,617,457
x.) Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc and Cc)		**-1,590,853**	**-8,511,511**
D. Opening balance of cash and cash equivalents		5,617,457	14,128,967

The accounting policies and other notes presented on pages 106–184 form an integral part of these financial statements.

21.5 Consolidated statement of changes in equity for the year ended 31 December 2010

(EUR)	I. Share capital	II. Share premium	III. Profit reserves				
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Credit risk equalisation reserve	Catastrophe equalisation reserve	Other
	1.	2.	3.	4.	5.	6.	7.
Opening balance in financial period	39,069,099	33,003,756	15,277,932	1,774	1,217,874	4,215,361	59,566,803
Comprehensive income for the year, net of tax	0	0	0	0	0	0	0
Allocation of net profit to profit reserve	0	0	1,382,681	0	0	0	1,295,582
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	43,313	2,360,699	0
Increase in share	0	-7,586,360	0	0	0	0	
Transfer of profit/loss	0	0	0	0	0	0	0
Closing balance in financial period	39,069,099	25,417,396	16,660,613	1,774	1,261,187	6,576,060	60,862,385

For additional information on equity see note 19.

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

(EUR)	I. Share capital	II. Share premium	III. Profit reserves				
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Credit risk equalisation reserve	Catastrophe equalisation reserve	Other
	1.	2.	3.	4.	5.	6.	7.
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
Comprehensive income for the year, net of tax	0	0	0	0	0	0	0
Allocation of net profit to profit reserve	0	0	291,407	0	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-1,836,069	1,721,856	0
Acquisitions	0	0	0	0	0	0	0
Transfer of profit/loss	0	0	0	0	0	0	-12,395,711
Other	0	0	0	0	0	0	0
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

The accounting policies and other notes presented on pages 106–184 form an integral part of these financial statements.

IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares (deduction item)	VIII. Consolidation equity adjustment	IX. Equity attributable to equity holders of the controlling company	X. Non-controlling interest in equity	XI. Total (13 + 14)
8.	9.	10.	11.	12.	13.	14.	15.
543,937	13,524,831	-12,341,747	-1,774	-1,685,177	152,392,669	9,284,738	161,677,407
-665,396	0	7,452,973	0	-726,846	6,060,730	-1,946,418	4,114,311
0	0	-2,678,263	0	0	0	0	0
0	0	-2,404,012	0	0	0	0	0
0	-625,284	0	0	0	-8,211,643	-2,895,469	-11,107,112
0	-12,341,747	12,341,747	0	0	0	0	0
-121,460	557,800	2,370,698	-1,774	-2,412,022	150,241,758	4,442,851	154,684,609

IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares	VIII. Translation reserve	IX. Equity attributable to equity holders of the controlling company	X. Non-controlling interest in equity	XI. Total (13 + 14)
8.	9.	10.	11.	12.	13.	14.	15.
-10,452,519	14,793,688	-823,360	-1,774	-1,004,335	167,082,815	7,004,238	174,087,053
10,996,456	0	-25,122,312	0	-486,418	-14,612,274	-3,079,310	-17,691,584
0	0	-291,407	0	0	0	0	0
0	0	114,213	0	0	0	0	0
0	0	0	0	0	0	5,359,810	0
0	-1,190,984	13,781,119	0	-194,424	0	0	0
0	-77,873	0	0	0	-77,873	0	-77,873
543,937	13,524,831	-12,341,747	-1,774	-1,685,177	152,392,668	9,284,738	161,677,406

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22 Notes to the Consolidated Financial Statements

22.1 Basic details

Sava Reinsurance Company d.d. 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. Its subsidiaries are mostly insurance companies. One of them is a composite insurer; others are either non-life or life insurers. As per the Slovenian Companies Act (Zakon o gospodarskih družbah, "ZGD"), the controlling company is classified as a large 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 (Zakon o zavarovalništvu "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 1,514 employees on average in 2010. At 31 December 2010, the Group employed 1,580 people (31 December 2009: 1,449 people), counted on a full-time equivalent basis.

Number of employees by degree of formal education at 31 December

	31 Dec 2010	31 Dec 2009
Primary and lower secondary (I–IV)	341	307
Secondary (V)	649	596
Higher (VI)	145	127
University (VII)	413	390
Post-graduate (VIII)	31	28
Total	1,580	1,449

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's Management Board to prepare and 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.

22.2 Group companies

Sava Reinsurance Company is the controlling company of the Group.

Subsidiaries at 31 December 2010

	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2010	Profit/loss for 2010	Total income	Share in voting rights (%)
Zavarovalnica Tilia	insurance	Slovenia	136,065,838	119,274,385	16,791,453	1,499,329	63,859,642	99.71%
Sava osiguranje	insurance	Serbia	25,063,022	20,048,842	5,014,180	47,515	15,900,558	99.99%
Illyria	insurance	Kosovo	15,211,852	11,864,973	3,346,879	-509,388	12,792,758	100.00%
Sava Tabak	insurance	Macedonia	19,568,986	17,670,067	1,898,919	-1,507,587	12,946,095	66.70%
Bro-Dil	securities broker	Macedonia	353,502	5,855	347,647	-64,638	42,668	66.70%
Sava Montenegro	insurance	Montenegro	22,930,848	19,523,817	2,486,496	-1,960,511	10,634,948	100.00%
Illyria Life	insurance	Kosovo	3,671,178	435,214	3,235,964	50,655	755,720	100.00%
Sava životno osiguranje	insurance	Serbia	2,480,457	205,300	2,275,157	-826,651	582,631	99.99%
Velebit usluge	wholesale, retailer	Croatia	10,085,041	1,378	10,083,663	-1,713	1,667	100.00%
Velebit osiguranje	insurance	Croatia	16,713,112	13,541,518	3,171,594	-1,989,990	7,060,309	56.36%
Velebit životno osiguranje	insurance	Croatia	7,619,554	2,770,104	4,849,450	-1,167,677	1,686,361	53.35%
Dukagjini Hospital	hospital activities	Kosovo	1,810,045	10,200	1,799,845	-84	0	100.00%
Sava Car	research and analysis	Montenegro	151,799	95,027	56,772	-8,228	13	100.00%

Associate companies at 31 December 2010

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2010	Profit/loss for 2010	Total income	Share in voting rights (%)
Zavarovalnica Maribor	insurance	Slovenia	734,042,192	656,174,733	77,867,459	10,595,331	247,143,634	45.79%
Moja naložba	pension fund	Slovenia	125,484,976	119,225,805	6,259,172	816,489	2,356,162	20.00%

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Subsidiaries at 31 December 2009

	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2009	Profit/loss for 2009	Total income	Share in voting rights (%)
Zavarovalnica Tilia	insurance	Slovenia	126,663,384	111,724,148	14,939,236	820,497	61,613,443	99.71%
Sava osiguranje	insurance	Serbia	23,766,546	19,663,909	4,102,637	-2,531,443	14,077,728	99.99%
Illyria	insurance	Kosovo	16,308,563	12,452,302	3,856,261	137,780	11,979,557	51.00%
Sava Tabak	insurance	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	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%
Illyria Life	insurance	Kosovo	3,329,960	144,652	3,185,308	-55.005	243,077	54.32%
Sava životno osiguranje	insurance	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	Croatia	13,616,642	9,956,971	3,659,671	-1,675,514	3,110,974	53.41%
Velebit životno osiguranje	insurance	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%

Associate companies at 31 December 2009

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

22.3 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 and losses generated 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.

Associate 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 associate companies have been accounted for using the equity method.

22.4 Significant accounting policies

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

22.4.1 Statement of compliance

The controlling company prepared both separate and consolidated financial statements for the year ended 31 December 2010. 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. Associate 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 on the financial position 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 Sava Reinsurance Company and at its 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 financial statement have been prepared based on the going-concern assumption.

The Management Board of the controlling company approved the financial statements on 15 April 2010.

22.4.2 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.

22.4.3 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 2010 denominated in foreign currencies were translated into euro using the mid-rate of the European Central Bank ("ECB") as at year-end 2010. Amounts in the income statements were translated using the average exchange rate. At 31 December 2009 and 31 December 2010, they were translated using the then applicable mid-rates of the ECB. Foreign exchange differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve.

22.4.4 Cash flow statement

The cash flow statement has been prepared using the indirect method. The Group cash flow statement was prepared as the sum of all cash flows of all Group companies and by eliminating any inter-Group cash flows. Cash flow from operating and investing activities have been prepared based on data from the statement of financial position as at 1 January 2010 and 31 December 2010, and the income statement for 2010, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities have been disclosed based on actual disbursements. Items relating to changes in net operating assets are disclosed in net amounts.

22.4.5 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 equalisation and catastrophe equalisation are included in other profit reserves.

22.4.6 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, licences pertaining to computer software (their useful life is assumed to be 5 years), and goodwill, which is discussed in greater detail under the next heading.

22.4.7 Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. In acquisitions, goodwill relates to the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company. If the excess is negative (badwill), it is recognised directly in the income statement. 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 2015, as well as on extrapolations of growth rates up until 2020. A 10-year period was used because all subsidiaries with goodwill operate in emerging markets that we believe will grow faster than average developed markets, and their operation is 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 risk. The recoverable amount of the cash-generating unit so calculated was compared against its carrying amount, including goodwill belonging to the unit. In note 1 on intangible assets, there is a presentation of main assumptions for cash flow projections used in the calculation of the value in use.

22.4.8 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 is the higher of the value in use and the net selling price less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

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 on the 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.

22.4.9 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.

22.4.10 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 unused 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 2010, deferred tax assets and liabilities were accounted for at the rates applicable in individual countries, ranging from 9–20% (the same as in 2009: 9–20%).

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

The Group 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.

22.4.12 Financial investments in associate companies

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

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

Impairment testing for investments in subsidiaries is preformed based on performance in the year. The measure used is net profit for the year and whether performance is in line with general economic trends in its local market.

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

22.4.13.1 Classification

The Group classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss
This category consists of the following two sub-categories:

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

Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e., realising gains in the short term. The category financial assets designated as at fair value through profit or loss comprises instruments hedged by derivative financial instruments. Financial assets also include funds of policyholders who bear the investment risk.

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

22.4.13.2 Recognition, measurement and derecognition

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

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

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

22.4.13.3 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.

22.4.13.4 Impairment of investments

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

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

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22.4.13.4.1 Debt securities

As a rule, investments in debt securities are not impaired, provided payments under the amortisation schedule 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 market price and cost of the debt security.

If the second condition above is met, an impairment loss is recognised in profit or loss, being the difference between the potential payment out of the bankruptcy or liquidation estate and the cost of the investment. The potential payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement 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 pursuant to indent one above (first condition) may be reversed. An impairment loss is reversed when the issuer's liability is settled. An impairment loss is reversed through profit or loss.

22.4.13.4.2 Equity securities

QUOTED FINANCIAL ASSETS

Investments in quoted financial assets are impaired when, as at the statement of financial position date:
- the value of any investment in any financial assets has dropped by more than 40% below cost;
- the market price of any financial assets has remained below cost for more than one year.

The impairment loss is determined as the difference between market price and cost of the financial assets.

UNQUOTED EQUITIES

Unquoted equities are equities not quoted in any organised securities market, equities for which the Group has evidence that there is no active market, and investments in associates carried at cost.

In establishing whether an equity has an active market or not, the following is considered:
- trading volume in the three months preceding the determination of fair value ("cut-off day");
- trading volume history in the three years preceding the cut-off day (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. If only a very small number of the total number of shares outstanding is traded, the market is deemed inactive.

As at the statement of financial position date, the Group must establish whether the cost of an unquoted equity still represents its fair value (unless the relevant investment is considered non-material). If the established fair value of an unquoted security is less than cost, an impairment loss must be recognised.

Unquoted equities are measured using either the cost or the revaluation model. The cost model is used if an investment is considered non-material, either in relation to the issuer (shareholding) or in relation to the value of the investment in the Group investment portfolio (share of the investment portfolio).

A model is used for the assessment whether any unquoted equities need to be impaired. The model uses the median P/B ratio[26] and the median ratio of the enterprise value to earnings before deduction of interest, tax and amortisation (EV/EBITDA)[27] for comparable companies.

26. Price-To-Book Ratio.
27. Enterprise Multiple: Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization. Enterprise value is the sum of market capitalisation and net debt of the enterprise.

Under the model, the fair value of unquoted shares (FV) is calculated as follows:

$$FV = \left[\left(0.6 \times \left(CA \text{ per share} \times \text{median } {}^{P}\!/_{B} \right) \right) + \left(0.4 \times \frac{\left(\left(\text{EBITDA of the enterprise} \times \text{median } {}^{EV}\!/_{EBITA} \right) - \text{enterprise net debt} \right)}{\text{no. of shares}} \right) \right] \times 0.9$$

where CA represents the latest published carrying amount of an unquoted share, while 0.9 is a discount (of 10%) because of its being unquoted.

22.4.14 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.

22.4.15 Reinsurers' share of technical provisions

Reinsurers' share of technical provisions comprises the 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 tests these assets for impairment at the statement of financial position date. The Group recognised no impairment losses on the 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: Retrocession programme – non-life business.

22.4.16 Receivables

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

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 net of any allowances made.

Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commission relating to retrocession business are invoiced to cedants or reinsurers, respectively. For existing reinsurance contracts for which no confirmed invoices have been received from cedants or reinsurers, receivables are recognised in line with policies outlined in the notes to net premiums earned and in the notes to net claims incurred.

Impairment of receivables

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

22.4.17 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 (re)insurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line deferment.

Deferred acquisition costs 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. In respect of life insurance business, the Group recognises deferred acquisition costs in the amount of prepaid acquisition costs.

22.4.18 Other assets

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

22.4.19 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.

22.4.20 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) equalisation reserves;
- Fair value reserve;
- Retained earnings;
- Net profit/loss for the year;
- Translation reserve;
- Non-controlling interest.

22.4.21 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 remeasured at amortised cost on a monthly basis.

22.4.22 Classification of insurance contracts

The Group only transacts traditional, unit-linked and reinsurance business, 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, which are insurance contracts. Non-proportional reinsurance contracts, which involve larger amounts in case of loss events, also qualify as insurance contracts.

22.4.23 Technical provisions

Technical provisions are shown gross in the statement of financial position. The share of gross technical provisions for the business ceded by the Company is shown in the statement of financial position under the item Reinsurers' share of technical provisions. The reinsurers' share is calculated at reinsurance contract level based on actuarial calculations for the reinsured portfolios. 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 the portions of premiums written pertaining to periods after the accounting period. Unearned premiums for primary insurance are calculated on a 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 are 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.

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. 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 at 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 2010. 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 or loss. Reversionary bonuses, which are added to the sum assured of life with-profits policies, are recognised under 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.

22.4.23.1 Incurred but not reported provision (IBNR)

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 contracts. This relates to portfolio segments were invoices are received timely. With the introduction of premium and claims estimates for portfolio 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, since 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 portfolio 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 liabilities less paid claims and unearned premium (net of deferred commission), which is also available for covering liabilities at the underwriting year level, comprises the estimated provision for outstanding claims. If this provision for outstanding claims exceeds the one already set aside (and calculated based on reinsurance accounts), a reinsurance IBNR provision is set aside. The described process shows that the outstanding claims provision is established based on statistical data and using actuarial methods; therefore, its calculation also constitutes a liability adequacy test. In subsidiary companies, IBNR provisions are calculated using actuarial methods based on triangles of paid claims provided that the business volume is sufficiently large. For classes of business with insufficient premium volume to ensure reliable results from the triangle method, methods are used that are based on expected loss ratios.

22.4.24 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 2010 is used.

22.4.25 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 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 tables below show the assumptions used by Group companies in 2010 and 2009.

Provisions as per IAS 19 with assumptions for 2010

Provisions as per IAS 19	Sava Reinsurance Company	Zavarovalnica Tilia	Sava osiguranje	Sava Tabak, Bro-Dil	Sava Montenegro	Illyria	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	22,844	100	-	-
JB – 20 years (currency)	942	689	2 net salaries	45,689	200	-	-
JB – 30 years (currency)	1256	919	3 net salaries	68,533	300	-	-
JB – 40 years (currency)		919			400		
Discount rate	4.11%	3.85%	12.00%	4.00%	4.11%	-	-
Growth in severance pay (retirement)	5.15%	3.50%	11.00%	9.10%	4.50%	-	-
Growth in jubilee benefit	3.29%	3.00%	11.00%	9.10%	4.50%	-	-
Fluctuation up to age 35	2.00%	7.50%	15.41%	4.79%	5.77%	-	-
Fluctuation age 35–45	4.00%	5.00%	12.37%	4.79%	3.85%	-	-
Fluctuation after age 45	2.60%	2.75%	9.63%	4.79%	1.92%	-	-

Provisions as per IAS 19 with assumptions for 2009

Provisions as per IAS 19	Sava Reinsurance Company	Zavarovalnica Tilia	Sava osiguranje	Sava Tabak, Bro--Dil, Sava Invest	Sava Montenegro	Illyria	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

22.4.26 Liability adequacy testing of unearned premiums

The Group carries out adequacy testing of provisions set aside based on insurance contracts as at the financial statement date separately for non-life and life busness.

Liability adequacy testing for non-life business

The liability adequacy testing for provisions is carried out for unearned premiums in compliance with IFRS 4. 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 earned, claims 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).

Liability adequacy testing for life business

The liability adequacy test for 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.

There were no significant changes in assumptions (with any impact on liability adequacy) compared to the prior year. 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 3.5–4% 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 local statistical bureau). For mortality, higher rates are anticipated than realised due to uncertainty.

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

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

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

Future contractual premiums are included and for most business also premium indexation is taken into consideration. Estimates for lapses and surrenders are 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 estimated annual inflation (2%) or have remained on the present level.

The investment return and the discount rates used are the same and differ by type of insurance (4% for unit-linked, 3.5–4% 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 above 4%; 3.5–4% is used in the computation.

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

22.4.27 Other liabilities

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

22.4.28 Premiums earned

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

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

22.4.29 Claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. Net claims incurred comprise gross claims paid net of recourse receivables and reinsured claims, i.e., amounts invoiced to retrocessionaires. The amount of gross claims paid includes 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 combined ratios for individual reinsurance contracts concluded. These items are used to calculate net claims incurred in the income statement.

22.4.30 Income from and expenses for investments in associates

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

22.4.31 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, income arising from changes in fair value, income arising from reversals of value adjustments (impairment) on debt instruments available for sale, and gains on the 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, or 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 arising from changes in fair value relate to 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.

22.4.32 Operating expenses

Operating expenses comprise:
- acquisition costs;
- change in deferred acquisition costs;
- other operating expenses classified by nature are 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.

22.4.33 Other technical income

Other technical income comprises income from reinsurance commission less the change 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.

22.4.34 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 enacted by the date of the statement of financial position, as well as on any adjustments to tax liabilities of prior periods. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax amount is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the tax rates that have been enacted by the date of the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group income tax expense has been determined in accordance with the requirements of each member's local legislation. Statutory tax rates in various countries range from 9% to 20%.

22.4.35 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[28] is a group composed of management board members, director of finance and accounting, director of controlling, and director of risk management. CODM can monitor quarterly the results of operations by segments. These results include technical results, net investment income and other aggregated performance indicators, as well as the amounts of assets, equity and technical provisions. All figures reviewed by CODM are included in the quarterly financial report submitted to the Management Board.

Operating segments include reinsurance, non-life business, life business, and other. Performance of these segments is monitored based on different indicators, the most important performance indicator for all segments being net profit, calculated in accordance with IFRSs. The reinsurance segment mainly relates to the controlling

28.CODM (Chief Operating Decision Maker) can be one person who is responsible for monitoring the results of operations of an operating 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.

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company; the non-life segment relates to non-life business of Group companies and to the non-life business of Zavarovalnica Tilia, a composite insurance company; the life segment relates to life business of Group companies and to the life business of Zavarovalnica Tilia. The "other" segment relates to investment funds and the stock broking company. This segment does not meet the materiality threshold but is presented separately because of the large difference in the nature of activities carried on.

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

Asset items by operating segment

(EUR)	Reinsurance business		Non-life business	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
ASSETS	418,350,613	404,105,056	193,420,334	183,588,158
Intangible assets	178,615	181,818	1,528,759	1,649,314
Property and equipment	2,451,169	1,808,628	17,900,896	17,065,908
Deferred tax assets	2,073,687	2,112,682	154,793	252,255
Investment property	160,920	1,244,886	4,615,660	4,528,678
Financial investments in associated companies	106,236,355	89,436,603	3,023,358	3,025,940
Financial investments:	221,513,409	207,913,774	85,013,892	70,435,458
- Loans and deposits	83,453,132	36,865,091	43,942,058	21,454,990
- Held to maturity	8,168,143	9,798,345	8,198,802	21,010,812
- Available for sale	129,892,133	157,854,127	29,732,181	25,611,380
- At fair value through profit or loss	0	3,396,211	3,140,851	2,358,276
Funds for the benefit of policyholders who bear the investment risk	0	0	0	0
Reinsurers' share of technical provisions	17,526,300	25,148,351	25,313,293	29,517,146
Receivables	58,673,864	65,638,370	43,815,751	43,461,178
Receivables arising out of primary insurance business	0	0	31,820,853	33,954,724
Receivables arising out of reinsurance and co-insurance business	57,510,223	60,245,061	7,308,724	6,036,841
Current tax assets	0	3,500,244	127,465	403,544
Other receivables	1,163,641	1,893,065	4,558,709	3,066,069
Deferred acquisition costs	9,191,801	10,263,816	7,926,464	7,094,580
Other assets	175,299	225,688	525,157	770,673
Cash and cash equivalents	169,193	130,442	2,614,674	4,797,140
Non-current assets held for sale	0	0	987,637	989,887

Life business		Other		Consolidated		Total	
31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
55,904,513	49,389,904	12,400,388	11,780,103	-101,690,439	-88,151,614	578,385,408	560,711,611
281,413	309,135	3,694	22,510	21,297,366	21,683,757	23,289,847	23,846,534
4,457,529	4,186,642	1,902,003	1,769,651	0	0	26,711,597	24,830,829
7,601	3,756	0	152	0	0	2,236,081	2,368,845
130,338	0	0	0	0	0	4,906,918	5,773,564
1,020,071	395,300	10,084,622	9,271,851	-78,042,041	-64,483,213	42,322,366	37,646,481
24,150,407	24,887,397	329,232	594,931	-6,781,500	-5,700,000	324,225,440	298,131,559
9,939,799	9,579,970	197,615	0	-6,781,500	-5,700,000	130,751,104	62,200,051
1,605,060	3,399,279	0	465,695	0	0	17,972,005	34,674,131
11,605,880	10,843,712	131,617	129,236	0	0	171,361,811	194,438,455
999,666	1,064,436	0	0	0	0	4,140,517	6,818,923
23,716,699	17,861,634	0	0	0	0	23,716,699	17,861,634
39,281	22,845	0	0	-23,144,335	-25,788,932	19,734,539	28,899,410
579,344	954,452	18,273	19,197	-15,019,929	-13,863,226	88,067,303	96,209,971
248,406	213,322	0	0	-16,285	-450,634	32,052,974	33,717,412
12,660	6,650	0	0	-14,872,500	-12,887,745	49,959,107	53,400,807
94,670	107,068	375	1,687	0	0	222,510	4,012,543
223,608	627,412	17,898	17,510	-131,144	-524,847	5,832,712	5,079,209
200,576	46,071	0	0	0	0	17,318,841	17,404,467
53,020	74,362	509	60,248	0	0	753,985	1,130,971
1,180,681	648,311	62,055	41,564	0	0	4,026,603	5,617,457
87,553	0	0	0	0	0	1,075,190	989,887

Equity and liability items by operating segment

(EUR)	Reinsurance business		Non-life business	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
EQUITY AND LIABILITIES	418,350,613	404,105,056	193,420,334	183,588,158
Equity	156,138,328	149,995,279	27,757,504	25,977,488
Share capital	39,069,099	39,069,099	38,436,078	35,220,738
Share premium	33,003,752	33,003,752	0	28,495
Profit reserves	83,238,204	79,641,342	2,494,885	5,092,441
Treasury shares	-1,774	-1,774	0	0
Fair value reserve	-2,767,816	-1,717,140	2,074,151	1,977,700
Retained earnings	0	0	-7,649,452	-573,099
Net profit/loss for the year	3,596,862	0	-5,919,962	-14,472,194
Translation reserve	0	0	-1,678,197	-1,296,593
Equity attributable to equity holders of the controlling company	*156,138,328*	*149,995,279*	*27,757,503*	*25,977,488*
Non-controlling interest in equity	*0*	*0*	*0*	*0*
Subordinated liabilities	31,177,758	31,135,777	0	0
Technical provisions	173,941,974	169,726,846	136,823,399	130,566,625
Unearned premiums	41,861,443	44,042,916	52,522,521	51,197,580
Mathematical provisions	0	0	0	0
Provision for outstanding claims	131,492,898	123,869,342	81,279,621	76,397,588
Other technical provisions	587,633	1,814,588	3,021,257	2,971,457
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	0	0
Other provisions	112,165	170,448	581,094	630,293
Deferred tax liabilities	86,161	323,814	39,013	41,570
Other financial liabilities	2,901,061	613	6,486,120	6,073,305
Liabilities from operating activities	31,997,763	37,345,542	14,692,522	14,680,764
Liabilities from primary insurance business	0	0	4,427,260	5,059,871
Liabilities from reinsurance and co-insurance business	30,408,949	37,345,542	9,198,849	8,982,217
Current tax liabilities	1,588,814	0	1,066,413	638,676
Other liabilities	21,995,403	15,406,738	7,040,685	5,618,114

Life business		Other		Consolidated		Total	
31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
55,904,513	49,389,904	12,400,388	11,780,103	-101,690,439	-88,151,614	578,385,408	560,711,611
15,312,585	16,814,712	12,287,926	11,689,382	-56,811,733	-42,799,454	154,684,609	161,677,406
21,516,950	21,219,205	12,162,644	11,492,556	-72,115,671	-67,932,499	39,069,099	39,069,099
56	56	0	0	-7,586,412	-28,547	25,417,396	33,003,756
336,491	0	90,189	98,336	-797,750	-4,552,375	85,362,019	80,279,744
0	0	0	0	0	0	-1,774	-1,774
244,490	81,097	9,828	9,828	317,887	192,452	-121,460	543,937
-4,057,899	-3,266,680	98,913	183,963	12,166,238	17,180,647	557,800	13,524,831
-1,943,673	-791,221	-74,663	-85,453	6,712,134	3,007,121	2,370,698	-12,341,747
-783,830	-427,745	1,015	-9,848	48,990	49,009	-2,412,020	-1,685,177
15,312,585	*16,814,712*	*12,287,926*	*11,689,382*	*-61,254,584*	*-52,084,192*	*150,241,758*	*152,392,668*
0	*0*	*0*	*0*	*4,442,851*	*9,284,738*	*4,442,851*	*9,284,738*
0	0	0	0	0	0	31,177,758	31,135,777
15,666,210	13,778,365	0	0	-23,144,335	-25,788,932	303,287,248	288,282,904
319,067	255,074	0	0	-7,601,594	-9,483,296	87,101,437	86,012,274
15,228,730	13,363,461	0	0	0	0	15,228,730	13,363,461
118,413	159,830	0	0	-15,401,760	-16,113,143	197,489,172	184,313,617
0	0	0	0	-140,981	-192,493	3,467,909	4,593,552
23,626,363	17,953,979	0	0	0	0	23,626,363	17,953,979
73,662	69,599	1,933	1,761	0	0	768,854	872,101
61,436	20,275	0	0	0	0	186,610	385,659
0	0	81,500	50,418	-6,801,580	-2,950,418	2,667,101	3,173,918
199,360	115,181	10,200	24,246	-13,183,474	-11,988,825	33,716,371	40,176,908
29,467	46,756	10,200	24,000	-10,200	-8,464	4,456,727	5,122,163
79,595	51,801	0	0	-13,173,274	-11,980,361	26,514,119	34,399,199
90,298	16,624	0	246	0	0	2,745,525	655,546
964,897	637,793	18,828	14,296	-1,749,317	-4,623,983	28,270,495	17,052,958

Items of the income statement by operating segment

(EUR)	Reinsurance business		Non-life business	
	2010	2009	2010	2009
Net earned premiums (1)	123,497,230	119,096,864	96,085,241	87,151,884
Gross premiums written	142,861,784	147,082,330	125,757,228	119,665,563
- of this third-party clients	120,989,322	120,343,800	125,580,749	119,665,563
Written premiums ceded to reinsurers and co-insurers	-21,611,105	-25,360,971	-25,243,014	-30,392,194
change in unearned premiums	2,246,551	-2,624,495	-4,428,973	-2,121,485
Net claims incurred (2)	-81,740,116	-90,257,788	-55,739,316	-55,939,199
Gross claims paid less income from subrogation receivables liquidated	-78,092,872	-100,807,961	-64,442,773	-61,376,186
Reinsurers' and co-insurers' shares	11,644,566	29,936,487	15,533,327	16,169,192
Change in the provision for outstanding claims	-15,291,810	-19,386,314	-6,829,870	-10,732,205
Change in other technical provisions (3)	1,185,050	-949,348	-967,676	-734,022
Change in the technical provision for policyholders who bear the investment risk (4)	0	0	0	0
Operating expenses (5)	-39,329,664	-39,876,086	-43,870,376	-42,117,528
Depreciation/amortisation	-176,706	-150,478	-1,721,678	-1,615,486
Other technical income (6)	4,741,369	5,539,068	6,652,290	8,598,391
Other technical expenses (7)	-2,165,907	-1,230,757	-7,491,095	-5,626,053
A) Technical result (1 + 2 + 3 + 4 + 5 + 6 + 7)	6,187,962	-7,678,047	-5,330,932	-8,666,527
Income from investments in associates (8)	0	0	210,210	0
Shares in profit/loss of equity accounted associates	0	0	0	0
Investment income (9)	9,831,163	12,566,933	5,182,893	4,630,836
- Interest income	6,431,313	6,069,093	4,218,525	3,231,873
Expenses for investments in affiliates (10)	0	0	0	-285,860
Shares in profit/loss of equity accounted associates	0	-254,281	0	0
Expenses from financial assets and liabilities (11)	-7,282,878	-18,961,340	-1,154,265	-3,307,005
- Interest expense	-1,543,868	-1,926,416	-412,889	0
- impairment loss on goodwill	-386,392	-5,585,797	0	0
B) Net investment income (8 + 9 + 10 + 11)	2,548,285	-6,394,407	4,238,838	1,037,971
Other income (12)	87,439	67,558	398,461	721,176
Expenses for bonuses and rebates (13)	23,029	0	-744,937	-650,615
Other expenses (14)	-166	-663	-1,766,394	-5,765,762
C) Result of other items (12 + 13 + 14)	110,302	66,895	-2,112,870	-5,695,201
D) Profit/loss before tax (A + B + C)	8,846,549	-14,005,559	-3,204,964	-13,323,757
E) Income tax expense	-1,652,825	1,406,914	-1,552,161	-1,267,034
F) Net profit/loss for the period (D+E)	7,193,724	-12,598,645	-4,757,125	-14,590,791

Inter-segment business

(EUR)	Reinsurance business		Non-life business	
	2010	2009	2010	2009
Net earned premiums	21,872,461	26,738,530	176,479	0
Net claims incurred	-13,879,561	-14,411,631	0	0
Operating expenses	-4,674,576	-6,361,832	-116,497	0
Investment income	252,082	0	9,011	0
Other income	0	0	18,762	0

Life business		Other		Consolidation adjustment		Total	
2010	2009	2010	2009	2010	2009	2010	2009
12,394,003	11,217,545	0	0	-102,444	-38,454	231,874,029	217,427,839
12,532,979	11,407,225	0	0	-22,048,940	-26,738,530	259,103,050	251,416,588
12,532,979	11,407,225	0	0	0	0	259,103,050	251,416,588
-124,434	-90,848	0	0	21,677,401	26,700,076	-25,301,152	-29,143,937
-14,542	-98,832	0	0	269,095	0	-1,927,869	-4,844,812
-2,540,031	-1,621,249	0	0	9,502	0	-140,009,961	-147,818,236
-2,613,520	-1,617,844	0	0	13,879,561	14,411,631	-131,269,604	-149,390,360
577	356	0	0	-13,912,436	-14,411,631	13,266,034	31,694,404
72,912	-3,761	0	0	42,377	0	-22,006,391	-30,122,280
-1,926,812	-1,709,146	0	0	0	25,040	-1,709,438	-3,367,476
-5,711,680	-7,205,795	0	0	0	0	-5,711,680	-7,205,795
-6,793,923	-5,558,258	-107,237	-229,893	4,813,515	6,531,378	-85,287,685	-81,250,387
-114,475	-62,209	-1,591	-10,305	0	0	-2,014,450	-1,838,478
30,942	123,867	0	22	-4,793,045	-6,459,490	6,631,556	7,801,858
-20,264	-106,119	0	0	49,680	0	-9,627,586	-6,962,929
-4,567,765	-4,859,155	-107,237	-229,871	-22,792	58,474	-3,840,765	-21,375,126
0	0	0	0	4,845,091	167,497	5,055,301	167,497
0	0	0	0	5,055,301	167,497	5,055,301	167,497
5,110,395	5,374,801	32,001	112,719	-261,093	-502,391	19,895,359	22,182,898
1,105,344	1,017,157	14,972	24,699	-223,057	158,450	11,547,097	10,501,272
0	0	0	-1,181	0	32,760	0	-254,281
0	0	0	0	0	0	0	-254,281
-2,023,090	-1,178,505	0	0	224,740	0	-10,235,493	-23,446,850
-25,251	0	0	0	224,740	0	-1,757,268	-1,926,416
0	0	0	0	0	0	-386,392	-5,585,797
3,087,305	4,196,296	32,001	111,538	4,808,738	-302,134	14,715,167	-1,350,736
0	0	12,347	33,775	-20,396	0	477,851	822,509
0	0	0	0	0	-25,040	-721,908	-675,655
-12,182	0	-11,621	-14	364	0	-1,789,999	-5,766,439
-12,182	0	726	33,761	-20,032	-25,040	-2,034,056	-5,619,585
-1,492,642	-662,859	-74,510	-84,572	4,765,914	-268,700	8,840,346	-28,345,447
-114,537	-9,764	-153	-881	0	0	-3,319,676	129,235
-1,607,179	-672,623	-74,663	-85,453	4,765,914	-268,700	5,520,670	-28,216,212

Life business		Other		Consolidation adjustment		Total	
2010	2009	2010	2009	2010	2009	2010	2009
0	0	0	0	-22,048,940	-26,738,530	0	0
0	0	0	0	13,879,561	14,411,631	0	0
-22,442	0	0	0	4,813,515	6,361,832	0	0
0	0	0	0	-261,093	0	0	0
0	0	1,634	0	-20,396	0	0	0

Reporting by geographic segment 2010

(EUR)	Gross premiums written		Long-term assets	
	2010	2009	31 Dec 2010	31 Dec 2009
Slovenia	129,022,307	135,930,348	7,378,006	7,391,254
International	130,080,742	115,486,240	42,973,892	43,011,829
Total	259,103,049	251,416,588	50,351,898	50,403,083

22.5 Changes in accounting policies and correction of errors

In 2010, the Group introduced no material changes in accounting policies nor corrected any errors.

22.6 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 2010 and have not been applied in preparing these financial statements:

Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011)

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specifics to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

The revised IAS is not relevant to the Group's financial statements as the Group is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Group's financial statements as the Group does not have any defined benefit plans with minimum funding requirements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)

The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in

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which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Group did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods 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.

22.7 Risk management

The most important risks that the Group members are exposed to are underwriting risks (underwriting process risk, pricing risk, claims risk, net retention risk, reserving risk and risks associated with the retrocession programme and life insurance business), market risks (interest rate risk, equity securities risk, currency risk, concentration risk and asset-liability mismatch risk), insolvency risk, liquidity risk, credit risk and operational risk. For the purpose of exemplifying the risk of insurance contracts concentration, a table showing a breakdown of insurance premium by geographical segments is given in the section Information on operating segments.

22.7.1 Insolvency risk

In accordance with statutory regulations, the Group must maintain adequate capital with regard to the amount and type of reinsurance business transacted. The capital of each Group member must be at all times at least equal to capital adequacy requirements calculated using the higher of the premium ratio or loss ratio, or must be at least equal to the minimum prescribed amount if the result based on the premium or loss ratio is smaller.

The Group is deemed to meet capital adequacy requirements if the available solvency margin is larger or equal to the required solvency margin. The Group met capital adequacy requirements through all of 2010, as it maintained a surplus of available solvency margin over required solvency margin.

As at 31 December 2010, the Group's available solvency margin was EUR 121.4m (31 December 2009: EUR 126.7m). The Group's available solvency margin highly exceeds the required solvency margin of EUR 47.4m (31 December 2009: EUR 60.3m), despite the fact that when calculating its adjusted solvency, the Group deducts from the available solvency margin the required solvency margin of the controlling company and the proportionate shares of the required solvency margins of subsidiaries (but not the equity investments in subsidiaries).

22.7.2 Underwriting risks

Underwriting risks are risks related to the main activity pursued by insurance companies, i.e. the assumption of risks from policyholders. Underwriting risks mainly comprise underwriting process risk (insurance and reinsurance), pricing risk, claim risk, retention risk and reserving risk. Some other underwriting risks, e.g. product design risk, economic environment risk and policyholder behaviour risk, may be relevant for individual Group companies and/or insurance markets. However, these risks are not described in detail in this report as we believe that their effects are indirectly manifested in the main underwriting risks.

The controlling company is a professional reinsurer, five subsidiaries are non-life insurers, three subsidiaries are life insurers, while one subsidiary is both a non-life and 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 within the meaning of IFRS 4. As there are no 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 insurance and then the underwriting risks associated with life insurance.

22.7.2.1 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 mitigates this risk mainly by complying with established and/or prescribed underwriting procedures (especially with large risks); correctly determining the probable maximum loss (PML) for each risk; complying with internal underwriting guidelines and instructions; complying with the authorisation system; having an appropriate pricing and reinsurance policy in place; and conducting actuarial reviews.

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

When significant risks are involved, underwriting experts of the controlling company participate in the underwriting process of its subsidiaries. Additionally in respect of risks exceeding the limits set out in the reinsurance treaties, it is vital that adequate facultative reinsurance upgrading the basic reinsurance programme is obtained.

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 2009.

22.7.2.2 Pricing risk – non-life business

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re)insurance contracts. The pricing risk within the Group is mainly monitored by conducting actuarial analyses of loss ratios and identifying their trends and by making appropriate corrections. When premium rates are determined for new products, the pricing risk can be monitored 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. Therefore, the Group manages this risk by having an appropriate underwriting process in place and by adjusting applicable commission rates. This helps reduce the pricing risk also with non-proportional reinsurance contracts. Rates are determined based on target combined ratios; their adequacy is tested by comparing results by form of reinsurance and line of business.

Premium rates are currently still adequate assuming reasonable actuarial expectations of claims movements and rational behaviour of all market participants. However, 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. Therefore, the Group considers the pricing risk to have been moderate in 2010 and similar to that in 2009.

22.7.2.3 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 and such like.

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

The Group considers the claims risk to have remained essentially the same as in 2009.

22.7.2.4 Net retention risk – non-life business

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

The Group manages this risk by way of adequate professional underwriting of the risks to be insured, partly by measuring the exposure (by aggregating sums insured) to natural peril events by geographical area, and especially by setting appropriate net retention limits and designing appropriate reinsurance programmes. In managing this risk, we take into account that maximum net aggregate losses in any one year are affected both by the maximum net claim arising from a single catastrophe event, and by the frequency of such events.

We consider the net retention risk to have remained essentially the same as in 2009 in terms of retention limits and the expected number of catastrophic losses. However, the actual number of catastrophic claims that occurred in 2010 was lower than what could have been expected on the basis of long-term average losses. 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.

22.7.2.5 Reserving risk - non-life business

Reserving risk is the risk that technical provisions are inadequate.

The Group reserving policy has not been successfully implemented in all Group members because some of the markets in which Group companies operate are less developed. When establishing technical provisions, additional provisions are set aside to cover any deficiencies in individual Group members' technical provisions at the Group level.

Up until the end of 2006, none of the subsidiaries – except for the largest insurer – estimated its claims provisions on the basis of recognized actuarial methods (e.g. methods based on claims paid triangles). Only in 2007, two more Group members applied for the first time the so-called "chain ladder" method to some classes of business, and continued using this method also in the following years. The majority of subsidiaries do not keep reliable historical data relating to the claims provision (in particular the IBNR provision) by accident year and no split between gross and net amounts is available. Moreover, portfolios in certain classes of insurance are so small that the calculation of claims provisions based on triangles would not make sense. For this reason, at the end of 2010, 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 reserving methodologies used by reinsurers and primary insurers, the run-off analysis was made separately for reinsurance and primary insurance business. Unlike primary insurers, Sava Reinsurance Company cannot use triangles of paid losses based on accident year data for actuarial estimations. This is because ceding companies report claims under quota share contracts by underwriting years. As claims under one-year policies written during any one year, may occur either in the year the policy is written or in the year after, aggregated data for quota share reinsurance contracts cannot be broken down by accident year. Ceding companies would normally be able to produce this information for other types of reinsurance. However, for quota shares, this would involve a significant increase in the administrative work-load of the ceding companies.

Hence, in line with reinsurance practice, the Group sorts data about claims paid by underwriting year and estimates its liabilities for future underwriting years by using the "chain ladder" method. The estimated liabilities relate to (i) claims that have already been incurred (reported and not reported) the settlement of which is provided for within the claims provision, and (ii) claims that have not yet been incurred, the settlement of which is covered by unearned premiums. The claims provision is derived by deducting the unearned premium (calculated separately) from the estimated future liabilities.

The tables below show the adequacy tests of the claims provision (with added unearned premiums set aside in previous years and reduced by deferred commission) established in the past for liabilities under reinsurance contracts. Such tests can only be applied to past years – the further back in time, the more precise the test method. As actuarial methods for reserving are applied consistently, we conclude, based on past discrepancies between originally estimated liabilities and subsequently established actual liabilities arising from claims at different statement of financial position dates, that the provisions as at 31 December 2010 are adequate.

Adequacy test of gross technical provisions for Sava Reinsurance Company

(thousand EUR)						Year ended 31 December
Gross claims provisions + unearned premium – deferred commissions	2005	2006	2007	2008	2009	2010
As originally estimated	112,782	109,145	119,777	148,075	157,182	163,593
Reestimated as of 1 year later	87,592	85,128	112,684	141,387	142,105	
Reestimated as of 2 years later	85,581	89,210	115,393	138,257		
Reestimated as of 3 years later	86,772	92,588	113,172			
Reestimated as of 4 years later	89,685	89,657				
Reestimated as of 5 years later	89,242					
Cumulative redundancy	23,541	19,488	6,606	9,819	15,076	0
Cumulative gross claims paid + commission – premium written in subsequent years						
1 year later	37,812	29,892	45,446	61,569	53,151	
2 years later	46,629	45,415	60,904	79,271		
3 years later	54,026	52,400	70,605			
4 years later	59,207	57,897				
5 years later	63,468					

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, let us have a look at 2005 in the above table. At year-end 2005, future gross liabilities for claims incurred in the course of 2005 and for claims which under the contracts will arise after 31 December 2005, were estimated at EUR 112.8m. Part of this amount relates to the claims provision (claims already incurred), and part to unearned premiums (claims to occur after 31 December 2005). In 2006, Sava Re paid a total of EUR 37.8m in respect of claims relating to contracts taken into account in the original calculation of the liability at 31 December 2005. As at 31 December 2006, future liabilities relating to the same contracts were estimated at EUR 49.8m (not presented in the table). This amount plus the amount of claims paid in 2006 equal the total estimated liabilities of EUR 87.6m as reestimated one year later. In the same way, the liabilities as at 31 December 2005 were re-estimated at the end of 2007, 2008, 2009 and 2010. Given that the cumulative amount of claims paid from 2006 to 2010 was EUR 63.5, the 2009 estimate relating to liabilities estimated at the end of December was: EUR 89.2m – 63.5m = EUR 25.8m (this amount is not included in the table). This estimate will almost certainly differ from the final and currently unknown value of remaining liabilities. However, the difference in absolute terms is very likely to be smaller than the error in the estimate of 31 December 2005. Over the years, the difference reduces as the number of pending claims decreases until all claims are settled. This may take ten years or longer for certain classes of insurance.

Adequacy test of net technical provisions for Sava Reinsurance Company

(thousand EUR)						Year ended 31 December
Net claims provisions + unearned premium – deferred commissions	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
As originally estimated	86,594	92,579	98,878	111,120	132,543	146,636
Reestimated as of 1 year later	65,970	65,813	93,767	107,711	123,097	
Reestimated as of 2 years later	63,097	69,618	96,301	104,885		
Reestimated as of 3 years later	63,827	72,695	94,524			
Reestimated as of 4 years later	66,172	70,238				
Reestimated as of 5 years later	65,744					
Cumulative redundancy	20,850	22,341	4,354	6,235	9,447	0
Cumulative net claims paid + commission – premiums written in subsequent years						
1 year later	26,344	24,438	42,359	44,021	47,655	
2 years later	34,611	37,331	54,679	57,642		
3 years later	40,460	41,963	61,955			
4 years later	43,846	45,704				
5 years later	46,350					

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

The Group's cumulative redundancy relating to the years from 2005 to 2009, as shown in the table above, represents 24%, 24%, 4%, 6% and 7%, respectively, of the liabilities as originally estimated. The relative decrease in the redundancy from 2007 to 2008 is due to catastrophic losses and cedants' optimistic estimates of claims provisions for catastrophic losses. In the remaining years, the cumulative redundancy is the result of prudent estimation methods used and the effect of the unearned premiums less commission. Specifically, if the loss ratio is less than 100%, the unearned premiums have the effect of overstating the cumulative redundancy. This is also the reason why the reestimate as of 1 year later is quickly decreasing compared to the original estimate, as unearned premiums relating to one-year insurance contracts are largely released in the following year when any redundancy is also released; subsequent reestimates for two, three, etc. years then remain essentially the same as the second-year estimate. The relatively smaller redundancy in 2009 is a result of the restructuring of the portfolio in recent years: there was a decrease in the share of motor quota share reinsurance business with large unearned premiums, which is also why the above mentioned release of redundant unearned premium after the first year is smaller.

The adequacy of provisions in each subsidiary is monitored by the controlling company and any insufficiency is accounted for at the Group level.

As a rule, primary insurance companies (including those belonging to the Group) organise and analyse data by accident year. This, however, is not comparable with organising and analysing of data by underwriting year as practised by reinsurance companies. The two tables below show an 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 subsidiary insurance companies

(thousand EUR)				Year ended 31 December		
Gross provision for outstanding claims	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
As originally estimated	38,647	48,876	53,223	61,135	70,652	75,237
Reestimated as of 1 year later	38,536	47,539	50,050	54,919	63,306	
Reestimated as of 2 years later	38,533	47,478	48,706	57,543		
Reestimated as of 3 years later	40,002	46,736	51,154			
Reestimated as of 4 years later	40,114	48,627				
Reestimated as of 5 years later	40,912					
Cumulative redundancy	-2,265	249	2,069	3,592	7,346	
Cumulative claims paid, gross of reinsurance						
1 year later	15,663	21,406	22,424	25,901	26,020	
2 years later	22,267	29,416	30,974	34,749		
3 years later	27,173	34,732	35,649			
4 years later	30,380	37,525				
5 years later	32,282					

As shown in the above table, gross claims provisions were below/above the original estimate by –6%, –1%, 4%, 6% and 10%.

Adequacy test of net technical provisions for subsidiary insurance companies

(thousand EUR)				Year ended 31 December		
Net provision for outstanding claims	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
As originally estimated	28,508	36,780	40,054	45,964	55,126	60,957
Reestimated as of 1 year later	28,708	36,343	38,073	41,781	50,053	
Reestimated as of 2 years later	29,038	36,715	38,003	44,576		
Reestimated as of 3 years later	30,560	36,782	40,562			
Reestimated as of 4 years later	30,984	38,731				
Reestimated as of 5 years later	31,858					
Cumulative redundancy	-3,350	-1,952	-507	1,388	5,073	
Cumulative claims paid, net of reinsurance						
1 year later	11,835	16,673	17,779	19,962	20,503	
2 years later	17,040	23,269	24,844	26,981		
3 years later	21,065	27,836	28,626			
4 years later	23,808	30,157				
5 years later	25,374					

As shown in the above table, net claims provisions were below/above the original estimate by –12%, –5%, 1%, 3% and 9%.

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

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

22.7.2.6 Retrocession programme – non-life business

To reduce the underwriting risks to which it is exposed, the Group must have an appropriate reinsurance programme (in particular a retrocession 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 determined by the Group are used rarely and only for risks of the highest quality. 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 further covered for potentially large losses through prudently selected non-proportional reinsurance programmes.

The reinsurance programme (and retrocession programme in particular) is considered appropriate, and comparable between 2010 and 2009.

22.7.2.7 Estimated exposure to underwriting risks – non-life business

An increase in realised underwriting risk would essentially result in an increase in net claims. Due to adequate reinsurance and, in particular adequate retrocession programmes, the Group as a whole is not exposed to the risk of a sharp increase in net claims, even in the event of losses arising from catastrophic loss events. A more likely scenario to which the Group is exposed to is the deterioration of the net combined ratio as a result of an increase in claims or expenses along with a decrease in premiums. If the Group's net combined ratio increased/decreased by 1 percentage point, its net profit before taxes would decrease/increase by EUR 2.3m (2009: EUR 2.2m).

Group members pass on their underwriting risks to the controlling company when these exceed their net retention limits. Therefore, a key factor in estimating the Group's exposure due to underwriting risks are retention limits of the controlling company and its retrocession programme. The net retention limit is set at EUR 1m for the majority of non-life classes of insurance, except for the classes fire and natural forces and other damage to property, for which it is set at EUR 2m. In principle, this limits net claims arising out of any single loss event to a maximum of 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 for a single catastrophe event based on reasonable actuarial expectations. Due to the increased priority in the catastrophe cover for Slovenia in 2009, the claims up to the priority have been additionally covered by an aggregate catastrophe coverage, under which claims per event in excess of EUR 1m are aggregated, while the coverage is for EUR 5m in excess of 5m of the described aggregate. While it is possible that several catastrophe events occur in the same year, the likelihood is negligible of their number being such as to trigger the Group's insolvency. Due to the random fluctuation in the number of catastrophic events, an increase in the net claims must always be expected. This would negatively impact business results, but would definitely not lead to the insolvency of the Group.

The risk that the underwriting risk may seriously undermine the Group's financial stability is deemed, according to our assessment, low and there are no significant differences between 2010 and 2009.

22.7.2.8 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 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 Group mitigates insurance risk concentration in life business through diversification, reinsurance and following underwriting guidelines.

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 appropriate reinsurance programmes 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 generally does not exceed EUR 20,000; only some facultative policies and the group policy in Slovenia have a larger retention. Reinsurance is placed with Sava Reinsurance Company; in Serbia it is through local reinsurer Dunav Re (Dunav Re retains 10% of the reinsured risk). Reinsurance for group life insurance in Slovenia is placed also with Zurich Life Insurance Company on a pooling basis.

The sensitivity of present value of future profits to changes in significant variables

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.

(EUR)	Present value of future profits
Base run	4,984,275
Investment return + 100bp	4,514,118
Investment return – 100bp	5,438,676
Mortality + 10%	4,980,112
Policy maintenance expenses + 10%	3,984,778

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 2010 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 2010, the investment return was EUR 30,697; policy maintenance expenses totalled EUR 772,158. A change in key variables would affect the corresponding component of the result in the same proportion.

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

22.7.3 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 primarily interest rate risk, equity securities risk, currency risk, concentration risk and asset-liability mismatch risk.

Details on Group financial investments

(EUR)	31 Dec 2010		31 Dec 2009	
Type of investment	Amount	As% of total	Amount	As% of total
Debt securities	149,607,354	46.1%	149,386,255	50.1%
Deposits and money market instruments	129,563,385	40.0%	90,825,019	30.5%
Shares (excl. strategic shares)	11,482,158	3.5%	17,052,682	5.7%
Mutual funds	24,158,534	7.5%	30,627,902	10.3%
Loans, structured products and other	2,008,380	0.6%	4,470,827	1.5%
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,405,629	2.3%	5,768,874	1.9%
Total	324,225,440	100.0%	298,131,559	100.0%
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,716,699		17,861,634	

The total of investments does 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 affect neither the Group's results of operations nor equity.

22.7.3.1 Interest rate risk

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

The 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 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 46% of its investments in mutual funds as at 31 December 2010 were interest sensitive, as compared to 34% 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 2010		31 Dec 2009	
Type of investment	Amount	As% of total	Amount	As% of total
Interest-bearing assets	288,449,643	89.0%	248,852,607	83.5%
- fixed interest rate	260,957,583	80.5%	210,448,954	70.6%
- variable interest rate	27,492,060	8.5%	38,403,653	12.9%
Non-interest bearing assets	35,775,797	11.0%	49,278,952	16.5%
Total financial investments	324,225,440	100.0%	298,131,559	100.0%
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,716,699		17,861,634	
Assets exposed to interest rate risk*	162,148,077	50.0%	158,120,215	53.0%

*Included are debt securities and bond exposures in mutual funds.

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 2010	31 Dec 2009
Liabilities	Amount	Amount
Mathematical provisions	15,228,730	13,363,461

Of the total Group's fixed income investments, 93% (2009: 95%) relate to the bond portfolios of the Slovenian Group members, bond mutual funds and mixed mutual funds included with a weight of 0.5, which has been taken into account when calculating the interest rate risk. It was for this portion of the portfolio 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 and analysed Group bond portfolio was 3.83 years as at the year-end 2010 (31 December 2009: 4.02 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 9.6m or 6.9% (2009: EUR 10.1m or 7.1%). If the same sensitivity is applied to investments in mutual funds (bond, mixed and guaranteed) with a weight of 0.5 and in funds of funds (assigning each portfolio a weight of 0.5), the same change in interest rates would further decrease its investment portfolio by EUR 0.8m (2009: EUR 1.0m). Such an increase in interest rates would thus decrease the fair value of the Group's total investments by EUR 10.4m (2009: EUR 11.1m). The vast majority of interest-sensitive investments are classified as available for sale. Any change in interest rates would therefore affect mainly their market value and thus impact the statement of comprehensive income. Thus of the above EUR 10.4m, EUR 10.1m (2009: 10.9m) relate to a change in equity, the remaining relates to investments classified as assets held to maturity, a class where changes in market price do not affect financial statements.

As the Group sells traditional life insurance products, it is exposed to the risk of decreasing interest rates, which would increase its liabilities (mathematical provisions). Life insurance is offered by the largest insurer within the Group, as well as by three newly established subsidiaries. The latter still have small portfolios; therefore, 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 life insurance liability fund (assets covering mathematical provisions). An increase in investments would offset an increase in mathematical provisions if maturities of the insurer's liabilities matched that of its investments, which is not the case. Therefore, the Group tends to reduce this risk by reducing the mismatch between the average maturity of its assets and liabilities. Complete matching is impossible even in theory, as life insurance maturities (which may 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 2010 would increase by EUR 3.4m (2009: EUR 3.5m), while the value of bonds in the liability fund would increase by only EUR 0.8m (2009: EUR 0.9). If, however, the interest rate increased by 2 percentage points, the insurer's obligations at 31 December 2010 would decrease by EUR 2.1m (2009: EUR 2.1m), while the value of the bond portfolio supporting the liability fund would decrease by EUR 0.7m (2009: 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 decreased slightly in 2010 compared to 2009.

22.7.3.2 Equity securities risk

Equity securities risk is the risk that the value of investments will decrease due to fluctuations in 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 54% of its investments in mutual funds as at 31 December 2010 were sensitive to unfavourable movements on equity markets, as compared to 66% a year ago. The remainder up to 100% is taken into account in interest rate risk.

Exposure to equity securities risk

(EUR)	31 Dec 2010		31 Dec 2009	
Type of investment	Amount	As% of total	Amount	As% of total
Debt securities	149,607,354	46.1%	149,386,255	50.1%
Deposits, CDs and loans granted	131,571,765	40.6%	95,295,846	32.0%
Shares (excl. strategic shares)	11,482,158	3.5%	17,052,682	5.7%
Mutual funds	24,158,534	7.5%	30,627,902	10.3%
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,405,629	2.3%	5,768,874	1.9%
Total financial investments	324,225,440	100.0%	298,131,559	100.0%
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,716,699		17,861,634	
Assets exposed to equity securities risk*	23,208,132	7.2%	38,964,625	13.1%

*Included are equity securities and equity security exposures in mutual funds.

In addition to EUR 42.3m (2009: EUR 37.6) invested in associate companies, which is not included in the above table, the Group holds EUR 11.5m (2009: EUR 17.1m) of investments in equity securities of domestic and foreign companies, and a further EUR 24.2m (2009: EUR 30.6) in mutual funds. Taking into the account the structure of mutual funds, the total exposure to the equity securities risk was EUR 65.4m (2009: EUR 74.0m). Sava Reinsurance Company mitigates this risk primarily through (i) diversification (in terms of issuer, industry and geographic area), (ii) monitoring and analysing global market developments, and (iii) promptly responding to events affecting global financial markets. Sava Reinsurance Company primarily invests in adequately liquid shares of companies with high market capitalisation. Currently, this investment policy is not applicable to its subsidiaries in the area of former Yugoslavia as, under their local regulatory requirements, their equity investments are restricted to the local financial markets, which are not fully developed.

To assess the Group's sensitivity of investments to the risk of change in the value of equity securities, we assume a 10% decrease in the value of all equity securities. This would decrease the value of the Group portfolio by EUR 6.5m (2009: EUR 7.4m). Unlike the bond portfolio, which moves inversely to interest rates, the value of the equities and mutual fund portfolio changes linearly with stock prices. A 20% drop in stock prices would thus cause a drop in the equities portfolio of EUR 13.0m (2009: EUR 14.8m), which would entirely relate to the change in equity.

The Group considers its exposure to equity securities risk in 2010 smaller than in 2009. It needs however to be noted that these estimates relate strictly to year-end figures for 2010 and 2009.

22.7.3.3 Currency risk

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

The Group has been expanding its foreign-sourced reinsurance business, which affects the currency structure of its liabilities. Nevertheless, as at year-end, euro-denominated liabilities still represented 84.9% (2009: 90.8%). It is in this currency alone that the controlling company's liability fund exceeds its liabilities, by EUR 41.6m (2009: 37.5m), whereas all other currencies produced a total asset-liability mismatch (deficit) of EUR 16.2m (2009: 11.1m). In view of the amount of the deficit in EUR, the mismatch for other currencies is insignificant.

The subsidiaries ensure asset-liability currency matching by directly matching the currency structure of assets and liabilities. Also in 2010, they adapted their investment policy in view of its prevailing euro-denominated liabilities.

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Assets and liabilities of subsidiaries in Croatia, Serbia and in Macedonia are denominated in local currencies. The only exception are liabilities under life insurance contracts (mathematical provisions) in Serbia and in Croatia, which are euro-denominated or euro-linked. Also in these cases, assets are matched to the currency of the liabilities. Assets and liabilities of subsidiaries in Slovenia, Montenegro and Kosovo are 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), the currency mismatch in 2009 was EUR 16.2m (2009: EUR 11.1m) or 8.9% (2009: 6.3%) of the sum of gross technical provisions and credit risk/ catastrophe equalisation reserves of the controlling company. Also in case of a drastic unfavourable change in euro exchange rates, this mismatch would not be a problem, given that its liability fund exceeded its gross technical provisions and reserves by EUR 25.4m (2009: EUR 26.5m).

Currency (mis)match as at 31 December 2010 (all amounts translated to EUR)

Currency	Liability fund (LF)	Gross technical provisions (GTP) and reserves	Mismatch Max (GTP–LF, 0)
EUR	195,517,047	153,969,012	0
USD	3,798,631	11,380,792	7,582,161
KRW	3,269,007	3,949,727	680,720
RUB	0	2,925,161	2,925,161
TRY	1,081,203	1,483,743	402,540
HKD	865,022	1,265,065	400,044
Other	2,205,998	6,355,995	4,170,563
Total	206,736,908	181,329,494	16,161,189

Data relate to Sava Reinsurance Company.

Currency (mis)match as at 31 December 2009 (all amounts translated to 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

Data relate to Sava Reinsurance Company.

The “Other” item includes all currencies for which technical provisions and reserves of Sava Reinsurance Company were less than EUR1m at year-end 2010. Also for these currencies, the mismatch risk is calculated individually for each currency. The mismatch amount of EUR 4.2m under the “Other” item is slightly larger than the difference between the liability fund from the second column and technical provisions and reserves from the third column because it was calculated as the sum total of all mismatches by other currencies.

The Group considers its exposure to currency risk in 2010 small, yet larger than in 2009.

22.7.3.4 Concentration risk

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

The Group's investment portfolio is reasonably diversified in order to avoid large concentration of a certain type of investment, large concentration of a certain counterparty or industry or other potential forms of concentration. The Group's investments are diversified by type of investment (deposits, bonds, equity securities, structured products, mutual fund units, etc.), by maturity and by currency.

The bond portfolio is diversified by issuer. Issuers include Slovenian and foreign government bonds, banks and corporations, as well as domestic and international issuers. Equity securities are diversified by issuer, rating and region. Investments in mutual funds are diversified both directly and indirectly owing to the nature of such funds.

Investment portfolio by geographic area

(EUR)	31 Dec 2010		31 Dec 2009	
Market	Amount	As% of total	Amount	As% of total
Slovenia	214,408,297	66.1%	185,487,191	62.2%
OECD[29]	6,198,321	1.9%	7,919,981	2.7%
EU	47,729,765	14.7%	55,836,282	18.7%
Other countries	55,889,057	17.2%	48,888,105	16.4%
Total	324,225,440	100.0%	298,131,559	100.0%

Investment portfolio by issuer

(EUR)	31 Dec 2010		31 Dec 2009	
Market	Amount	As% of total	Amount	As% of total
Banks and savings banks	172,518,394	53.2%	126,362,053	42.4%
Sovereign debt	75,678,949	23.3%	78,613,016	26.4%
Financial institutions	12,967,971	4.0%	18,742,557	6.3%
Industry & commerce	28,157,012	8.7%	33,268,642	11.2%
Mutual funds	24,158,534	7.5%	30,627,902	10.3%
Insurance companies	10,744,580	3.3%	10,517,389	3.5%
Total	324,225,440	100.0%	298,131,559	100.0%

The largest single issuer of debt or equity securities that the Group is exposed to is the Republic of Slovenia. At 31 December 2010, the exposure to government bonds of the Republic of Slovenia was EUR 42.3m (2009: EUR 43.8). Only slightly smaller is the exposure to the associate company Zavarovalnica Maribor of EUR 42.3m (2009: EUR 21.4m)

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. Based on the tables above and considering only the unfavourable developments in the local financial market, the Group's exposure to concentration risk could be considered more or less the same as in 2009.

22.7.3.5 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 maturity of investments and liabilities is presented in greater detail under the heading Liquidity risk.

The Group keeps the structure of its liability fund compliant with the legal and other requirements in the countries where it operates. At 31 December 2010, the

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Group liability fund exceeded technical provisions by EUR 25.4m (2009: EUR 26.5m).

The table below shows the maturity profile of the investment portfolio with amounts relating to both the liability and the capital fund.

Maturity profile of financial investments

(EUR)	31 Dec 2010		31 Dec 2009	
Maturity	Amount	As% of total	Amount	As% of total
0–1 year	179,677,140	55.4%	155,579,951	52.2%
1–5 years	98,853,120	30.5%	86,997,112	29.2%
Over 5 years	45,695,180	14.1%	55,554,497	18.6%
Total	324,225,440	100.0%	298,131,559	100.0%

Maturity profile of Investments for the benefit of life-insurance policyholders who bear the investment risk

(EUR)	31 Dec 2010		31 Dec 2009	
Maturity	Amount	As% of total	Amount	As% of total
0–1 year	23,687,008	7.3%	17,831,944	6.0%
1–5 years	29,690	0.0%	29,690	0.0%
Over 5 years	0	0.0%	0	0.0%
Total	23,716,699	7.3%	17,861,634	6.0%

Note: The basis for the calculation of the percentage of total investments is the value of financial investments.

Asset-liability duration matching cannot be ensured for life insurance, as there are no debt securities of long enough duration in Slovenia, and even less so in the markets of former Yugoslavia.

Asset/liability matching in terms of duration is at an appropriate level given the large amount by which the liability fund exceeded gross technical provisions and reserves, whereby any deficit arising out of any mismatch could be set off. The average duration of bond investments of the liability fund was 3.85 years (2009: 3.35 years), while the average duration of the majority of liabilities (gross claims provision and unearned premiums) was 3.80 years.

22.7.4 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 had no liquidity problems throughout 2010.

One of the ways in which the Group mitigates liquidity risk is through investing a large proportion of its funds in highly liquid marketable securities which can be converted to cash at any time. Sudden liquidity needs arising in any Group subsidiary could be met by the controlling company through short term bridge loans. In the event of large losses, so-called cash call provisions in reinsurance contracts are triggered and provide for immediate payments in the chain cedant, controlling company, retrocessionaire. In addition, the controlling company concluded a call deposit contract with one of its commercial banks, which enables it to draw and return liquidity up to a maximum of EUR 500,000 on a daily basis. For extraordinary liquidity situations, the controlling company has arranged a credit line with a commercial bank in the total amount of EUR 5m.

Exposure to liquidity risk can be measured by comparing the maximum liability arising as a result of a single extraordinary net claim to the liquidity capacity of the Group; however, it needs to be considered that for large claims the claims handling period is substantially longer. The same applies to a large number of small claims arising from a natural disaster. In a worst-case scenario, such liabilities cannot exceed EUR 5m. In both cases, there is sufficient time during claims handling to sell equity or debt securities.

At the end of 2006 and at the beginning of 2007, the controlling company raised a subordinated loan in the amount of EUR 32m, to ensure capital adequacy required to be awarded a certain rating. Maturity of the loan is 20 years (the maturity date is 27 December 2026), 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%. Interest is payable quarterly; the controlling company has been servicing this debt regularly. As at 31 December 2010, the subordinated debt measured at amortised cost was EUR 31.2m (31 December 2009: EUR 31.1m).

(EUR)	Carrying amount 31 Dec 2010	Up to 1 year	1–5 years	Over 5 years
Financial investments	324,225,440	179,677,140	98,853,120	45,695,180
- At fair value through profit or loss	4,140,517	2,642,732	1,088,943	408,842
- Held to maturity	17,972,005	6,683,644	9,819,124	1,469,237
- Loans and deposits	130,751,104	126,370,009	3,723,797	657,298
- Available-for-sale	171,361,811	43,980,754	84,221,254	43,159,803
Investment property	4,906,918	0	0	4,906,918
Financial investments in Group companies and in associates	42,322,366	0	0	42,322,366
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,716,699	23,687,009	29,690	0
Reinsurers' share of technical provisions	19,734,539	5,290,823	5,736,588	8,707,129
Receivables*	90,303,384	87,869,537	2,424,813	9,034
Cash and cash equivalents	4,026,603	4,026,603	0	0
TOTAL ASSETS	509,235,949	300,551,112	107,044,211	101,640,627
Subordinated liabilities	31,177,758	0	0	31,177,758
Technical provisions	303,287,248	112,761,760	83,304,355	107,221,133
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,626,363	435,589	4,065,037	19,125,737
Other provisions	768,854	4,492	9,110	755,252
Liabilities from operating activities and current tax liabilities	33,716,371	33,716,371	0	0
Other liabilities	28,270,496	27,062,005	1,208,491	0
TOTAL LIABILITIES	420,847,090	173,980,216	88,586,993	158,279,880

*Including deferred tax assets.

(EUR)	Carrying amount 31 Dec 2009	Up to 1 year	1–5 years	Over 5 years
Financial investments	298,131,559	155,579,951	86,997,112	55,554,497
- At fair value through profit or loss	6,818,923	6,352,516	0	466,407
- Held to maturity	34,674,131	17,715,728	13,046,265	3,912,138
- Loans and deposits	62,200,051	60,240,293	1,959,758	0
- Available-for-sale	194,438,455	71,271,415	71,991,088	51,175,952
Investment property	5,773,564	0	0	5,773,564
Financial investments in Group companies and in associates	37,646,480	0	0	37,646,480
Investments for the benefit of life-insurance policyholders who bear the investment risk	17,861,634	17,831,944	29690	0
Reinsurers' share of technical provisions	28,899,410	10,020,261	9,625,671	9,253,477
Receivables*	98,578,816	96,209,971	2,368,845	
Cash and cash equivalents	5,617,457	5,617,457	0	0
TOTAL ASSETS	492,508,920	285,259,584	99,021,318	108,228,018
Subordinated liabilities	31,135,777	0	0	31,135,777
Technical provisions	288,282,904	120,986,860	86,857,013	80,439,031
Investments for the benefit of life-insurance policyholders who bear the investment risk	17,953,979	425,391	2,524,269	15,004,320
Other provisions	872,101	2,492	28,495	841,114
Liabilities from operating activities and current tax liabilities	40,176,909	40,146,088		30,821
Other liabilities	17,052,958	17,052,958	0	0
TOTAL LIABILITIES	395,474,628	178,613,788	89,409,777	127,451,063

*Including deferred tax assets.

We consider the liquidity risk to be minor and similar in both in 2010 and 2009.

22.7.5 Credit risk

Credit risk is the risk that issuers or other counter-parties will fail to meet their obligations to the Group.

Exposure to credit risk

(EUR)	31 Dec 2010	31 Dec 2009
Type of asset	Amount	Amount
Financial investments in associate companies	42,322,366	37,646,479
Financial investments	324,225,440	298,131,559
Reinsurers' share of technical provisions	19,734,539	28,899,410
Receivables	88,067,303	96,209,971
Total exposure	474,349,648	460,887,419

In accordance with local legislations, implementing regulations and internal acts, Group members invest their cash surpluses only in (i) deposits with banks with high credit rating (as per local credit rating standards), (ii) debt securities issued exclusively by entities with an adequate rating (if existing in local markets), and (iii) adequately liquid equity securities of companies with sufficient market capitalisation.

To assess credit risk, the Group monitors the structure of its investments by issuer credit rating. Data are given in the table below.

Financial investments by issuer credit rating

(EUR)	31 Dec 2010		31 Dec 2009	
Rated by Moody's/S&P	Amount	As% of total	Amount	As% of total
Aaa/AAA	3,138,780	1.0%	3,967,050	1.3%
Aa/AA	54,992,298	17.0%	54,841,022	18.4%
A/A	43,371,585	13.4%	53,174,731	17.8%
Baa/BBB	41,917,918	12.9%	19,305,080	6.5%
Less than Baa/BBB	20,869,034	6.4%	4,439,785	1.5%
Not rated	159,935,825	49.3%	162,403,892	54.5%
Total	324.225.440	100,0%	298.131.559	100,0%

At 31 December 2010 (2009), 31.1% (37.5%) of the Group financial investments were rated A or better. The drop in the share of best-rated investments is mainly due to the downgrading of certain issuers.

Since bond rating is more important than the rating of equity securities[30], we are giving below a breakdown of the bond portfolio by issuer credit rating.

Unrated investments include mutual funds, deposits with unrated local banks and other investments where issuers have not published any rating details.

Bond portfolio by issuer credit rating

(EUR)	31 Dec 2010		31 Dec 2009	
Rated by Moody's/S&P	Amount	As% of total	Amount	As% of total
Aaa/AAA	3,138,780	2.1%	3,882,747	2.6%
Aa/AA	47,699,418	31.9%	50,965,595	34.1%
A/A	35,762,325	23.9%	38,000,984	25.4%
Baa/BBB	16,857,184	11.3%	16,834,375	11.3%
Less than Baa/BBB	16,885,123	11.3%	1,879,463	1.3%
Not rated	29,264,526	19.6%	37,823,090	25.3%
Total	149,607,354	100.0%	149,386,255	100.0%

As shown in the table above, more than 57.9% (2009: 62.1%) of bonds representing over 26.7% (2009: 31.1%) of the Group's investment portfolio had an issuer credit rating at least equal to that of the controlling company. The exposure to credit risk relating to investments is slightly larger than in 2009.

As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company, unless they are subject to localisation requirements. Even if this is the case, the subsidiary would still transfer at least part of its risk exposure to the controlling company so that the actual exposure of reinsurers to credit risk is smaller than the otherwise correctly reported one.

As at year-end 2009, the Group's total credit exposure associated with reinsurers was EUR 25.6m (31 December 2009: EUR 42.5m), of this, the reinsurers' share of technical provisions was EUR 19.7m (31 December 2009: EUR 28.9m), and the reinsurers' share of claims was EUR 5.9m (EUR 13.6m). The total credit risk exposure arising from reinsurers represented 4.4% of total assets (31 December 2009: 7.6%).

Retrocession programmes are mostly placed with first-class reinsurers with an adequate rating (at least A– according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). Thus, at the end of 2010 and 2009, reinsurers rated A– or better

30. The credit risk for equity securities is assessed on the basis of a number of performance indicators.

accounted for over 80% of the credit risk exposure relating to reinsurers.

Given the large diversification and the low probability of default by reinsurers rated BBB+ or better, this part of credit risk is deemed to be low and lower than in 2009.

The tables below show accounts receivable by maturity, including the above-mentioned receivables for reinsurers' shares of claims.

Aging analysis of receivables

(EUR) 31 Dec 2010	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables due from policyholders	15,828,032	8,755,920	3,859,731	28,443,683
Receivables from insurance brokers	1,265,810	0	0	1,265,810
Other receivables arising out of primary insurance business	2,101,709	196,344	45,428	2,343,481
Receivables for premiums arising out of assumed reinsurance and co-insurance	32,658,857	8,566,123	2,566,650	43,791,630
Receivables for reinsurers' shares in claims	3,036,723	1,735,600	1,395,154	6,167,477
Other short-term receivables arising out of insurance business	1,124,702	737,455	1,438,764	3,300,921
Short-term receivables arising out of investments	594,007	224,697	8,611	827,315
Current tax assets	222,510	0	0	222,510
Other receivables	1,242,363	143,968	318,144	1,704,475
Total	58,074,713	20,360,107	9,632,482	88,067,302

(EUR) 31 Dec 2009	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables due from policyholders	16,447,275	9,814,333	3,852,496	30,114,104
Receivables due from insurance intermediaries	10,043	369,500	857,131	1,236,674
Receivables arising out of primary insurance business	1,722,631	243,356	400,647	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 receivables arising out of insurance business	2,030,472	1,031,875	67,846	3,130,193
Short-term receivables arising out of investments	472,995	185,011	393,736	1,051,742
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	7,666,476	96,209,971

The Group tested receivables tested for impairment. The Group established allowances for receivables that had to be impaired. See note 9 for more details on receivables.

22.7.6 Operational risk

Operational risk includes human capital risk, management control risk, IT risk, process risk, legal risk and such like. We consider that the Group is mostly exposed to risks arising from failed or inadequate processes, internal controls and corporate governance. Management considers that an efficient and effective system of internal controls is vital for operational risk management.

Operational risk is generally associated with other risks (e.g. underwriting, market etc.); it tends to compound other risks. Negligence in the underwriting process, for example, significantly increases underwriting risk.

To manage operational risk, Group members have put in place adequate IT-supported processes and controls in the most important areas of business. In addition, this risk is managed through the internal audit function and through staff training.

If broadly defined, operational risk includes political risks. We consider the exposure of the Group to political risk to be medium. However, due to the increasing desire and activities of former Yugoslav countries to become members of the EU, we consider that the Group's exposure to this risk is decreasing.

The Group considers the operational risk to have remained the same as in 2009.

22.7.7 Implementing systematic risk management

The Group continues implementing risk management on a systematic basis, aware of the requirements brought about by the adopted Solvency II Directive, amongst them also risk-based capital calculation. For this reason, particularly the controlling company and the largest insurer in the Group, who are both domiciled in the European Union, are monitoring the preparations of acts relating to Solvency II, preparing themselves for the changes and taking part in quantitative impact studies (QIS5 in 2010).

22.8 Notes to the financial statements – statement of financial position

1) Intangible assets

Movements in cost and accumulated amortisation of intangible assets

(EUR)	Software	Goodwill	Other intangible assets	Total
Cost				
1 Jan 2010	3,560,380	21,683,758	114,348	25,358,486
Additions	509,569	0	14,580	524,149
Disposals	-29,228	0	-113,496	-142,724
Impairments	0	-386,392	0	-386,392
Foreign exchange differences	-9,956	0	202	-9,754
31 Dec 2010	4,030,766	21,297,366	15,635	25,343,766
Accumulated amortisation				
1 Jan 2010	1,433,542	0	78,410	1,511,952
Additions	624,652	0	0	624,652
Disposals	-8,369	0	-78,410	-86,779
Foreign exchange differences	4,095	0	0	4,095
31 Dec 2010	2,053,920	0	0	2,053,920
Carrying amount at 1 Jan 2010	2,126,838	21,683,758	35,938	23,846,535
Carrying amount at 31 Dec 2010	1,976,846	21,297,366	15,635	23,289,847

(EUR)	Software	Goodwill	Other intangible assets	Total
Cost				
1 Jan 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	-954,584	0	0	-954,584
Impairments	0	-5,585,797	0	-5,585,797
Foreign exchange differences	-58,522	0	-271	-58,793
31 Dec 2009	3,560,380	21,683,758	114,348	25,358,486
Accumulated amortisation				
1 Jan 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	-266,808	0	0	-266,808
Foreign exchange differences	-20,410	0	0	-20,410
31 Dec 2009	1,433,542	0	78,410	1,511,952
Carrying amount at 1 Jan 2009	2,456,625	22,328,447	9,553	24,794,625
Carrying amount at 31 Dec 2009	2,126,839	21,683,758	35,938	23,846,535

Movements in Goodwill

Goodwill relates to the acquisition of the following companies: Sava osiguranje, Illyria, Sava Tabak, Sava Montenegro, Velebit usluge (or indirectly Velebit osiguranje and Velebit životno osiguranje). As at year-end 2010, it amounted to EUR 21.3m.

Movements in goodwill in 2010

(EUR)	
Transferred amount at 31 December 2009	21,683,758
Sava osiguranje	5,047,588
Illyria	4,991,887
Sava Tabak	3,030,375
Bro-Dil	24,266
Sava Montenegro	3,648,534
Velebit usluge	4,941,108
Disposals in current year	
Impairment loss – Sava Tabak	-386,392
Transferred amount at 31 Dec 2010	21,297,366

Compared to a year ago, goodwill decreased by EUR 0.4m due to impairment of goodwill belonging to Sava Tabak. The impairment was carried out in view of the recapitalisation in 2011 in the amount of EUR 3m as due to the 2010 loss, the company's capital will fall below the statutory minimum.

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Movements in goodwill in 2009

(EUR)	
Transferred amount at 31 December 2008 total	22,328,447
Sava osiguranje	5,047,588
Illyria	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 Dec 2009	21,683,758

Goodwill impairment testing

In goodwill impairment testing for 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 Tabak. Impairment testing of goodwill belonging to Sava Tabak resulted in a negative amount of EUR 0.4m.

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 2011–2015 with a further 5-year extrapolation of results). Only a 10-year projection can yield a normal cash flow appropriate for extrapolation into 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 non-motor business). In all their 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 primarily to the non-life operating segment, but to a lesser extent also the life insurance segment.

Discount factors applied ranged from 13–16% (2009: 14–17%). Discount factors have decreased from 2009 due to a decrease in the risk free interest rate and a lower beta for the insurance industry, which are important elements of the discount factor.

For all companies, a long-term growth rate of 3.5% was applied.

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 Jan 2010	2,596,694	21,668,626	8,111,421	453,151	32,829,893
Additions	1,238,606	662,656	1,721,695	152,562	3,775,519
Disposals	0	0	-682,562	-57,054	-739,616
Foreign exchange differences	-6,102	-511,084	-116,269	-38,466	-671,920
31 Dec 2010	3,829,199	21,820,197	9,034,286	510,193	35,193,876
Accumulated depreciation					
1 Jan 2010	0	3,482,333	4,438,711	78,016	7,999,060
Additions	0	156,651	1,099,854	38,639	1,295,145
Disposals	0	0	-581,922	-30,377	-612,299
Foreign exchange differences	0	-144,722	-51,836	-3,071	-199,628
31 Dec 2010	0	3,494,263	4,904,807	83,207	8,482,277
Carrying amount at 1 January 2010	2,596,694	18,186,292	3,672,711	375,136	24,830,833
Carrying amount at 31 December 2010	3,829,199	18,325,934	4,129,478	426,986	26,711,597

(EUR)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
1 Jan 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	454,973	1,073,122	189,757	5,560,870
Disposals	0	-1,189,946	-852,149	0	-2,009,658
Foreign exchange differences	3,277	-395,810	-77,402	-12,040	-481,976
31 Dec 2009	2,596,694	21,668,626	8,111,421	453,151	32,829,893
Accumulated depreciation					
1 Jan 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 Dec 2009	0	3,482,333	4,438,711	78,016	7,999,060
Carrying amount at 1 January 2009	353,834	18,337,789	3,361,738	179,052	22,232,413
Carrying amount at 31 December 2009	2,596,694	18,186,290	3,672,710	375,135	24,830,829

3) Deferred tax assets and liabilities

(EUR)	31 Dec 2010	31 Dec 2009
Deferred tax assets	2,236,081	2,368,845
Deferred tax liabilities	-186,610	-385,659
Total net deferred tax assets	2,049,471	1,983,186

(EUR)	1 Jan 2010	Recognised in the IS	Change in 2010	31 Dec 2010
Long-term financial assets	1,293,246	789,104	-19,879	2,062,471
Tax loss	667,546	-667,546	0	0
Short-term operating receivables	391,968	-229,574	0	162,394
Provisions for jubilee benefits and severance pay (retirement)	16,085	-4,869	0	11,216
Other	-385,659	241,850	-42,801	-186,610
Total	1,983,186	128,965	-62,680	2,049,471

In 2010 the largest amount relates to the derecognition of deferred tax assets – the 2009 tax loss. In respect of long-term financial investments, deferred tax assets were recognised due to impaired portfolio investments in 2010.

4) Investment property

Movements in cost and accumulated depreciation of investment property

(EUR)	Land	Buildings	Total
Cost			
1 Jan 2010	136,048	6,015,041	6,151,089
Additions	251,893	50,000	301,893
Disposals	0	-858,135	-858,135
Increase in value	50,469	0	50,469
Foreign exchange differences	-1,816	-432,811	-434,627
31 Dec 2010	436,595	4,774,094	5,210,688
Accumulated depreciation			
1 Jan 2010	0	377,525	377,525
Additions	0	65,039	65,039
Disposals	0	-132,697	-132,697
Foreign exchange differences	0	-6,096	-6,096
31 Dec 2010	0	303,770	303,770
Carrying amount at 1 Jan 2010	136,048	5,637,516	5,773,564
Carrying amount at 31 Dec 2010	436,595	4,470,323	4,906,918

(EUR)	Land	Buildings	Total
Cost			
1 Jan 2009	136,048	5,424,208	5,560,256
Additions	0	1,211,170	1,211,170
Disposals	0	-453,576	-453,576
Foreign exchange differences	0	-166,760	-166,760
31 Dec 2009	136,048	6,015,041	6,151,089
Accumulated depreciation			
1 Jan 2009	0	316,849	316,849
Additions	0	61,686	61,686
Foreign exchange differences	0	-1,009	-1,009
31 Dec 2009	0	377,525	377,525
Carrying amount at 1 Jan 2009	136,048	5,107,359	5,243,407
Carrying amount at 31 Dec 2009	136,048	5,637,516	5,773,564

The main part of disposals of buildings in 2010 relates to a sale of investment property by the controlling company.

The fair value of investment property totalled EUR 6.9m.

The Group earned EUR 119,745 (2009: EUR 124,903) by leasing out its investment property in 2010. Maintenance costs associated with investment property are either included in the rent or charged to the lessees.

5) Financial investments in associate companies

Investments in shares of associates

(EUR)	1 Jan 2010		31 Dec 2010		
	Holding	Value	Holding	Value	Share in voting rights (%)
Zavarovalnica Maribor	45.79%	36,265,966	45.79%	40,738,420	45.79%
Moja naložba	25.00%	1,380,514	25.00%	1,583,945	25.00%
Total		37,646,480		42,322,365	

Data on associate companies

(EUR)	31 Dec 2010	31 Dec 2009
Zavarovalnica Maribor		
Total assets	734,042,192	680,833,142
Liabilities	656,174,733	613,519,209
Equity	77,867,459	67,313,934
Income	247,143,634	247,628,684
Net profit/loss for the year	10,595,331	-555,369
Part of profit attributable to the Group	4,851,179	-254,281
Moja naložba		
Total assets	125,484,976	102,129,128
Liabilities	119,225,805	96,683,685
Equity	6,259,171	5,445,443
Income	2,356,162	2,142,244
Net profit/loss for the year	816,489	669,985
Part of profit attributable to the Group	204,122	167,497
Pension fund contributions	59,527	58,615

On 23 October 2009, the controlling company concluded a put option contract with Zavarovalnica Maribor on the shares acquired by the controlling company in the recapitalisation effected on 30 October 2009.

The subject of the put option contract is the right of the controlling 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 on 30 October 2009.

The controlling 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 2010

(EUR) 31 Dec 2010	Held-to-maturity		At fair value through P/L		Available-for-sale	Loans and receivables	Total
			Non-derivative				
	Carrying amount	Fair value	Held for trading	Designated as at fair value through P/L			
Long-term financial assets							
Equity and other variable income securities and mutual funds	0	0	0	1,014,143	26,634,856	0	27,649,001
Debt securities and other fixed income securities	11,334,767	10,838,467	0	1,676,087	99,648,142	0	112,658,997
Shares in investment funds	0	0	1,444,494	0	0	0	1,444,494
Mortgage loans	0	0	0	0	0	270,287	270,287
Other financial investments	0	0	0	0	368,443	216,695	585,138
Other loans granted	0	0	0	0	0	958,379	958,379
Deposits	0	0	0	0	0	3,879,259	3,879,258
Short-term financial investments							
Held-for-trading shares and interests	0	0	5,792	0	0	0	5,792
Held-for-trading securities or securitites with a remaining maturity of less than one year	6,637,239	2,564,397	0	0	44,710,369	0	51,347,608
Short-term loans granted	0	0	0	0	0	616,553	616,553
Bank deposits	0	0	0	0	0	117,404,304	117,404,304
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	7,405,629	7,405,629
Total	17,972,006	13,402,864	1,450,286	2,690,231	171,361,811	130,751,106	324,225,440
Funds for the benefit of policyholders who bear the investment risk	0	0	0	23,716,699	0	0	23,716,699

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

Hierarchical classification of financial investments according to IFRS 7.27

(EUR) 31 Dec 2010	At fair value through P/L Non-derivative Level 1	At fair value through P/L Non-derivative Total	Available-for-sale Level 1	Available-for-sale Level 2	Available-for-sale Level 3	Available-for-sale Total
Long-term financial assets						
Equity and other variable income securities and mutual funds	1,014,143	1,014,143	19,799,178	90,781	6,744,897	26,634,856
Debt securities and other fixed income securities	1,676,087	1,676,087	97,292,621	0	2,355,522	99,648,143
Shares in investment funds	1,444,494	1,444,494	0	0	0	0
Other financial investments	0	0	368,443	0	0	368,443
Short-term financial investments						
Held-for-trading shares and interests	5,792	5,792	0	0	0	0
Held-for-trading securities or securitites with a remaining maturity of less than one year	0	0	41,391,810	0	3,318,560	44,710,369
Total	4,140,516	4,140,516	158,852,052	90,781	12,418,978	171,361,811
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,716,699	23,716,699	0	0	0	0

(EUR) 31 Dec 2010	Available-for-sale – level 3 Balance at 1 Jan	Acquisitions	Sales	Maturity	Impairment losses	Revaluation	Balance at 31 Dec
Long-term financial assets							
Equity and other variable income securities and mutual funds	9,034,366	0	0	0	-2,344,326	54,856	6,744,897
Debt securities and other fixed income securities	0	6,975,247	-4,619,725	0	0	0	2,355,522
Short-term financial investments							
Held-for-trading securities or securitites with a remaining maturity of less than one year	17,754,813	7,876,802	-15,703,523	-6,250,000	-359,533	0	3,318,560
Total	26,789,179	14,852,049	-20,323,248	-6,250,000	-2,703,859	54,856	12,418,978

In the second half of 2008, the controlling company reclassified certain investments (equity securities) from category 1 (financial assets at fair value through profit or loss) to category 4 (available for sale financial assets). The Group 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. In 2010, the controlling company realised EUR 20,616 of net increases in the fair value reserve, which would have increased investment income had the controlling company not reclassified these investments.

In respect of its long-term loan of EUR 2.9m, the controlling company pledged 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 3.5m and fair value of EUR 3.6m. Other Group companies have no securities pledged as collateral. Long-term loans are discussed in note 23 – Other financial liabilities. The ratio of the market value of pledged securities to the loan including interest and expenses as per contract is 1.1:1.0.

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 7.4m and were included under the loans and receivables category of financial investments.

Financial investments in 2009

(EUR) 31 Dec 2009	Held-to-maturity		At fair value through P/L		Available-for--sale	Loans and receivables	Total
			Non-derivative				
	Carrying amount	Fair value	Held for trading	Designated as at fair value through P/L			
Long-term financial assets							
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
Bank 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	62,200,050	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

Hierarchical classification of financial investments according to IFRS 7.27

(EUR) 31 Dec 2009	At fair value through P/L		Available-for-sale			
	Non-derivative					
	Level 1	Total	Level 1	Level 2	Level 3	Total
Long-term financial assets						
Equity and other variable income securities and mutual funds	961,317	961,317	30,541,011	77,693	9,034,366	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	48,814,745	0	17,754,813	66,569,558
Other short-term financial investments	1,096,459	1,096,459	0	0	0	0
Total	6,818,923	6,818,923	167,571,583	77,693	26,789,179	194,438,455
Investments for the benefit of life-insurance policyholders who bear the investment risk	17,861,634	17,861,634	0	0	0	0

(EUR) 31 Dec 2009	Available-for-sale – level 3						
	Balance at 1 Jan	Acquisitions	Sales	Maturity	Impairment losses	Revaluation	Balance at 31 Dec
Long-term financial assets							
Equity and other variable income securities and mutual funds	9,519,585	0	0	0	-482,018	-3,200	9,034,366
Short-term financial investments							
Held-for-trading securities or securitites with a remaining maturity of less than one year	13,977,398	46,255,747	-37,459,982	-5,018,351	0	0	17,754,813
Total	23,496,983	46,255,747	-37,459,982	-5,018,351	-482,018	-3,200	26,789,179

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

Financial investments in subordinated debt instruments

(EUR)	31 Dec 2010	31 Dec 2009
Total	19,560,391	15,339,085

Financial investments in subordinated debt instruments totalled EUR 19.6m (2009: EUR 15.3m). The share of these investments increased from 2009 and accounted for 6.0% of the Group's total investments at year-end 2010 (2009: 5.1%).

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 1.7m of financial expenses from revaluation were realised in 2010 (2009: EUR 0.9m). Any increase in the value of underlying assets of policyholders entails an increase in financial income from revaluation. In 2010 such increases totalled EUR 3.7m (2009: EUR 3.9m).

8) Reinsurers' share of technical provisions

(EUR)	31 Dec 2010	31 Dec 2009
Reinsurers' share of unearned premiums	3,245,993	3,314,792
Reinsurers' share of mathematical provisions	306	23
Reinsurers' share of provisions for claims outstanding	16,488,240	24,609,525
Reinsurers' share of other technical provisions	0	975,070
Total	19,734,539	28,899,410

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 2010 but falling due only in 2011.

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 Dec 2010			31 Dec 2009		
	Gross amount	Allowance	Receivables	Gross amount	Allowance	Receivables
Receivables due from policyholders	40,132,430	-11,688,747	28,443,683	39,533,482	-9,419,378	30,114,104
Receivables from insurance brokers	1,470,831	-205,021	1,265,810	2,470,491	-1,233,817	1,236,674
Other receivables arising out of primary insurance business	2,632,936	-289,455	2,343,481	4,979,368	-2,612,734	2,366,634
Receivables arising out of primary insurance business	44,236,197	-12,183,223	32,052,974	46,983,341	-13,265,929	33,717,412
Receivables for premiums arising out of reinsurance and co-insurance	44,119,411	-327,781	43,791,630	40,029,201	-193,809	39,835,392
Receivables for shares in claims	6,202,592	-35,115	6,167,477	13,604,783	-39,368	13,565,415
Receivables arising out of reinsurance and co-insurance business	50,322,003	-362,896	49,959,107	53,633,984	-233,177	53,400,807
Current tax assets	222,510	0	222,510	4,012,543	0	4,012,543
Receivables for commission	6,480,808	-3,179,887	3,300,921	3,130,192	0	3,130,192
Receivables arising out of investments	2,326,744	-1,499,429	827,315	1,176,948	-125,205	1,051,743
Other receivables	5,707,109	-4,002,634	1,704,475	897,274	0	897,274
Other receivables	14,514,661	-8,681,950	5,832,711	5,204,414	-125,205	5,079,209
Total	109,295,371	-21,228,069	88,067,302	109,834,282	-13,624,311	96,209,971

Aging analysis of receivables

(EUR) 2010	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables due from policyholders	15,828,032	8,755,920	3,859,731	28,443,683
Receivables from insurance brokers	1,265,810	0	0	1,265,810
Other receivables arising out of primary insurance business	2,101,709	196,344	45,428	2,343,481
Receivables for premiums arising out of assumed reinsurance and co-insurance	32,658,857	8,566,123	2,566,650	43,791,630
Receivables for reinsurers' shares in claims	3,036,723	1,735,600	1,395,154	6,167,477
Other short-term receivables arising out of insurance business	1,124,702	737,455	1,438,764	3,300,921
Short-term receivables arising out of investments	594,007	224,697	8,611	827,315
Current tax assets	222,510	0	0	222,510
Other receivables	1,242,363	143,968	318,144	1,704,475
Total	58,074,713	20,360,107	9,632,482	88,067,302

(EUR) 2009	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables due from policyholders	16,447,275	9,814,333	3,852,496	30,114,104
Receivables due from policyholders	10,043	369,500	857,131	1,236,674
Other 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 receivables arising out of insurance business	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

All receivables are current.

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

10) Deferred acquisition costs

(EUR)	31 Dec 2010	31 Dec 2009
Short-term deferred acquisition costs	8,127,040	9,370,016
Short-term deferred reinsurance acquisition costs	9,191,801	8,034,451
Total	17,318,841	17,404,467

11) Other assets

(EUR)	31 Dec 2010	31 Dec 2009
Inventories	97,579	176,927
Accrued interest and rent	66,653	74,417
Other short-term accrued income and deferred expenses	589,752	819,627
Other assets	0	60,000
Total	753,985	1,130,971

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

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 no-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 6.2m to EUR 39.1m.

The recapitalisation involved the issuance of 1,500,000 new shares. The controlling company's share capital as at year-end 2010 was thus divided into 9,362,519 shares (the same as at 31 December 2009). 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 2010, the controlling company still had EUR 10.1m of authorised capital.

As at year-end 2010, the company had 5,481 shareholders (31 December 2009: 5,712). 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 2010.

15) Share premium

Upon completion of the initial public offering in June 2008, the controlling company increased its share premium by EUR 35.7m. The increase in share premium was recognised net of costs directly attributable to the initial public offering of EUR 2.8m.

Business combinations

At the beginning of 2010, the controlling company became sole owner of the Kosovan insurers Illyria (non-life insurer) and Illyria Life (life insurer). It acquired a 49-percent interest in both companies. The fixed portion of the consideration for the 49-percent equity interest in the non-life insurer of EUR 8.5m was settled at the beginning of 2011. In addition, under the contract the consideration includes a variable portion dependent on the business results of the non-life insurer in 2010 and 2011, the total consideration not exceeding EUR 9.5m. The carrying amount of the net assets of Illyria in the statement of financial position at 31 December 2009, being the statement date closest to the acquisition, totals EUR 1,89m. Owing to this acquisition, the Group recognised, in 2010, a decrease in minority interest of EUR 1.89m and a decrease in reserves of EUR 6.6m.

The purchase price for the 49-percent ownership interest in Illyria Life was EUR 2.2m and was fully settled at the beginning of 2011. The carrying amount of the net assets of Illyria Life in the statement of financial position at 31 December 2009, being the statement date closest to the acquisition, totals EUR 1,47m. Owing to this acquisition, the Group recognised, in 2010, a decrease in minority interest of EUR 1.47m and a decrease in reserves of EUR 0.78m.

At the end of 2010, both insurers were renamed Illyria and Illyria Life (from Dukagjini and Dukagjini Life, respectively).

In 2010, the controlling company increased its equity interest in the insurer Velebit osiguranje through a recapitalisation of EUR 1m. Furthermore, the controlling company participated in the second round of the recapitalisation, increasing its ownership interest from 53.41% to 56.36%. The carrying amount of the net assets of Velebit osiguranje in the Group statement of financial position at 30 June 2010, being the statement date closest to the recapitalisation, totals EUR 106,293 (the amount of the non-controlling interest that was the object of the acquisition).

In October 2010, the subsidiary Sava Montenegro established the subsidiary Sava Car, a vehicle inspection service.

Furthermore, the controlling company increased its interest in Velebit osiguranje, which resulted in a decrease in share premium of EUR 7.6m (from EUR 33.0m to EUR 25.4m).

16) Profit reserves

(EUR)	31 Dec 2010	31 Dec 2009	distributable/non-distributable
Legal reserves and reserves provided for in the articles of association	16,660,613	15,277,932	non-distributable
Reserve for treasury shares	1,774	1,774	non-distributable
Credit risk equalisation reserve	1,261,187	1,217,874	non-distributable
Catastrophe equalisation reserve	6,576,060	4,215,361	non-distributable
Other profit reserves	60,862,385	59,566,803	distributable
Total	85,362,019	80,279,744	

Legal reserves and reserves provided for by the Articles of Association increased based on allocation of net profit pursuant to the Slovenian Companies Act ZGD-1.

Reserves provided for by the Articles of Association are used:

- to cover 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 tied capital);
- to increase share capital;
- to regulate the dividend policy.

Profit reserves include credit risk equalisation reserves established pursuant to the ZZavar and implementing acts for equalisation provisions, and catastrophe equalisation reserves set aside pursuant to the rules on technical provisions and reserves as approved by appointed actuaries. Pursuant to the ZZavar and statutory regulations of the individual countries where Group members operate, equalisation provisions are defined as technical provisions, and their establishing and releasing is taken to profit or loss. As these requirements do not comply with IFRSs, the Group discloses these provisions within profit reserves, which is in line 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 gross profit for 2010 would be larger by EUR 2.4m (2009: smaller by EUR 114 thousand).

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Since the technical result was positive by a small amount, the credit risk equalisation reserve was increased from EUR 1.2m at the end of 2009 to EUR 1.3m at the end of 2010; the catastrophe equalisation reserve (earthquake) grew from EUR 4.2m to EUR 6.6m as a result of favourable developments.

17) Treasury shares bought back

In 2010, the Group did not make any transactions with treasury shares. As at 31 December 2010, it held 210 treasury shares.

Treasury shares are a deduction item in equity.

18) Fair value reserve

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

(EUR)	2010	2009
As at 1 Jan	543,937	-10,452,519
Change in fair value	1,395,310	9,877,866
Transfer from fair value reserve to the IS due to impairment	-4,976,267	-9,977,608
Transfer from fair value reserve to the IS due to disposal	2,915,560	11,096,198
Total fair value reserve	-121,460	543,937

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

19) Net profit/loss for the year

The net profit of the Group in 2010 in the income statement was EUR 5.5m. The net profit for the period in the statement of financial position totals EUR 2.4m since during the preparing of financial statements, some management boards of Group members have already allocated part of the profit to profit reserves.

Non-controlling interest in equity

(EUR)	31 Dec 2010	31 Dec 2009
Zavarovalnica Tilia	48,695	43,324
Sava osiguranje	10	8
Illyria	0	1,889,566
Sava Tabak	632,342	1,123,926
Bro-Dil	115,767	204,370
Sava-Invest	0	-87
Illyria Life	0	1,468,331
Sava životno osiguranje	227	21,958
Velebit osiguranje	1,384,072	1,705,152
Velebit životno osiguranje	2,261,738	2,828,189
Total	4,442,851	9,284,737

Note to the statement of changes in equity

Non-controlling interest decreased in 2010 due to the acquisition of the non-controlling interest in Illyria and Illyria Life. The share of non-controlling interest in Velebit osiguranje also decreased as not all shareholders participated in the recapitalisation.

20) 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 Dec 2010	31,177,758
Debt currency	**EUR**
Maturity date	27.12.2026
Conversion into shareholders' equity applicable	n/a
Conversion into other liabilities applicable	n/a

Outstanding debt at effective interest rate as at 31 Dec 2009	31,135,777
Debt currency	**EUR**
Maturity date	27.12.2026
Conversion into shareholders' equity applicable	n/a
Conversion into other liabilities applicable	n/a

In 2010, the controlling company paid EUR 1.4m in interest on the subordinated debt (2009: EUR 1.6m), and EUR 69,845 in taxes on the subordinated debt, net of interest paid (2009: EUR 87,189).

21) 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 2010	GTP as at 1 Jan 2010 prior to elimination	Additions	Uses and releases	Foreign exchange differences	GTP as at 31 Dec 2010 prior to elimination	Consolidated GTP as at 31 Dec 2010
	1	2	3	4	5	6 = 2+3-4+5	7
Gross unearned premiums	86,012,273	95,495,569	71,013,668	71,043,192	-763,014	94,703,031	87,101,437
Mathematical provisions	13,363,462	13,363,462	3,127,014	1,229,701	-32,044	15,228,731	15,228,730
Gross provision for outstanding claims	184,313,616	200,426,760	94,575,655	80,993,920	-1,117,562	212,890,933	197,489,172
Gross provision for bonuses, rebates and cancellations	463,529	656,021	685,093	656,020	0	685,094	544,113
Other gross technical provisions	4,130,024	4,130,024	3,625,211	4,786,580	-44,858	2,923,797	2,923,797
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	17,953,978	17,953,978	6,985,492	1,313,109	0	23,626,363	23,626,363
Total	306,236,883	332,025,814	180,012,133	160,022,522	-1,957,478	350,057,949	326,913,612

(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 outstanding 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 investment risk	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

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 156,154, which is the adjustment on the Group level relating to established deficits in 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.

The tables below give a summary of the calculation of the gross provision for unexpired risks by class of insurance for 2010 and 2009.

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

(EUR)	Primary insurance	Reinsurance business	
2010	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	13,822	62.3%	0
Land vehicles casco	684,464	103.4%	192,416
Aircraft hull	0	60.4%	0
Ships hull	1,956	120.5%	74,983
Goods in transit	5,071	85.5%	0
Fire and natural forces	26,344	99.3%	0
Other damage to property	44,887	96.4%	0
Motor liability	713,161	82.9%	0
Aircraft liability	0	54.8%	0
Liability for ships	0	68.8%	0
General liability	0	94.7%	0
Credit	957,549	83.7%	0
Suretyship	139,454	313.8%	116,694
Miscellaneous financial loss	0	55.8%	0
Legal expenses	0	5.8%	0
Assistance	0	57.9%	0
Life business	0	17.0%	0
Unit-linked life	0	32.7%	0
Total	2,586,707	93.6%	384,094

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

(EUR)	Primary insurance		Reinsurance business	
2009	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 hull	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

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) 2010	Reported but not settled provision (RBNS)	Incurred but not reported provision (IBNR)	Provision for outstanding claims	IBNR as% of total claims provisions
Consolidated	114,097,659	83,391,513	197,489,172	42.2%
Total prior to elimination	124,836,048	88,054,884	212,890,932	41.4%
Total primary insurers	45,542,578	35,855,456	81,398,034	44.0%
Total reinsurers	79,293,470	52,199,428	131,492,898	39.7%

(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%

The gross provision for outstanding claims is reported under liabilities; reinsurers' shares are reported under assets.

22) Other provisions

Other provisions comprise mainly provisions for long-term employee benefits. Assumptions are presented under 22.4.25 Other provisions.

Movements in other provisions

(EUR)	1 Jan 2010	Additions	Uses	Released	Foreign exchange differences	31 Dec 2010
Provision for severance pay upon retirement	715,730	90,078	49,635	157,154	-13,513	585,506
Provision for jubilee benefits	155,266	44,406	9,541	7,963	328	182,496
Total provisions for employees	870,996	134,484	59,176	165,117	-13,185	768,002
Other long-term deferred income	1,105	0	253	0	0	852

(EUR)	1 Jan 2009	Additions	Uses	Released	Foreign exchange differences	31 Dec 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

23) Other financial liabilities

Other financial liabilities comprise liabilities for a loan taken up by the controlling company.

24) Liabilities from operating activities

Liabilities from operating activities

(EUR)	Maturity	
2010	Up to 1 year	Total
Liabilities to policyholders	3,072,553	3,072,553
Liabilities to insurance intermediaries	74,294	74,294
Other liabilities from primary insurance business	1,309,879	1,309,879
Liabilities from primary insurance business	4,456,727	4,456,726
Liabilities for reinsurance and co-insurance premiums	5,355,984	5,355,984
Liabilities for shares in reinsurance claims	21,158,135	21,158,135
Liabilities from reinsurance and co-insurance business	26,514,119	26,514,119
Current tax liabilities	2,745,525	2,745,525
Total	33,716,371	33,716,371

In 2010 all liabilities had a maturity of up to one year.

(EUR)	Secured liabilities			Maturity
2009		Over 5 years	Up to 1 year	Total
Liabilities to policyholders	0	0	3,827,514	3,827,514
Liabilities to insurance intermediaries	0	0	161,489	161,489
Other 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

25) Other liabilities

Other liabilities

(EUR)	Secured liabilities			Maturity
2010		Over 1 year	Up to 1 year	Total
Other short-term liabilities	266,218	1,208,491	24,066,523	25,275,014
Short-term provisions (deferred income and accrued expenses)	0	0	2,995,482	2,995,482
Total	266,218	1,208,491	27,062,005	28,270,495

(EUR)	Secured liabilities		Maturity
2009		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

Other short-term liabilities mainly comprise liabilities for commission.

Change in short-term provisions

(EUR)	1 Jan 2010	Additions	Uses	Released	Foreign exchange differences	31 Dec 2010
Short-term accrued costs	821,550	1,061,256	754,091	0	-4,065	1,124,650
Other accrued expenses and deferred income	1,470,077	7,612,184	7,084,340	18,586	-108,503	1,870,832
Total	2,291,627	8,673,440	7,838,431	18,586	-112,568	2,995,482

(EUR)	1 Jan 2009	Additions	Uses	Foreign exchange differences	31 Dec 2009
Short-term accrued costs	665,881	1,008,016	852,683	336	821,550
Other accrued expenses 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	-62	2,291,627

22.9 Notes to the financial statements – income statement

26) Net earned premiums

Net earned premiums

(EUR) 2010	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	17,928,219	7,564	-116,071	116,256	11,357	17,947,325
Health	6,198,961	0	0	-69,488	0	6,129,473
Land vehicles casco	40,532,331	1,388	-4,042,795	-452,284	-71,293	35,967,347
Aircraft hull	354,646	0	115	6,728	-1,332	360,157
Ships hull	2,145,802	895	-159,540	-159,021	1,086	1,829,222
Goods in transit	3,857,988	7,303	-216,178	-43,812	127,492	3,732,793
Fire and natural forces	55,385,823	377,445	-10,425,903	-1,932,539	192,961	43,597,787
Other damage to property	33,609,838	115,945	-6,564,808	-145,184	-76,797	26,938,994
Motor liability	74,522,184	2,167	-2,174,553	654,135	-56,006	72,947,927
Aircraft liability	186,348	0	-43,772	224,665	-212,393	154,848
Liability for ships	330,551	0	-5,102	-2,284	320	323,485
General liability	5,740,330	52,839	-701,188	-46,783	-16,932	5,028,266
Credit	1,559,187	0	0	105,068	0	1,664,255
Suretyship	263,525	0	-9,747	19,051	0	272,829
Miscellaneous financial loss	829,727	1,173	-367,256	14,802	-74,331	404,115
Legal expenses	195,790	5,984	-139,291	-13,665	7,642	56,460
Assistance	1,859,879	0	-33,619	-128,856	84,412	1,781,816
Life business	4,776,199	0	-205,667	-32,657	2,516	4,540,391
Unit-linked life	8,253,019	0	-95,777	39,297	0	8,196,539
Total non-life	245,501,129	572,703	-24,999,708	-1,853,211	-83,814	219,137,099
Total life	13,029,218	0	-301,444	6,640	2,516	12,736,930
Total	258,530,347	572,703	-25,301,152	-1,846,571	-81,298	231,874,029

(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 hull	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**

In 2010, gross premiums written increased by 3% compared to 2009, while reinsurers' and co-insurers' share of premiums written decreased by 13.2%. The change in unearned premiums decreased by 60%.

27) Income from investments in associates

In 2010, the Group accounted participation in profits using the equity method.

(EUR)	2010	2009
Profit/loss of associate companies	5,055,301	167,497

28) Investment income and expenses

Investment income, expenses and net investment income
by IFRS categories

Investment income by IFRS categories

(EUR) 2010	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Dividend income	0	27,559	1,819	0	156,963	0	0	0	186,341
Interest income	1,064,535	45,929	185,600	0	5,920,033	4,327,305	0	0	11,543,402
Change in fair value	0	132,769	3,775,512	0	209,769	318,068	0	0	4,436,119
Other financial income	27,856	1,638	53,842	0	207,470	225,818	141,189	0	657,813
Gains on disposal of investments	0	270,567	0	0	2,742,446	0	58,671	0	3,071,683
Total	1,092,391	478,462	4,016,774	0	9,236,681	4,871,191	199,860	0	19,895,359

Investment expenses by IFRS categories

(EUR) 2010	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Interest expenses	0	0	876	0	0	306,083	11,419	1,438,890	1,757,268
Other financial expenses	14,941	39,226	12,153	0	94,272	41,109	62,654	0	264,355
Impairment of financial assets and liabilities	1,594,222	0	1,953,997	0	3,561,868	152,829	0	0	7,262,916
Losses on disposal of investments	0	376,027	0	0	574,928	0	0	0	950,955
Total	1,609,164	415,253	1,967,026	0	4,231,069	500,020	74,073	1,438,890	10,235,493

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Net investment income

(EUR) 2010	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Dividend income	0	27,559	1,819	0	156,963	0	0	0	186,341
Interest income/ expense	1,064,535	45,929	184,724	0	5,920,033	4,021,222	-11,419	-1,438,890	9,786,134
Change in fair value	-1,594,222	132,769	1,821,516	0	-3,352,100	165,240	0	0	-2,826,797
Other financial income/expenses	12,914	-37,588	41,690	0	113,198	184,709	78,535	0	393,458
Gains/losses on disposal of investments	0	-105,460	0	0	2,167,517	0	58,671	0	2,120,729
Total	-516,772	63,209	2,049,748	0	5,005,611	4,371,171	125,786	-1,438,890	9,659,866

Investment income by IFRS categories

(EUR) 2009	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Dividend income	0	25,815	1,278	0	510,623	0	0	0	537,716
Interest income	1,506,020	0	80,943	0	5,595,170	3,002,240	0	0	10,184,373
Change in fair value	19,596	48,732	4,057,648	0	178,782	306,666	0	0	4,611,424
Other financial income	0	1,721	10,840	0	95,280	310,189	124,903	0	542,933
Gains on disposal of investments	0	644,325	6,301	0	5,116,630	539,196	0	0	6,306,452
Total	1,525,616	720,593	4,157,010	0	11,496,485	4,158,291	124,903	0	22,182,898

Investment expenses by IFRS categories

(EUR) 2009	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
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) 2009	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
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
	2010	2009
Income from shares	76,968	117,917
Interest income	8,331,343	7,098,055
Change in fair value	726,865	580,969
Other financial income	216,498	29,863
Gains on disposal of investments	1,668,485	2,845,253
Total investment income – liability fund	11,020,159	10,672,057

	Capital fund	Capital fund
	2010	2009
Income from shares	107,554	418,520
Interest income	2,110,410	2,069,107
Other financial income	160,330	189,865
Gains on disposal of investments	1,386,510	3,458,546
Total investment income – capital fund	3,764,804	6,136,038
Total investment income	14,784,964	16,808,095

Investment income – life business

(EUR)	Long-term business fund	Long-term business fund
	2010	2009
Income from shares	1,819	1,278
Interest income	1,021,148	862,693
Change in fair value	30,989	78,613
Other financial income	114,099	14,392
Gains on disposal of investments	16,688	2,654
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	3,678,265	3,951,842
Total investment income – long-term business fund	4,863,008	4,911,472

	Capital fund	Capital fund
	2010	2009
Income from shares	0	0
Interest income	80,502	154,517
Change in fair value	0	0
Other financial income	166,886	308,813
Gains on disposal of investments	0	0
Total investment income - capital fund	247,387	463,330
Total investment income	5,110,395	5,374,802
Total investment income	19,895,359	22,182,898

Expenses from financial assets and liabilities – non-life business

(EUR)	Liability fund	Liability fund
	2010	2009
Interest expenses	31,665	140,870
Asset management expenses and other financial expenses	165,851	362,107
Impairment of financial assets and liabilities	2,395,709	3,191,885
Losses on disposal of investments	750,430	2,973,264
Total investment expenses - liability fund	3,343,655	6,668,126

(EUR)	Capital fund	Capital fund
	2010	2009
Interest expenses	1,700,353	1,785,546
Asset management expenses and other financial expenses	38,557	66,071
Impairment of financial assets and liabilities	3,018,218	7,270,281
Losses on disposal of investments	111,621	6,478,322
Total investment expenses - capital fund	4,868,749	15,600,220
Total investment expenses	8,212,403	22,268,346

Expenses from financial assets and liabilities – life business

(EUR)	Long-term business fund	Long-term business fund
	2010	2009
Interest expenses	25,251	0
Asset management expenses and other financial expenses	29,876	161,248
Impairment of financial assets and liabilities	142,635	0
Losses on disposal of investments	88,904	205
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	1,706,353	928,795
Total investment expenses – long-term business fund	1,993,020	1,090,248

(EUR)	Capital fund	Capital fund
	2010	2009
Asset management expenses and other financial expenses	30,070	88,257
Total investment expenses – capital fund	30,070	88,257
Total investment expenses	2,023,090	1,178,505
Total investment expenses	10,235,493	23,446,850

Net investment income from non-life and life business

(EUR)	2010	2009
Non-life business	6,572,561	-5,460,251
Life business	3,087,305	4,196,297
Total	9,659,866	-1,263,954

Impairment of investments

(EUR)	31 Dec 2010	31 Dec 2009
Bonds	1,994,396	895,194
Shares	2,960,538	9,031,230
Mutual funds	21,333	0
Loans	0	51,184
Total	4,976,267	9,977,608

Impairment losses relating to investments in Group subsidiaries totalled EUR 386,392.

29) Other technical income

The bulk of other technical income comprises reinsurance commission. The following tables show reinsurance commission income by class of business.

(EUR)	2010	2009
Personal accident	26,408	16,597
Land vehicles casco	241,076	264,648
Aircraft hull	1,988	5,417
Ships hull	10,936	7,252
Goods in transit	17,994	5,524
Fire and natural forces	1,329,299	2,021,566
Other damage to property	613,853	1,929,712
Motor liability	133,595	179,988
Aircraft liability	5,365	14,965
Liability for ships	-1	1
General liability	40,854	77,399
Miscellaneous financial loss	14,837	121,022
Life business	39,385	66,703
Unit-linked life	4,172	7,500
Total non-life	2,436,204	4,644,091
Total life	43,557	74,204
Total	2,479,762	4,718,294

In addition to reinsurance commission, this item comprises diverse other technical income of EUR 4.1m (2009: EUR 3.0m); thus other technical income totalled EUR 6.6m (2009: EUR 7.8m).

30) Net claims incurred

Net claims incurred

(EUR) 2010	Gross claims paid		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
	Gross claims paid excl. recourse receivables	Recourse receivables					
Personal accident	7,528,614	-420	-4,695	0	-328,034	386	7,195,851
Health	3,170,275	0	0	0	-137,241	0	3,033,034
Land vehicles casco	30,889,170	-905,691	-2,153,840	0	-979,841	1,419,535	28,269,333
Aircraft hull	43,579	0	-60	0	161,659	15,898	221,076
Ships hull	1,756,296	0	-62,460	0	-298,955	-2,569	1,392,312
Goods in transit	2,180,194	-11,823	-134	0	-86,989	177,021	2,258,269
Fire and natural forces	22,940,496	-16,723	-5,641,575	4,932	11,094,836	2,129,803	30,511,769
Other damage to property	18,655,435	-11,320	-3,436,351	68,509	-1,702,329	1,861,130	15,435,074
Motor liability	38,878,569	-1,469,388	-2,738,447	0	4,775,942	1,819,886	41,266,562
Aircraft liability	27,903	0	-1,436	0	-73,603	21,300	-25,836
Liability for ships	55,238	0	-17	0	142,325	-102	197,444
General liability	2,718,290	-6,028	-51,407	4,485	1,861,416	-73,500	4,453,256
Credit	3,746,327	-2,323,050	0	0	-370,739	0	1,052,538
Suretyship	355,904	-83,094	0	-175,234	56,430	0	154,006
Miscellaneous financial loss	183,684	-1,767	983,228	0	48,474	552,345	1,765,964
Legal expenses	179	0	0	0	0	0	179
Assistance	257,243	0	0	242	19,293	-14,442	262,336
Life business	1,110,809	0	-34,642	0	-3,616	-64,761	1,007,790
Unit-linked life	1,600,703	0	-27,132	0	-14,567	0	1,559,004
Total non-life	133,387,396	-4,829,304	-13,107,194	-97,066	14,182,644	7,906,691	137,443,167
Total life	2,711,512	0	-61,774	0	-18,183	-64,761	2,566,794
Total	136,098,908	-4,829,304	-13,168,968	-97,066	14,164,461	7,841,930	140,009,961

(EUR) 2009	Gross claims paid		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
	Gross claims paid excl. recourse receivables	Recourse receivables					
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 hull	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

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 2010 this resulted in an increase of EUR 22.0m.

Gross claims paid increased by 14.7% over 2009, while the reinsurers' share of claims decreased by as much as 70.7%. Movements in the claims provision decreased by 26.9%; this also affects net claims incurred.

31) Change in other technical provisions

The change in other technical provisions relates to the decrease in the provision for unexpired risks of EUR 0.2m, and to the increase in the mathematical provision of EUR 1.9m. Net technical provisions represent the gross technical provisions net of the reinsurers' share of technical provisions (note 8). The change in gross technical provisions is described under note 20.

32) Change in technical provisions for policyholders who bear the investment risk

The large growth in net technical provisions for policyholders who bear the investment risk is partly a result of the increase in the value of underlying assets (28%) and partly due to new premium income (72%).

The change in fair value also includes unrealised gains and losses of policyholders, which may affect items of the income statement but have no impact on the business result. In 2010 life policies where policyholders bear the investment risk realised EUR 3.5m of unrealised gains (2009: EUR 3.9m) and EUR 1.7m of unrealised losses (2009: EUR 0.9m).

(EUR)	2010	2009
Change in technical provisions due to revaluation of assets	1,576,902	3,057,593
Change in technical provisions due to premiums and claims	4,134,778	4,148,202
Total	5,711,680	7,205,795

33) Operating expenses

The Group classifies operating expenses by nature. Compared to 2009, operating expenses increased by 5.0%.

Breakdown of operating expenses

(EUR)	2010	2009
Acquisition costs (commissions)	45,070,932	43,163,747
Change in deferred acquisition costs	-790,635	-766,032
Depreciation of operating assets	2,014,450	1,838,478
Labour costs	22,713,383	22,327,263
Salaries and wages	17,311,121	16,685,805
Social and pension insurance costs	3,543,152	3,501,991
Other labour costs	1,859,110	2,139,467
Remuneration of the supervisory board and audit committee and payments under contracts for services	418,723	686,307
Other operating expenses	15,860,833	14,000,626
Entertainment, advertising, exhibition costs	2,177,719	2,250,548
Material and energy costs	1,643,576	1,412,225
Reimbursement of work-related costs	689,735	840,778
Costs of intellectual and personal services	1,833,785	1,501,040
Taxes, levies and charges independent of profit or loss, except for insurance	537,281	669,098
Insurance costs	236,377	337,669
Expenses incurred in payment transactions and in bank services	592,840	684,883
Rentals and leases	1,487,317	1,339,579
Training costs	170,100	404,134
Other service costs	6,492,103	4,560,672
Total	85,287,686	81,250,387

In 2010, other operating expenses, net of acquisition costs (commissions) and change in deferred acquisition costs (commissions), represented 15.8% of gross premium written (2009: 15.5%).

In 2009, the total costs relating to auditing as charged against the 2010 result were EUR 330,637 (2009: EUR 274,927).

34) 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.

35) Other expenses

Other expenses mainly comprise allowances for receivables.

36) Income tax expense

Income tax expense

EUR	2010	2009
Current tax	3,113,232	1,309,293
Adjustments for prior years	93,559	0
Income tax expense as recognised in the income statement	**3,206,791**	**1,309,293**
Non-deductible expenses	0	1,775
Change in temporary differences	0	-693
Income from deferred tax arising from a previously unrecognised tax loss	0	-667,546
Income from deferred tax arising from a previously unrecognised tax credit	0	-3,197,647
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	111,256	2,425,583
Other	1,629	0
Total deferred tax	112,885	-1,438,528
Total income tax expense in the income statement	3,319,676	-129,235

Reconciliation of tax rate

(EUR)	2010		2009	
	%	Amount	%	Amount
Net profit/loss for the year	-	5,520,670	-	-28,216,212
Income tax expense	-	3,319,676	-	-129,235
Profit before tax	-	8,840,346	-	-28,345,446
Income tax expenses at statutory tax rate	32.10%	2,837,571	7.99%	-2,264,006
Non-deductible expenses	17.09%	1,510,689	-12.08%	2,258,373
Tax exempt income	-6.52%	-576,645	15.01%	-2,101,993
Income increasing the tax base	0.00%	0	-20.00%	2,799,668
Tax incentives	-7.96%	-704,107	0.36%	-101,885
Change in temporary differences	0.00%	0	0.00%	-693
Balance of expense for (income from) deferred tax due to change in tax rate	0.00%	0	0.41%	-117,495
Income from deferred tax arising from a previously unrecognised tax loss	0.00%	0	-1.12%	318,501
Income from deferred tax arising from a previously unrecognised tax credit	0.00%	0	11.75%	-3,331,821
Deferred tax income arising from a previously unrecognised temporary difference from previous periods	1.27%	112,394	0.00%	0
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	1.26%	111,257	-8.44%	2,392,614
Other	0.32%	28,518	-0.07%	19,502
Total income tax expense in the income statement	37.55%	3,319,676	10.05%	-129,235

22.10 Notes to the financial statements – cash flow statement

37) Notes to the cash flow statement

The positive cash flow from operating activities in 2010 is mainly a result of the favourable claims development in the Slovenian portfolio, lower net operating expenses and especially lower investment expenses. Additional positive effects came from the positive change in receivables arising out of reinsurance and the positive change in relation to debt.

The table below presents items of the income statement not included in cash flow nor presented in other parts of the cash flow statement (other than in cash flow from operating activities).

(EUR)	2010	2009
Net profit/loss for the year	5,520,670	-28,216,212
Non-monetary items of the income statement not included in the cash flow statement:	32,579,192	48,144,874
- change in unearned premiums	1,927,869	4,844,812
- change in the provision for outstanding claims	22,006,391	30,122,280
- change in other technical provisions	1,709,438	3,367,476
- change in technical provisions for policyholders who bear the investment risk	5,711,680	7,205,795
- operating expenses – amortisation/depreciation and change in deferred acquisition cost	1,223,814	2,604,510
Eliminated investment income items	-16,893,493	-10,889,586
- interest received disclosed under B. a.) 1.	-11,651,851	-10,184,372
- cash receipts from dividends and participation in the profit of others disclosed under B. a.) 2.	-5,241,642	-705,214
Eliminated investment expense items	1,757,268	1,926,417
- interest paid disclosed under C. b.) 1.	1,757,268	1,926,417
Cash flows from operating activities – income statement items	22,963,636	10,965,494

22.11 Contingent receivables and liabilities

Based on a contract with the former owner of Velebit osiguranje and Velebit životno osiguranje, the controlling company recognises a contingent liability due to the former owner of both companies but also a contingent receivable to the non-controlling interest in both subsidiaries for the transfer of the lien on shares. The contingent liability in this regard totals about EUR 1.1m.

22.12 Related party disclosures

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

- owners and their related undertakings;
- 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 amounts due from associates

(EUR) 31 Dec 2010		Total
Debt securities and loans granted to associates	gross	1,512,612
	allowance	0
	net	1,512,612
Receivables from policyholders	gross	22,468
	allowance	0
	net	22,468
Receivables for premiums arising out of reinsurance assumed	gross	10,405,032
	allowance	0
	net	10,405,032
Total		11,940,112

(EUR) 31 Dec 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 Dec 2010	31 Dec 2009
Liabilities for shares in reinsurance claims	8,876,223	16,697,324
Other short-term liabilities for insurance business	2,455,628	2,930,002
Total (excl. provisions)	11,331,851	19,627,326

Income from and expenses for associates

(EUR)	2010	2009
Gross premiums written	51,145,169	58,789,684
Gross claims paid	31,679,708	54,571,313
Acquisition costs	-4,735,981	-6,623,498
Income from realised gross recourse receivables	-430,685	-1,385,760
Interest income	113,871	113,885
Income from shares in associates	5,055,301	-86,784
Additional pension insurance premium	59,527	58,615

The controlling company and one subsidiary company have concluded a contract with the company Moja naložba, 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)	2010	2009
Management Board	504,640	515,665
Supervisory Board	27,532	47,323
Auditing committee	12,745	17,442
Supervisory boards of subsidiaries	14,702	13,221
Payments to employees not subject to the tariff section of the Collective Agreement	4,628,785	5,053,485
Total	5,188,404	5,647,136

Remuneration paid to Management Board members in 2010

(EUR)	Gross salary - fixed amount	In-kind-benefits – insurance premium	In-kind benefits – use of company car	Total
Zvonko Ivanušič	172,517	6,219	6,963	185,699
Jošt Dolničar	145,261	5,140	3,622	154,023
Srečko Čebron	157,266	5,333	2,320	164,919
Total	475,043	16,691	12,904	504,640

Liabilities for Management Board members

(EUR)	31 December 2010	31 December 2019
Zvonko Ivanušič	6,817	6,723
Jošt Dolničar	5,279	5,413
Srečko Čebron	6,561	6,511
Total	18,657	18,647

At 31 December 2010 the Group had no receivables due from Management Board members.

Remuneration paid to members of the Supervisory Board and the Auditing Committee in 2010

(EUR)		Attendance fees	Expenses reimbursed	Total
Supervisory Board (SB) members				
Branko Tomažič	Chairman of the SB	5,148	3,475	8,623
Mateja Lovšin Herič	Deputy Chairman of the SB	4,290	29	4,318
Mateja Treven	Member of the SB	3,300	42	3,342
Slaven Mićković	Member of the SB	3,300	29	3,329
Aleš Mirnik	Member of the SB	3,960	0	3,960
Nada Zidar	Member of the SB	3,960	0	3,960
Total Supervisory Board members		23,957	3,574	27,532
Auditing Committee (AC) members				
Mateja Treven	Chairman of the AC	3,003	0	3,003
Slaven Mićković	Member of the AC	1,650	0	1,650
Mateja Lovšin Herič	Member of the AC	2,409	0	2,409
Blanka Vezjak	Member of the AC	4,620	1,064	5,683
Auditing Committee members		11,682	1,064	12,745

At 31 December 2010 the Group had neither liabilities for nor receivables due from any member of the Supervisory Board or Audit Committee.

23 Significant Events after the Reporting Date

- On 31 January 2011, the controlling company received a request from the Securities Market Agency that the companies:
  - Zavarovalnica Triglav, d.d., Miklošičeva cesta 19, Ljubljana,
  - Slovenska odškodninska družba, d.d., Mala ulica 5, Ljubljana,
  - Nova kreditna banka Maribor, d.d., Vita Kraigherja 4, Maribor,
  - Aerodrom Ljubljana, d.d., Zgornji Brnik 130A, Brnik-Aerodrom,

  being the controlling company's shareholders, who are deemed to act in concert, issue a statement on the facts and circumstances relevant for a decision of the Securities Market Agency relating to a potential obligation on behalf of the listed companies to make a takeover bid for POSR shares in accordance with the Takeover Act. The controlling company, being the target company in the proceedings, examined the request and issued a statement within the given time limit. At the time of preparing this report, the Securities Market Agency has not concluded the proceedings.

- Pursuant to the decision of the Supervisory Board of 5 October 2010 and on the basis of the licence issued by the Insurance Supervision Agency, on 3 February 2011, for performing the function of Management Board Member, Mateja Treven started her 5-year term of office as Management Board Member of the controlling company on 3 February 2011.

- At the beginning of February 2011, the controlling company recapitalised the subsidiary Sava životno osiguranje, Serbia with EUR 320 thousand.

- At the end of February, the controlling company received a claim from the designers of its former logo in the amount of EUR 450 thousand. The proceedings have not concluded yet but the controlling company does not expect any financial obligations in this regard.

- In mid March 2011, the controlling company adopted a resolution to recapitalise its subsidiary Sava Tabak, Macedonia with EUR 2.5m.

- Furthermore, at the end of March 2011, the controlling company adopted a resolution to recapitalise its subsidiary Velebit usluge, Croatia with EUR 1.5m.

As the world is going round,
so are we going round,
but we choose our own
careful steps.

Financial Statements of Sava Reinsurance Company with Notes 2010

24 Auditor's Report

KPMG

Independent Auditor's Report

To The Shareholders of Pozavarovalnica Sava, d.d.

We have audited the accompanying financial statements of Pozavarovalnica Sava, d.d., which comprise the statement of financial position as at 31 December 2010, the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

An audit involves performing 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 material misstatement 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 financial statements present fairly, in all material respects, the financial position of Pozavarovalnica Sava, d.d. as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Emphasis of matter

Without qualifying our opinion we draw attention to the Note 14 (Revenue 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 Company forms and discloses equalisation provisions within equity in accordance with the International Financial Reporting Standards as adopted by the European Union. If these 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.

Other matters

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.
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Ljubljana, 15 April 2011

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.

25 Financial Statements of Sava Reinsurance Company

25.1 Statement of financial position as at 31 December 2010

(EUR)	Note	31 Dec 2010	31 Dec 2009
ASSETS		418,350,613	404,105,057
Intangible assets	1	178,615	181,818
Property and equipment	2	2,451,169	1,808,628
Deferred tax assets	3	2,073,687	2,112,682
Investment property	4	160,920	1,244,886
Financial investments in Group companies and in associates	5	106,236,355	89,436,601
Financial investments:	6	221,513,409	207,913,774
- Loans and deposits		83,453,132	36,865,091
- Held to maturity		8,168,143	9,798,345
- Available for sale		129,892,133	157,854,126
- At fair value through profit or loss		0	3,396,211
Reinsurers' share of technical provisions	7	17,526,300	25,148,351
Receivables	8	58,673,864	65,638,369
Receivables arising out of reinsurance and co-insurance business		57,510,223	60,245,061
Tax receivables		0	3,500,244
Other receivables		1,163,641	1,893,064
Deferred acquisition costs	9	9,191,801	10,263,816
Other assets	10	175,299	225,689
Cash and cash equivalents	11	169,193	130,442
LIABILITIES AND EQUITY		418,350,613	404,105,057
Equity		156,138,328	149,995,279
Share capital	12	39,069,099	39,069,099
Share premium	13	33,003,752	33,003,752
Profit reserves	14	83,238,204	79,641,342
Treasury shares	15	-1,774	-1,774
Fair value reserve	16	-2,767,816	-1,717,140
Net profit/loss for the year	17	3,596,862	0
Subordinated liabilities	18	31,177,758	31,135,777
Technical provisions	19	173,941,974	169,726,846
Unearned premiums		41,861,443	44,042,916
Provision for outstanding claims		131,492,898	123,869,342
Other technical provisions		587,633	1,814,588
Other provisions	20	112,165	170,448
Deferred tax liabilities	3	86,161	323,814
Other financial liabilities	21	2,901,061	2,900,613
Liabilities from operating activities		31,997,763	37,345,543
Liabilities from reinsurance and co-insurance business	22	30,408,949	37,345,543
Current income tax liabilities		1,588,814	0
Other liabilities	23	21,995,403	12,506,736

The accounting policies and other notes presented on pages 200–260 form an integral part of these financial statements.

25.2 Income statement for the year ended 31 December 2010

(EUR)	Note	2010	2009
Net earned premiums	24	123,497,230	119,096,865
Gross premiums written		142,861,784	147,082,330
Written premiums ceded to reinsurers and co-insurers		-21,611,105	-25,360,971
Change in net unearned premiums		2,246,551	-2,624,495
Investment income	25	9,831,163	12,566,932
Interest income		6,431,313	6,069,093
Other investment income		3,399,850	6,497,839
Other technical income	26	4,741,368	5,539,068
Commission income		2,161,895	4,437,421
Other income		2,579,474	1,101,647
Other income	27	87,439	67,558
Net claims incurred	28	-81,740,116	-90,257,788
Gross claims paid less income from recourse receivables		-78,092,872	-100,807,961
Reinsurers' and co-insurers' share of claims paid		11,644,566	29,936,487
Change in the net provision for outstanding claims		-15,291,810	-19,386,313
Change in other technical provisions	29	1,185,050	-949,348
Expenses for bonuses and rebates	30	23,029	0
Operating expenses	31	-39,329,664	-39,876,086
Acquisition costs		-32,909,058	-33,651,858
Other operating expenses		-6,420,606	-6,224,228
Expenses for financial assets and liabilities	25	-7,282,878	-18,961,340
Impairment losses on financial assets not measured at fair value through profit or loss		-4,976,267	-7,523,963
Interest expense		-1,543,868	-1,926,416
Other expenses		-762,743	-9,510,961
Other technical expenses	32	-2,165,907	-1,230,757
Other expenses	33	-166	-663
Profit/loss before tax		8,846,549	-14,005,559
Income tax expense	34	-1,652,825	1,406,914
Net profit/loss for the period		7,193,724	-12,598,645
Net diluted earnings/losses per share		0.77	-1.35

The accounting policies and other notes presented on pages 200–260 form an integral part of these financial statements.

25.3 Statement of comprehensive income for the year ended 31 December 2010

(EUR)	2010	2009
PROFIT/LOSS FOR THE YEAR, NET OF TAX	7,193,724	-12,598,645
OTHER COMPREHENSIVE INCOME, NET OF TAX	-1,050,675	8,853,763
Net change in fair value of available-for-sale financial assets	-1,313,344	11,067,204
Net change recognised in the fair value reserve	1,375,672	7,993,516
Net change transferred from fair value reserve to profit or loss	-2,689,017	3,073,687
Income tax on other comprehensive income	262,669	-2,213,441
COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	6,143,048	-3,744,882

The accounting policies and other notes presented on pages 200–260 form an integral part of these financial statements.

25.4 Cash flow statement for the year ended 31 December 2010

(EUR)	Note	2010	2009
A. Cash flows from operating activities			
a.) Items of the income statement	35	15,167,895	5,233,390
1. Net premiums written	24	121,250,679	121,721,359
2. Investment income (other than financial income), financed from:	25	3,254,911	5,741,587
- technical provisions		1,683,647	2,146,833
- other sources		1,571,265	3,594,754
3. Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	26.27	4,828,808	5,606,625
4. Net claims paid	28	-66,448,306	-70,871,474
5. Expenses for bonuses and rebates		23,029	0
6. Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	30	-38,183,318	-40,105,277
7. Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:	25	-5,739,009	-17,034,924
- technical sources		-2,574,737	-3,224,372
- other sources		-3,164,272	-13,810,552
8. Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	32.33	-2,166,073	-1,231,419
9. Tax on profit and other taxes not included in operating expenses	34	-1,652,825	1,406,914
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		12,029,585	-2,085,870
2. Change in receivables from reinsurance	8	2,734,838	-6,887,359
3. Change in other receivables from (re)insurance business	8	495,481	-226,994
4. Change in other receivables and other assets	8	4,856,590	3,417,850
5. Change in deferred tax assets	3	38,995	3,271,135
6. Change in liabilities arising out of reinsurance business	22	-6,936,595	-5,182,834
7. Change in other operating liabilities	22	10,947,865	2,966,710
8. Change in other liabilities (except unearned premiums)		130,066	231,807
9. Change in deferred tax liabilities		-237,653	323,814
c.) Net cash from/used in operating activities (a + b)		27,197,481	3,147,520

(EUR)	Note	2010	2009
B. Cash flows from investing activities			
a.) Cash receipts from investing activities		470,626,392	641,793,866
1. Interest received from investing activities and from:	25	6,431,314	6,069,093
- investments financed from technical provisions		4,220,340	3,930,655
- other investments		2,210,974	2,138,437
2. Cash receipts from dividends and from participation in the profit of others, relating to:	25	144,938	756,253
- investments financed from technical provisions		54,414	93,253
- other investments		90,524	662,999
4. Proceeds from sale of property and equipment, financed from:		17,173	13,006
- other sources		17,173	13,006
5. Proceeds from sale of long-term financial investments, financed from:		88,540,569	164,951,045
- technical provisions		59,466,912	53,294,838
- other sources		29,073,658	111,656,206
6. Proceeds from sale of short-term financial investments, financed from:		375,492,397	470,004,469
- technical provisions		257,099,923	276,863,805
- other sources		118,392,474	193,140,664
b.) Cash disbursements in investing activities		-479,050,107	-642,895,982
1. Purchase of intangible assets		-54,850	-42,115
2. Purchase of property and equipment, financed from:		-258,020	-66,545
- other sources		-258,020	-66,545
3. Purchase of long-term financial investments, financed from:		-73,506,355	-145,357,174
- technical provisions		-65,901,127	-47,794,980
- other sources		-7,605,228	-97,562,194
Purchase of financial investments in subsidiaries, financed from:		0	-20,125,378
- other sources		0	-20,125,378
4. Purchase of short-term financial investments, financed from:		-405,230,881	-477,304,770
- technical provisions		-271,557,038	-285,865,464
- other sources		-133,673,843	-191,439,306
c.) Net cash from/used in investing activities (a + b)		-8,423,715	-1,102,117
C. Cash flows from financing activities			
a.) Cash receipts from financing activities		0	0
b.) Cash disbursements in financing activities		-18,735,014	-1,926,416
1. Interest paid		-1,543,868	-1,926,416
4. Repayment of short-term financial liabilities		-17,191,146	0
c.) Net cash from/used in financing activities (a + b)		-18,735,014	-1,926,416
C2. Closing balance of cash and cash equivalents		169,193	130,442
x.) Net increase/decrease and cash and cash equivalents for the period (sum of Ac, Bc and Cc)		38,751	118,988
D. Opening balance of cash and cash equivalents		130,442	11,454

The accounting policies and other notes presented on pages 200–260 form an integral part of these financial statements.

25.5 Statement of changes in equity for the year ended 31 December 2010

(EUR)	I. Share capital	II. Share premium	III. Profit reserves					IV. Fair value reserve	V. Net profit/ loss for the year	VI. Treasury shares (deduction item)	Total (1–10)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Credit risk equalisation reserve	Catastrophe equalisation reserve	Other				
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
Balance at 1 Jan 2010	39,069,099	33,003,752	14,986,525	1,774	1,217,874	3,868,365	59,566,803	-1,717,140	0	-1,774	149,995,279
Comprehensive income for the year, net of tax	0	0	0	0	0	0	0	-1,050,675	7,193,724	0	6,143,048
Allocation of net profit to profit reserve	0	0	0	0	0	0	1,295,581	0	-1,295,581	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	43,313	2,257,968	0	0	-2,301,280	0	0
Balance at 31 Dec 2010	39,069,099	33,003,752	14,986,525	1,774	1,261,187	6,126,333	60,862,385	-2,767,816	3,596,862	-1,774	156,138,328
Distributable profit	0	0	0	0	0	0	0	0	3,596,862	0	3,596,862

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25.6 Statement of changes in equity for the year ended 31 December 2009

(EUR)	I. Share capital	II. Share premium	III. Profit reserves					IV. Fair value reserve	V. Net profit/loss for the year	VI. Treasury shares (deduction item)	Total (1–10)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Credit risk equalisation reserve	Catastrophe equalisation reserve	Other				
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
Balance at 1 Jan 2009	39,069,099	33,003,752	14,986,525	1,774	3,053,943	2,235,231	71,962,514	-10,570,904	0	-1,774	153,740,160
Comprehensive income for the year, net of tax	0	0	0	0	0	0	0	8,853,763	-12,598,645	0	-3,744,882
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-1,836,069	1,633,134	0	0	202,936	0	0
Settlement of loss	0	0	0	0	0	0	-12,395,711	0	12,395,711	0	0
Balance at 31 Dec 2009	39,069,099	33,003,752	14,986,525	1,774	1,217,874	3,868,365	59,566,803	-1,717,141	0	-1,774	149,995,279
Distributable profit	0	0	0	0	0	0	0	0	0	0	0

The accounting policies and other notes presented on pages 200–260 form an integral part of these financial statements.

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26 Notes to the Financial Statements

26.1 Basic details

Pozavarovalnica Sava, d.d. ("Sava Reinsurance Company" or "Company") 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.

Sava Reinsurance Company provides reinsurance products both in the domestic and in the international market. Under the Standard Classification of Activities of the Statistical Office of the Republic of Slovenia, its subclass code is 65.200. As per the Slovenian Companies Act (Zakon o gospodarskih družbah, "ZGD"), the controlling company is classified as a large company.

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

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

In 2010 Sava Reinsurance Company employed on average 63 people (2009: 59). At 31 December 2010, the Company employed 65 people (31 December 2009: 61), determined on a full-time equivalent basis.

Number of employees by degree of formal education

	31 Dec 2010	31 Dec 2009
Primary and lower secondary (I-IV)	0	1
Secondary (V)	14	15
Higher (VI)	3	3
University (VII)	32	28
Post-graduate (VIII)	16	14
Total	65	61

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

The Company's largest shareholder is the Slovenian Restitution Fund (SOD), which holds 25% plus one share. The second largest shareholder is Abanka with a 7% shareholding.

It is the responsibility of the Company's Management Board to prepare and approve the annual report. The audited annual report is approved by the Company's Supervisory Board. 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.

The Company is the controlling company in the Sava Re Group, which apart from the controlling company comprises the following companies:

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2010	Profit/loss for 2010	Total income	Share in voting rights (%)
Zavarovalnica Tilia	insurance	Slovenia	136,065,838	119,274,385	16,791,453	1,499,329	63,859,642	99.71%
Sava osiguranje	insurance	Serbia	25,063,022	20,048,842	5,014,180	47,515	15,900,558	99.99%
Illyria	insurance	Kosovo	15,211,852	11,864,973	3,346,879	-509,388	12,792,758	100.00%
Sava Tabak	insurance	Macedonia	19,568,986	17,670,067	1,898,919	-1,507,587	12,946,095	66.70%
Bro-Dil	securities broker	Macedonia	353,502	5,855	347,647	-64,638	42,668	66.70%
Sava Montenegro	insurance	Montenegro	22,930,848	19,523,817	2,486,496	-1,960,511	10,634,948	100.00%
Illyria Life	insurance	Kosovo	3,671,178	435,214	3,235,964	50,655	755,720	100.00%
Sava životno osiguranje	insurance	Serbia	2,480,457	205,300	2,275,157	-826,651	582,631	99.99%
Velebit usluge	wholesale, retailer	Croatia	10,085,041	1,378	10,083,663	-1,713	1,667	100.00%
Velebit osiguranje	insurance	Croatia	16,713,112	13,541,518	3,171,594	-1,989,990	7,060,309	56.36%
Velebit životno osiguranje	insurance	Croatia	7,619,554	2,770,104	4,849,450	-1,167,677	1,686,361	53.35%
Dukagjini Hospital	hospital activities	Kosovo	1,810,045	10,200	1,799,845	-84	0	100.00%
Sava Car	research and analysis	Montenegro	151,799	95,027	56,772	-8,228	13	100.00%

Associate companies at 31 December 2010

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2010	Profit/loss for 2010	Total income	Share in voting rights (%)
Zavarovalnica Maribor	insurance	Slovenia	734,042,192	656,174,733	77,867,459	10,595,331	247,143,634	45.79%
Moja naložba	pension fund	Slovenia	125,484,976	119,225,805	6,259,172	816,489	2,356,162	20.00%

Subsidiaries as at 31 December 2009

(EUR)	Activity	Registered office	Assets	Liabilities	Equity at 31 December 2009	Profit/loss for 2009	Total income	Share in voting rights (%)
Zavarovalnica Tilia	insurance	Slovenia	126,663,384	111,724,148	14,939,236	820,497	61,613,443	99.71%
Sava osiguranje	insurance	Serbia	23,766,546	19,663,909	4,102,637	-2,531,443	14,077,728	99.99%
Illyria	insurance	Kosovo	16,308,563	12,452,302	3,856,261	137,780	11,979,557	51.00%
Sava Tabak	insurance	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	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%
Illyria Life	insurance	Kosovo	3,329,960	144,652	3,185,308	-55.005	243,077	54.32%
Sava životno osiguranje	insurance	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	Croatia	13,616,642	9,956,971	3,659,671	-1,675,514	3,110,974	53.41%
Velebit životno osiguranje	insurance	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%

Associate companies at 31 December 2009

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

At the beginning of 2010, the controlling company became sole owner of the Kosovan insurers Illyria (non-life insurer) and Illyria Life (life insurer). At the end of 2010, the two insurers Dukagjini and Dukagjini Life were renamed Illyria and Illyria Life, respectively.

On 3 February 2010, the Board of Directors of the fund management company Sava Invest, Macedonia, adopted a resolution on the voluntary winding up of 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 ownership interest. Furthermore, at the beginning of 2010, the Macedonian company Slorest was liquidated, which has no material effects on the financial statements of the controlling company.

In October 2010 the subsidiary Sava Montenegro established a subsidiary company, the vehicle inspection company Sava Car.

26.2 Significant accounting policies

Below is a presentation of significant accounting policies applied in the preparation of the financial statements.

26.2.1 Statement of compliance

Sava Reinsurance Company prepared both separate and consolidated financial statements for the year ended 31 December 2010. The consolidated financial statements are part of this annual report. The annual report is available in softcopy from the website of Sava Reinsurance Company and in hardcopy at the registered office of the Company.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee's ("IFRIC"), as adopted by the European Union. They were prepared in accordance with applicable Slovenian legislation (the Companies Act (ZGD-1), the Insurance Act and implementing regulations), and 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 of Sava Reinsurance Company and of the Sava Re Group by consulting the annual report.

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

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

The Management Board of the Company approved the financial statements on 15 April 2011.

26.2.2 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.

26.2.3 Functional and presentation currency

All financial statement items are presented in euro. The euro is both the functional currency of the Company's primary economic environment as well as the presentation currency of the financial statements.

26.2.4 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 2010 denominated in foreign currencies were translated into euro using the mid-rate of the European Central Bank ("ECB") as at year-end 2010. Amounts in the income statement were translated using the exchange rate on the day of the transaction. At 31 December 2009 and 31 December 2010, they were translated using the then applicable mid-rates of the ECB. Foreign exchange differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve.

26.2.5 Cash flow statement

The cash flow statement was prepared using the indirect method based on data from the statement of financial position, the income statement and on additional data required to make adjustments to receipts and disbursements, as well as to provide a more detailed breakdown of material items. Items relating to changes in net operating assets are disclosed in net amounts.

26.2.6 Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the period. Pursuant to a decision of the Insurance Supervision Agency, profit reserves are shown to include technical provisions, which are inherently provisions for future risks and not liabilities according to IFRSs, i.e., the credit risk equalisation and catastrophe equalisation reserve.

26.2.7 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. Depreciation is calculated for each item separately, on a straight-line basis. Intangible assets are first amortised upon their availability for use.

Intangible assets include computer software, and licences pertaining to computer software. Their useful life is 5 years.

26.2.8 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 Company assesses annually whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of 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 lives.

Depreciation rates of property and equipment

Depreciation group	Rate
Land	0%
Buildings	1.3–1.8%
Transportation	15.5%
Computer equipment	33.0%
Office and other furniture	10–12.5%
Other equipment	6.7–20%

Gains and losses on the disposal of items of property 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.

26.2.9 Deferred tax assets and liabilities

The Company recognises deferred tax assets for temporary non-deductible impairments of portfolio securities and allowances for receivables, as well as for unused 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 (prior to 1 January 2007). The Company does not have deferred tax assets associated with impairment losses on investments in subsidiaries.

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

In 2010, deferred tax assets and liabilities were accounted for at a rate of 20% (the same as in 2009: 20%).

26.2.10 Investment property

Investment property is property that the Company does not use directly in carrying out its activities, but holds to earn rentals. Investment property is accounted for using the cost model and straight-line depreciation. Investment property is depreciated at the rate of 1.3%. The basis for calculating the depreciation rate is the estimated useful life. All leases where the Company acts as lessor are operating leases. Payments received, i.e., rental income, are recognised as income on a straight-line basis over the term of the lease. The Company assesses annually whether there is any indication of impairment of investment property. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of the value in use and the net selling price. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

The Company has investment property leased out under a cancellable operating lease contract.

In view of the fact that all of the Company's investment property is situated in Slovenia, the review of fair values of its investment property is also based on the report on average prices of real estate in the Slovenian market published by the Surveying and Mapping Authority of the Republic of Slovenia.

26.2.11 Financial investments in Group companies and in associates

Equity investments in subsidiaries and associates are carried in the separate financial statements at historic cost. Subsidiaries are entities in which the Company holds more than 50% of the voting rights, entities the Company controls and over which the Company thus has the power to control the financial and operating policies so as to obtain benefits from its activities. Associates are entities in which the Company holds between 20% and 50% of voting rights or over which the Company has significant influence.

Impairment testing in Group companies and associates is carried out at least on an annual basis.

Impairment losses on investments in subsidiary companies are handled in two different ways, depending on whether the acquisition cost of the investment includes goodwill or not. For the purpose of annual impairment testing of the acquisition cost of investments in subsidiaries (with goodwill) in accordance with IAS 36, the recoverable amount of the cash-generating unit is calculated for each individual investment based on the value in use. Cash flow projections used in these calculations are based on the business plans approved by the management for the period until and including 2015, as well as on extrapolations of growth rates for all subsequent periods. The discount rate used is based on market rates adjusted to reflect each insurance company-specific risk. The recoverable amount of the cash-generating unit so calculated was compared against its carrying amount. We find that for other subsidiary companies (where the acquisition cost does not include goodwill) and associate companies, impairment testing would be carried out as outlined above.

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

Discounted cash flow projections were based on the Group's strategic business plan covering a 10-year period (Sava Re Group Strategic Business Plan 2011–2015 with a further 5-year extrapolation of results). Only a 10-year projection can yield a normal cash flow appropriate for extrapolation into perpetuity.

The strong growth in premiums earned 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 non-motor business). In all their 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. Business process optimisation will thus contribute to the growth in net profits.
The discount rate is determined 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.

The discount factors used range from 13 to 17% (2009: from 14 to 17%).

Discount factors have decreased from 2009 due to a lower beta for the insurance industry, while the risk free interest rate has also decreased slightly.

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

26.2.12 Financial investments

26.2.12.1 Classification

The Company classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss

This category consists of the following two sub-categories:

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

Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e. realising gains in the short term. Financial assets designated as at fair value through profit or loss comprise instruments hedged by derivative financial instruments.

Loans and receivables (deposits)

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

Available-for-sale financial assets

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

26.2.12.2 Recognition, measurement and derecognition

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

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

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

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.

26.2.12.3 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.

26.2.12.4 Impairment of investments

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

The Company assesses whether there is any objective evidence that individual financial assets are impaired on a three-month basis (when preparing interim and annual reports).

26.2.12.4.1 Debt securities

As a rule, investments in debt securities are not impaired, provided payments under the amortisation schedule 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 bankruptcy, liquidation or compulsory settlement proceedings.

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

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

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

26.2.12.4.2 Equity securities

QUOTED FINANCIAL ASSETS

Investments in quoted financial assets and mutual funds are impaired when, as at the statement of financial position date:
- their market price is more than 40% below cost; or
- their market price is continuously less than cost for more than one year.

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

UNQUOTED EQUITIES

Unquoted securities include 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 is considered:
- trading volume in the three months preceding the determination of share market value ("cut-off day");
- trading volume history in the three years preceding the cut-off day (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. If only a very small number of the total number of shares outstanding is traded, the market is deemed inactive.

As at the statement of financial position date, the Company must establish whether the cost of unquoted equity securities still equals their fair value (unless the relevant investment is considered non-material). If the established fair value of an unquoted security is less than its cost, an impairment loss must be recognised.

Unquoted equities are measured using either the cost or the revaluation model. The cost model is used if an investment is considered non-material, either in relation to the issuer (shareholding) or in relation to the portfolio of the holder (share of the investment portfolio).

A model is used for the assessment whether any unquoted equities need to be impaired. The model uses the median P/B ratio[31] and the median ratio of the enterprise value to earnings before deduction of interest, tax and amortisation (EV/EBITDA)[32] for comparable companies.

31. Price-To-Book Ratio.
32. Enterprise Multiple: Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization. Enterprise value is the sum of market capitalisation and net debt of the enterprise.

Under the model, the fair value of unquoted shares (FV) is calculated as follows:

$$FV = \left[\frac{\left(0.6 \times \left(\text{CA per share} \times \text{median } {}^{P}/_{B}\right)\right) + \left(0.4 \times \left(\left(\text{EBITDA of the enterprise} \times \text{median } {}^{EV}/_{EBITA}\right) - \text{enterprise net debt}\right)\right)}{\text{no. of shares}} \right] \times 0.9$$

where CA represents the latest published carrying amount of an unquoted share, while 0.9 is a discount (of 10%) because of its being unquoted.

Companies pursuing the same or essentially the same activity are considered comparable.

26.2.12.5 Classification of investments by source of data for revaluation (levels 1-3) in line with IFRSs as adopted by the EU.

The Company 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;
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
Level 3	inputs for assets that are not based on observable market data.

26.2.13 Reinsurers' share of technical provisions

Reinsurers' share of technical provisions comprises the reinsurers' share of unearned premiums and of technical provisions. The amount is determined in accordance with reinsurance (retrocession) contracts and in line with movements in the retroceded portfolio based on gross reinsurance provisions for the business that is the object of these reinsurance (retrocession) contracts.

The Company tests these assets for impairment on the reporting date. Assets retroceded to counterparties are tested strictly individually. The Company recognised no impairment losses on the reinsurers' share of technical provisions on the reporting date, as it has business relations mostly with highly-rated reinsurers. For retrocession risks, see the section on risk management 26.5.2.6 Retrocession programme.

26.2.14 Receivables

Receivables include receivables for inwards reinsurance business and receivables for claims and commission relating to retrocession business.

Recognition of receivables

Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commission relating to retrocession business are invoiced to cedants or reinsurers, respectively. For existing reinsurance contracts for which no confirmed invoices have been received from cedants or reinsurers, receivables are recognised in line with policies outlined under headings 26.2.23 Net premiums earned and 26.2.24 Net claims incurred.

Impairment of receivables arising out of reinsurance business

As regards its core activity of reinsurance, the Company transacts business exclusively with legal entities. Before entering a business relationship with a prospective client, especially if foreign, the Company either carefully reviews its credit rating or relies on recommendations by its long-standing business partners. The Company individually assesses receivables in terms of their recoverability or impairment, making allowances based on payment history of individual cedants and retrocessionaires.

The Company nevertheless periodically reviews its reinsurance receivables on a client-by-client basis, at least once a year.

Reinsurance receivables are tested for impairment strictly individually. As a rule, the Company has both receivables from and payables to cedants, for which reason a receivable or a payable can remain outstanding longer than usual (mainly where brokers are concerned), which, however, does not provide a reasonable basis for impairment.

No receivables have been pledged as security.

Deferred acquisition costs

The Company discloses under deferred acquisition costs, 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.

Other assets

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

26.2.15 Cash and cash equivalents

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

26.2.16 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, credit risk and catastrophe equalisation reserves and other profit reserves;
- Treasury shares;
- Fair value reserve;
- Retained earnings.

26.2.17 Subordinated liabilities

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

26.2.18 Technical provisions

Technical provisions are approved by the appointed actuary of the Company.

Technical provisions are shown gross in the statement of financial position. The share of gross technical provisions for the business retroceded by the Company is shown in the statement of financial position under the item Reinsurers' share of technical provisions. The main principles used in the calculation of gross technical provisions are described below.

Unearned premiums are the portions of premiums written pertaining to periods after the accounting period. They are accounted for on the basis of received reinsurance accounts for unearned premiums, following the cedant's method: a pro rata temporis basis at insurance policy level. In cases where the Company does not receive timely accounts for unearned premiums on reinsurance business, nominal percentages are used at reinsurance account level for periods for which premiums are written.

Provisions for outstanding claims are established for incurred but not settled claims. These comprise provisions for incurred claims, both reported and unreported (IBNR). They are accounted for on the basis of received reinsurance accounts for provisions for outstanding claims and on the basis of received loss advices for non-proportional reinsurance business. Sava Reinsurance Company establishes the IBNR provision following three procedures. In the first procedure, the Company assumes a portion of the IBNR provision as calculated by cedants based on relevant reinsurance contracts. This relates to portfolio segments were invoices are received timely. With the introduction of premium and claims estimates for portfolio 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, since 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 portfolio 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 liabilities less paid claims and unearned premium (net of deferred commission), which is also available for covering liabilities at the underwriting year level, comprises the estimated provision for outstanding claims. If this provision for outstanding claims exceeds the one already set aside (and calculated based on reinsurance accounts), a reinsurance IBNR provision is set aside. The described process shows that the outstanding claims provision is established based on statistical data and using actuarial methods; therefore, its calculation also constitutes a liability adequacy test.

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

Other technical provisions only include the provision for unexpired risks, which is derived from a liability adequacy test of unearned premiums.

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 Company 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 earned, claims 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).

26.2.19 Other provisions

Other provisions comprise employee benefits including severance pay upon retirement, jubilee benefits and other benefits. Provisions for these benefits are calculated by a certified actuary.

Provisions are calculated based on personal data of employees: date of birth, date of commencement of employment, anticipated retirement, and salary. Severance pay upon retirement are accounted for as the higher of twice the last salary received and twice the average salary in the country. Currently, the non-taxable portion of severance pay is EUR 4,063.

Employees are entitled to a jubilee benefit for every 10 years of service with the Company. The jubilee benefit for 10, 20 and 30 years of service is equal to one salary, one salary and a half and two salaries of the first tariff class, respectively, (currently EUR 628–EUR 1,256). Currently, the non-taxable portion of jubilee benefits is around 74%.

The probability of an employee staying with the Company includes both the probability of death and the probability of employment relationship termination. Slovenian mortality tables 2007 M/F are used. The annual employee turnover rate based on internal data since 1998 is 2.0%, 4.0% and 2.6% in the “less than 35”, “35–45” and “over 45” age brackets, respectively. The assumed annual real growth of salaries is 1.8% (based on internal data and the consumer price index), while the assumed annual nominal growth of jubilee benefits is 3.3% (80% of the harmonised long-term interest rate, mentioned below).

Provisions for employee benefits are the net present value of future liabilities based on the above-mentioned assumptions. The discount rate is 4.11% (Source: Bank of Slovenia, Harmonised long-term interest rate for convergence assessment purposes, December 2010).

26.2.20 Pension insurance

The Company is required by law to pay pension insurance contributions on gross salaries at the rate of 8.85%. In addition, in 2001 the Company concluded a contract setting up a pension insurance scheme as part of the voluntary pension system, and has been making monthly contributions to it since then.

26.2.21 Other liabilities

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

26.2.22 Classification of insurance contracts

The Company classifies contracts as insurance contracts if they are concluded to transfer a considerable portion of risk; otherwise, they are classified as financial contracts. Whether there has been a considerable transfer of risk may be established either (i) directly when the Company assumes risks from contracts on a proportional basis that have been classified as insurance contracts by their cedants, or (ii) indirectly by determining that a reinsured event would result in significant additional payouts.

The Company only transacts reinsurance business the basic purpose of which is the transfer of underwriting risk. Thus the Company classified all the reinsurance contracts it concluded as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, which are insurance contracts. Since non-proportional reinsurance contracts provide for the payment of significant additional payouts in case of loss events, they also qualify as insurance contracts.

26.2.23 Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of cash inflows or increases in assets. The Company separately discloses gross premiums written, co-insurance premiums and reinsurers' shares, and unearned premiums. These items are used to calculate earned premiums in the income statement. Premiums earned are recognised based on confirmed reinsurance accounts and estimated gross premiums written, premiums ceded to reinsurers and (gross and retroceded) unearned premiums; premium estimates are made based on reinsurance contracts which, according to due dates, have already accrued although the Company has yet to receive reinsurance accounts. Net premiums earned are calculated based on invoiced gross premiums written less invoiced premiums retroceded, both adjusted for the change in gross unearned premiums and the change in reinsurers' share of unearned premiums. Premiums earned are estimated based on individual reinsurance contracts made.

26.2.24 Net claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. Net claims incurred comprise gross claims paid net of recourse receivables and reinsured claims, i.e., amounts invoiced to retrocessionaires. The amount of gross claims paid includes 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 Company has yet to receive reinsurance accounts. These items are used to calculate net claims incurred in the income statement. Claims incurred are estimated based on estimated premiums and combined ratios for individual reinsurance contracts concluded.

26.2.25 Income from and expenses for investments in affiliates

Income from investments in affiliates (subsidiaries and associates) also include dividends. Expenses for investments in affiliates comprise impairment losses on investments. Dividend income is recognised when payout is authorised in accordance with the relevant general meeting resolution of any affiliate.

26.2.26 Investment income and expenses

The Company records investment income and expenses separate depending on whether they relate to the capital fund or the liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions.

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

Investment expenses comprise interest expense, losses on the disposal of investments and impairment losses.

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

26.2.27 Operating expenses

Operating expenses comprise:

- acquisition costs: reinsurance commission expenses recognised based on reinsurance accounts and estimates derived from estimated premium and contractually agreed commission rates;
- change in the deferred acquisition costs: these comprise reinsurance commission expenses. These are booked commissions relating to the next financial year. They are recognised based on reinsurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line deferment;
- other operating expenses classified by nature are as follows:
  e. depreciation of operating assets,
  f. labour costs including employee salaries, social and pension insurance costs and other labour costs,
  g. costs of services provided by natural persons other than sole traders including contributions; remuneration of the supervisory board and audit committee; and payments under contracts for services,
  h. other operating expenses relating to services and materials.

26.2.28 Other technical income

Other technical income comprises income from reinsurance commission less the change 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.

26.2.29 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 enacted by the date of the statement of financial position, as well as on any adjustments to tax liabilities of prior periods. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax amount is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the tax rates that have been enacted by the date of the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The statutory tax rate for current tax was 20% in 2010 (2009: 21%). Deferred tax assets and liabilities have been accounted for at the rate of 20%.

26.3 Changes in accounting policies and correction of errors

In 2010, the Company introduced no material changes in accounting policies nor corrected any errors.

26.4 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 2010 and have not been applied in preparing these financial statements:

Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011)

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

When applied, it is expected that the new Standard will reduce the current level of disclosure of related parties and of the balances and transactions with other government-controlled entities.

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Company's financial statements as the Company does not have any defined benefit plans with minimum funding requirements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)

The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Company did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods 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 Company's financial statements as the Company has not issued such instruments at any time in the past.

26.5 Risk management

26.5.1 Insolvency risk

By law Sava Reinsurance Company ("Sava Reinsurance Company" or "the Company") must maintain adequate capital with regard to the amount and type of reinsurance business carried out. The capital 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. The required solvency margin of the Company calculated pursuant to the Decision on detailed rules for the calculation of the required solvency margin of insurance companies (Official Gazette of the Republic of Slovenia, nos. 137/2006 and 25/2007) issued by the Insurance Supervision Agency on 31 December 2010 stood at EUR 20.2m (31 December 2009: EUR 18.7m). The available solvency margin calculated pursuant to the Decision on detailed rules on the calculation of the capital required for meeting solvency requirements and capital adequacy requirements of insurance companies (Official Gazette of the Republic of Slovenia, nos. 83/2004, 95/2004, 65/2005, 31/2006, 38/2006, 25/2007, 17/2008 and 99/2010) issued by the Insurance Supervision Agency on 31 December 2010 stood at EUR 41,8m (31 December 2009: EUR 57.3m). The structure of the available solvency margin is presented in the following table.

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Statement of capital adequacy

(EUR)		2010	2009
CORE CAPITAL (Article 106 of the Insurance Act (»ZZavar«))			
Subscribed capital other than share capital subscribed based on cumulative preference shares, or founding capital	1	39,069,099	39,069,099
Share premium other than share premium related to cumulative preference shares	2	33,003,752	33,003,752
Profit reserves other than reserve for treasury shares and credit risk equalisation & catastrophe equalisation reserves	3	75,848,910	74,553,329
Fair value reserve relating to assets not financed by technical provisions	4	-2,048,818	-1,709,502
Treasury shares and own interests	5	1,774	1,774
Intangible assets	6	178,615	181,818
Core capital (1 + 2 + 3 + 4 - 5 - 6)	7	145,692,554	144,733,086
Minimum guarantee fund	8	6,730,865	6,232,746
Meeting the requirement under Article 106 of the ZZavar (7 - 8)	9	138,961,689	138,500,340
ADDITIONAL CORE CAPITAL (Article 107 of the ZZavar)			
Subordinated debt	10	5,048,149	4,674,559
Additional core capital (15), however not more than 50% of the lower of core capital and required solvency margin	11	5,048,149	4,674,559
AVAILABLE SOLVENCY MARGIN AND STATEMENT OF CAPITAL ADEQUACY (Article 108 of the ZZavar)			
Total of core and additional core capital (7 + 11)	12	150,740,703	149,407,645
Participation according to Article 108, paragraph 1/1 of the ZZavar	13	107,398,909	90,588,312
Participation according to Article 108, paragraph 1/2 of the ZZavar	14	1,512,612	1,512,805
Available solvency margin of insurer (12 - 13 - 14)	15	41,829,182	57,306,528
Required solvency margin	16	20,192,597	18,698,239
Surplus/deficit of available over/below required solvency margin (15 - 16)	17	21,636,585	38,608,289

Sava Reinsurance Company meets capital adequacy requirements if the available solvency margin is larger or equal to the required solvency margin. Sava Reinsurance Company met capital adequacy requirements through all of 2010, as it maintained a surplus of available solvency margin over required solvency margin. At 31 December 2010, this surplus amounted to EUR 21.6m (31 December 2009: EUR 38.6m); therefore, the insolvency risk is small.

The above calculations are based on current insurance regulations under Solvency I. The new Solvency II regime, which is expected to come into force on 1 January 2013, will fundamentally change the calculation of solvency capital as well as the measurement of assets and liabilities. Based on quantitative studies of the effects that the new regime will have, we expect that Sava Reinsurance Company will require significantly more capital than the current required solvency margin, while this increase will at least in part be set off by a decrease in liabilities, for which the Directive prescribes less prudent rules than are the current regulations. While the Solvency II Directive has already been passed, relevant executive acts are yet to be issued that will define relevant parameters for the calculation of solvency capital requirement.

26.5.2 Underwriting risks

Underwriting risks are risks related to the main activity pursued by insurance companies, i.e., the assumption of risks from policyholders. Insurance companies transfer any excess of risk to reinsurance companies, which is why reinsurance companies are exposed to underwriting risk. Underwriting risks that are important for reinsurers comprise mainly underwriting process risk, pricing risk, claims risk, net retention risk and reserving risk. Some other underwriting risks, such as product design risk, economic environment risk and policyholder behaviour risk are important mainly for insurers, but are transferred to reinsurance companies especially through proportional treaty reinsurance. The Company has no direct mitigating measures in place for such risks as these can only be managed through appropriate underwriting, additional requirements or clauses in reinsurance contracts and through an appropriate retrocession programme.

Therefore, we will not give a separate discussion of product design risk, economic environment risk and policyholder behaviour risk.

Sava Reinsurance Company assumes from its subsidiaries and other cedants only insurance risk. Part of the assumed risk is retained, any excess over its capacity is retroceded. Sava Reinsurance Company classifies all reinsurance contracts as insurance contracts within the meaning of IFRS 4. As Sava Reinsurance Company has no reinsurance contracts that would qualify as financial contracts, we give below a detailed description of the risks arising from insurance contracts, as required under IFRS 4.

26.5.2.1 Underwriting process risk

The underwriting process risk is the risk of incurring financial losses caused by an incorrect selection and approval of risks to be reinsured. In respect of reinsurance treaties, Sava Reinsurance Company follows the fortune of its ceding companies, while in respect of facultative contracts, the decision on assuming a risk is on Sava Reinsurance Company.

It follows from the above that in order to manage this risk, it is essential to check practices of existing and future ceding companies and to analyse developments on the relevant markets and in the relevant classes of insurance. Consequently, coverage may only be granted by taking into account internal underwriting guidelines. These guidelines define requirements for customers, minimum required levels of information on the business and the framework of the expected business result. At the same time they also lay down the coverage procedure and levels of competence so that as many controls as possible are included in the process. Sava Reinsurance Company's underwriting experts are involved also in underwriting of large risks relating to the subsidiaries.

The table below shows exposure measured by the number of contracts and aggregated limits of contracts. The sum does not include unlimited covers for XL covers of motor liability which are fully retroceded.

Breakdown of reinsurance contracts and limits

(EUR)	U/W year 2010		U/W year 2009	
Form of contract	No. of contracts	Aggregate limit	No. of contracts	Aggregate limit
Treaty business	459	908,913,254	448	998,215,442
Facultative business	129	431,867,252	122	603,167,416
Total	588	1,340,780,505	570	1,601,382,858

If measured on the basis of aggregate limits, the exposure to underwriting risk has decreased from 2009, even though the gross reinsurance premium increased. Sava Reinsurance Company reduces underwriting risk also by transferring part or all of it to retrocessionaires.

There was no substantial difference in the underwriting process risk of 2010 and 2009.

26.5.2.2 Pricing risk

Pricing risk is the risk that the reinsurance premiums charged will be insufficient to cover liabilities under reinsurance contracts.

With proportional reinsurance contracts, reinsurance premiums depend on insurance premiums that are, as a rule, fixed by cedants. Therefore, this risk is managed by appropriate underwriting of risks to be reinsured and relevant adjustments to commission policy. This also helps reduce the pricing risk with non-proportional reinsurance contracts. Rates are determined based on target combined ratios; their adequacy is tested by comparing results by form of reinsurance and line of business.

Pricing risk in both 2010 and 2009 is deemed moderate.

26.5.2.3 Claims risk

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. In respect of proportional reinsurance, this risk is closely connected with the same risk in relation to ceding companies, which may arise due to incorrect assessments made in the course of underwriting, changes in court practice, new types of losses, increased public awareness of the rights attached to insurance contracts, new human and animal diseases, macroeconomic changes and such like.

With non-proportional reinsurance contracts, especially in higher layers, any major excess over the expected small number of losses is less likely but still possible.

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

We consider that there have been no significant changes in the claims risk of 2010 and 2009 if we disregard the fact that there were fewer catastrophic losses due to natural disasters in 2010 than in 2009, which is closer related to the net retention risk than the claims risk.

26.5.2.4 Net retention risk

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

Sava Reinsurance Company manages this risk by way of (i) appropriate professional underwriting of the risks to be insured, (ii) measuring the exposure (by aggregating sums insured) by geographical area for individual natural perils and especially by (iii) appropriately defining the maximum net retention limits and (iv) designing appropriate reinsurance programmes. In managing this risk, we take into account that maximum net aggregate losses in any one year are affected both by the maximum net claim arising from a single catastrophe event, and by the frequency of such events.

We consider the net retention risk to have remained in 2010 essentially the same as in 2009 in terms of retention limits and the expected number of catastrophic losses. However, the actual number of catastrophic claims due to natural disasters that occurred in 2010 was lower than in 2009 and lower than expectations based on long-term average losses. Sava Reinsurance Company, however, was not seriously impacted due to its adequate retention limits and adequate retrocession programme, which is also shown in the section Estimated exposure to underwriting risks.

26.5.2.5 Reserving risk

Reserving risk is the risk that technical provisions are inadequate. We consider that this risk does exist, mainly in respect of the claims provision, however, it is minor. New types of losses could occur, which are not excluded in ceding companies' insurance conditions and for which claims provisions have not been established, which could occur mainly in respect of liability insurance contracts.

Sava Reinsurance Company manages reserving risk by strict adherence to the law and regulations on technical provisions, by applying recognised actuarial methods, critical observation of information, received from ceding companies on reinsurers' shares of their claims provisions and, especially, by adopting a conservative approach in setting the level of technical provisions, which is described in the notes to technical provisions.

Contrary to the practice of insurance companies, Sava Reinsurance Company cannot use triangles of paid losses based on accident year data for actuarial estimations. This is because ceding companies report claims under quota share contracts by underwriting years. In respect of one-year policies written during any one year, claims may occur either in the year in which the policy is written or in the year after. As a result, ceding companies are not able to produce aggregate data for quota share reinsurance broken down by accident years. Ceding companies would normally be able to produce this information for other type of reinsurance. However, for quota shares, this would involve a significant increase in the administrative work-load of the ceding companies.

In line with reinsurance practice, Sava Reinsurance Company analyses data about claims paid by underwriting year and estimates its future liabilities with respect to individual underwriting years by using appropriate actuarial methods. The estimated liabilities relate to (i) claims that have already been incurred (reported and not reported) the settlement of which is provided for within the claims provision, and (ii) claims that have not yet been incurred, the settlement of which is covered by unearned premiums. The claims provision is derived by deducting the unearned premium from the estimated future liabilities. The unearned premium is calculated separately as described in the notes to technical provisions.

Owing to the mentioned feature, the two tables below include as originally estimated gross or net liabilities, at any year-end claims provisions are included plus unearned premiums less deferred commission, which are compared to subsequent estimates of these liabilities.

Such testing of adequacy of amount can only be applied to past years — the further back in time, the more precise the test method. Given that the claims provision is calculated using the same actuarial method as in previous years, we conclude based on past discrepancies between originally estimated liabilities and subsequently established actual liabilities arising from claims at individual dates of the statement of financial position, that the provisions as at 31 December 2010 are adequate.

Adequacy test of gross technical provisions

(thousand EUR)	Year ended 31 December					
Gross claims provisions + unearned premium provisions - deferred commissions	2005	2006	2007	2008	2009	2010
As originally estimated	112,782	109,145	119,777	148,075	157,182	163,593
Reestimated as of 1 year later	87,592	85,128	112,684	141,387	142,105	
Reestimated as of 2 years later	85,581	89,210	115,393	138,257		
Reestimated as of 3 years later	86,772	92,588	113,172			
Reestimated as of 4 years later	89,685	89,657				
Reestimated as of 5 years later	89,242					
Cumulative redundancy	23,541	19,488	6,606	9,819	15,076	0
Cumulative gross claims paid + commission – premium written in subsequent years						
1 year later	37,812	29,892	45,446	61,569	53,151	
2 years later	46,629	45,415	60,904	79,271		
3 years later	54,026	52,400	70,605			
4 years later	59,207	57,897				
5 years later	63,468					

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, let us have a look at 2005 in the above table. At year-end 2005, future gross liabilities for claims incurred in the course of 2005 and for claims which under the contracts will arise after 31 December 2005, were estimated at EUR 112.8m. Part of this amount relates to the claims provision (claims already incurred), and part to unearned premiums (claims to occur after 31 December 2005). In 2006, the sum of claims and commission relating to contracts taken into account in the original calculation of liabilities at 31 December 2005 (less premiums written in 2006 in respect of the same contracts) totalled EUR 37.8m. As at 31 December 2006, future liabilities relating to the same contracts were estimated at EUR 49.8m (not presented in the table). This amount plus the amount stated of EUR 37.8m equal the total estimated liabilities of EUR 87.6m as reestimated one year later. In the same way, the liabilities as at 31 December 2005 were re-estimated at the end of 2007, 2008, 2009 and 2010. Given that the cumulative amount of claims paid including commission (less premiums written after 2005 for underwriting years up until and including 2005) from 2006 to 2010 was EUR 63,5m, the end-of-2010 estimate relating to liabilities estimated at the end of 2005 totalled: EUR 89.2m – EUR 63.5m = EUR 25.8m (this amount is not included in the table). This estimate will almost certainly differ from the final and currently unknown value of remaining liabilities. However, the difference in absolute terms is very likely to be smaller than the error in the estimate of 31 December 2005. Over the years, the difference reduces as the number of pending claims decreases until all claims are settled. This may take ten years or longer for certain classes of insurance.

Adequacy test of net technical provisions

(thousand EUR)	Year ended 31 December					
Gross claims provisions + unearned premiums net of deferred commission	2005	2006	2007	2008	2009	2010
As originally estimated	86,594	92,579	98,878	111,120	132,543	146,636
Reestimated as of 1 year later	65,970	65,813	93,767	107,711	123,097	
Reestimated as of 2 years later	63,097	69,618	96,301	104,885		
Reestimated as of 3 years later	63,827	72,695	94,524			
Reestimated as of 4 years later	66,172	70,238				
Reestimated as of 5 years later	65,744					
Cumulative redundancy	20,850	22,341	4,354	6,235	9,447	0
Cumulative net claims paid + commission - premiums written in subsequent years						
1 year later	26,344	24,438	42,359	44,021	47,655	
2 years later	34,611	37,331	54,679	57,642		
3 years later	40,460	41,963	61,955			
4 years later	43,846	45,704				
5 years later	46,350					

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

Sava Reinsurance Company's cumulative redundancy relating to the years from 2005 to 2009, as shown in the table above, represents 24%, 24%, 4%, 6% and 7% of the liabilities as originally estimated. The relative decrease in the redundancy from 2007 to 2008 is due to catastrophic losses and cedants' optimistic estimates of claims provisions for catastrophic losses. In the remaining years, the cumulative redundancy is the result of prudent estimation methods used and the effect of the unearned premiums less commission. Specifically, if the loss ratio is less than 100%, the unearned premiums have the effect of overstating the cumulative redundancy. This is also the reason why the reestimate as of 1 year later is quickly decreasing compared to the original estimate, as unearned premiums relating to one-year insurance contracts are largely released in the following year when any redundancy is also released; subsequent reestimates for two, three, etc. years then remain essentially the same as the second-year estimate. The relatively smaller redundancy in 2009 is a result of the restructuring of the portfolio in recent years: there was a decrease in the share of motor quota share reinsurance business with large unearned premiums, which is also why the above mentioned release of redundant unearned premium after the first year is smaller.

In respect of those classes of insurance where the sum of the claims and the expense ratio exceeds 100%, Sava Reinsurance Company sets aside provisions for unexpired risks in addition to unearned premiums, as described in the notes to technical provisions.

We consider that reserving risk at the end of 2010 and 2009 are approximately the same.

26.5.2.6 Retrocession programme

An adequate retrocession programme is fundamental for managing the underwriting risks to which Sava Reinsurance Company is exposed. The programmes are designed to reduce potentially large risk exposures as largest amount set out in the tables of maximum retentions are used only exceptionally with best risks. Sava Reinsurance Company uses reciprocal treaties to diversify risk. Sava Reinsurance Company's net retained insurance portfolio (relating to both Slovenian and foreign ceding companies) is further covered for potentially large losses through prudently selected non-proportional reinsurance programmes.

We consider that the 2010 retrocession programme of Sava Reinsurance Company is comparable with that of 2009.

26.5.2.7 Estimated exposure to underwriting risks

Sava Reinsurance Company's maximum net retentions and its retrocession programmes are of key importance for the estimate of the exposure to underwriting risks. The retention limit is set at EUR 1m for the majority of non-life classes of insurance, except for the fire and natural forces and the other damage to property class, for which it is set at EUR 2m. Retention limits applying to life insurance contracts are significantly lower. In principle, this limits net claims arising out of any single loss event to a maximum of EUR 2m. In case of catastrophic loss events, e.g., flood, hail, storm or even earthquake, the maximum net claim payable by the Company is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is EUR 2.5m for Slovenia and EUR 5m for other countries. These amounts represent the maximum net claim for a single catastrophe event based on reasonable actuarial expectations. Due to the increased priority in the catastrophe cover for Slovenia in 2010, the claims up to the priority have been additionally covered by an aggregate catastrophe coverage, under which claims per event in excess of EUR 1m are aggregated, while the coverage is for EUR 5m in excess of 5m of the described aggregate. While it is possible that several events of a catastrophe occur in the same year, the probability is negligible that so many events should occur as to trigger the insolvency of Sava Reinsurance Company. Due to the random fluctuation in the number of catastrophic events, an increase in the net claims must always be expected. This would negatively impact business results, but would definitely not lead to the insolvency of Sava Reinsurance Company.

If the net combined ratio increased due to higher/lower underwriting risks by one percentage point, net profit before tax would decrease (or net loss increase) by EUR 1.2m (2009: EUR 1.2m). In 2009 an additional maximum net claim of EUR 5m would deteriorate the combined ratio by 4.0% (2009: 2.5%), which is still acceptable.

The probability that the underwriting risk may seriously undermine the Company's financial stability is deemed, according to our assessment, low in both 2010 and 2009.

26.5.3 Market risks

The investment policy of Sava Reinsurance Company must be in compliance with local legal requirements governing investment diversification, limits and valuation, as well as asset-liability matching. In addition to ensuring liquidity, the Company's investment policy is focused on currency-matching of investments and requirements relating to the structure of investments covering the liability fund.

In its financial operations, Sava Reinsurance Company is exposed to market risks that comprise above all interest rate risk, equity securities risk, currency risk, concentration risk and asset-liability mismatch risk.

Data on financial investments

(EUR)	31 Dec 2010		31 Dec 2009	
Type of investment	Amount	As% of total	Amount	As% of total
Debt securities	108,879,179	49.2%	113,234,213	54.5%
Deposits and money market instruments	73,003,230	33.0%	41,632,018	20.0%
Shares (excluding strategic shares*)	9,350,409	4.2%	15,019,995	7.2%
Mutual funds	16,172,633	7.3%	24,991,847	12.0%
Loans granted and structured products	6,702,331	3.0%	7,266,827	3.5%
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,405,629	3.3%	5,768,874	2.8%
Total	221,513,410	100.0%	207,913,774	100.0%

*Strategic shares include shares in subsidiary and associate companies.

26.5.3.1 Interest rate risk

Interest rate risk is the risk of exposure to losses resulting from fluctuations in interest rates. These can cause a decrease in investments or an increase in liabilities. As Sava Reinsurance Company does not guarantee returns on its liabilities, which do not include interest-rate sensitive mathematical provisions, it is not exposed to conventional interest rate risk relating to assets and liabilities. However, the Company does try to mitigate the risk of change in interest rates which affect the value of its assets and rate of return on its investment portfolio. Thus the Company's bond portfolio, which is exposed to fluctuations in market interest rates, is naturally hedged through investing in variable-yield bonds. The ratio of fixed interest bonds to variable yield bonds as at year-end 2010 stood at 77.8% to 22.2% (2009: 76.4% to 23.6%).

The exposure to interest rate risk is as show in the table below. Based on the structure of mutual funds (equity, mixed, bond and fund of funds), we estimate that 44.6% of investments in mutual funds as at 31 December 2010 were interest sensitive, as compared to 25.0% 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 2010		31 Dec 2009	
Type of investment	Amount	As% of total	Amount	As% of total
Interest-bearing assets	195,988,038	88.5%	166,335,104	80.0%
- fixed interest rate	166,532,723	75.2%	125,930,303	60.6%
- variable interest rate	29,455,315	13.3%	40,404,801	19.4%
Non-interest bearing assets	25,525,373	11.5%	41,578,670	20.0%
Total financial investments	221,513,410	100.0%	207,913,774	100.0%
Assets exposed to interest rate risk*	116,090,199	52.4%	119,482,175	57.5%

*Included are debt securities and bond exposures in mutual funds.

The sensitivity to changes in interest rates can be assessed by moving the yield curve for all maturities by two percentage points upwards or downwards, and then calculating how much the value of investments in bonds changes. 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 Sava Reinsurance Company's bond portfolio was 3.93 years as at year-end 2010 (2009: 3.97 years). A sensitivity analysis assuming change in interest rates of two percentage points showed that the value of the bond portfolio would drop by EUR 7.7m (2009: EUR 8.0m) or 7.1% (2009: 7.1%) from the base of EUR 108.9m. If we gauge the sensitivity of investments in bond mutual funds (with a weight of 1) and mixed mutual funds (with a weight of 0.5) to the same percentage increase in interest rates, the value of the investment portfolio would further decrease by EUR 512,000 (2009: EUR 440,000). Such an increase in interest rates would decrease total investments by EUR 8.2m (2009: EUR 8.4m). The vast majority of interest-sensitive investments are classified as available for sale. Any change in interest rates would therefore affect mainly their market value and thus impact the statement of comprehensive income. Thus of the above EUR 8.2m, EUR 7.9m relate to a change in equity, the remaining relates to investments classified as assets held to maturity, a class where changes in market price do not affect financial statements.

We consider that in 2010 Sava Reinsurance Company's exposure to interest rate risk was slightly lower than in 2009 if only the year-end result is taken into account or the result of the sensitivity analysis.

26.5.3.2 Equity securities risk

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

Exposure to equity securities risk is as shown in the table below. Based on the structure of mutual funds (equity, mixed, bond and fund of funds), we estimate that as at 31 December 2010, 55.4% of investments in mutual funds were interest sensitive (2009: 25.0%); the remaining up to 100% is taken into account in equity securities risk.

Exposure to equity securities risk

(EUR)	31 Dec 2010		31 Dec 2009	
Type of investment	Amount	As% of total	Amount	As% of total
Debt securities	108,879,179	49.2%	113,234,213	54.5%
Deposits, CDs and loans granted	79,705,561	36.0%	48,898,845	23.5%
Shares (excluding strategic shares*)	9,350,409	4.2%	15,019,995	7.2%
Mutual funds	16,172,633	7.3%	24,991,847	12.0%
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,405,629	3.3%	5,768,874	2.8%
Total financial investments	221,513,410	100.0%	207,913,774	100.0%
Assets exposed to equity securities risk**	18,312,021	8.3%	33,763,880	16.2%

*Strategic shares include shares in subsidiary and associate companies.
**Included are equity securities and equity security exposures in mutual funds.

At the end of 2010, the Company held EUR 9.3m (2009: EUR 15.0m) of investments in equity securities of domestic and foreign companies, and a further EUR 16.2m (2009: EUR 25.0m) in mutual funds. As at year-end 2010, assets were invested in mutual funds of the following types: 22.1% in stock funds, 60.7% in mixed funds, 14.3% bond funds and 3.0% in fund of funds (2009: 64.6% in stock funds, 17.8% mixed funds, 14.5% bond funds and 3.1% fund of funds).

For mixed mutual funds, we assume that 50% of investments are equities and 50% bonds. Then the amount of equities excluding strategic investments exposed to equity securities risk was EUR 18.3m (2009: EUR 33.8m). Sava Reinsurance Company manages this risk by diversifying in terms of issuer, industry and geography, and by monitoring and analysing global market developments, and by responding to events accordingly.

A rough estimate of the sensitivity of investments (excluding shares in affiliates) to equity securities risk showed the following: a 10% drop in stock prices would cause a drop in the value the equity portfolio of EUR 1.8m (2009: EUR 3.4m). The entire change would relate to change in equity as the Company has all investments that are exposed to equity securities risk are classified as available for sale. Unlike the bond portfolio, which moves inversely to interest rates, the value of the equities and mutual fund portfolio changes linearly with stock prices. In case of a 20% drop in stock prices, the value of investments in equities, excluding shares in affiliates, would decrease by EUR 3.6m in 2010 (2009: 6.8m).

We consider that in 2010 Sava Reinsurance Company was less exposed to equity securities risk than in 2009. It needs however to be noted that these estimates relate to year-end figures for 2010 and 2009.

At the end of 2010, the Company held EUR 106.2m (2009: EUR 89.4m) in shares of affiliates.

Sava Reinsurance Company seeks to maintain or increase the value of its strategic investments in affiliates mainly by actively controlling subsidiaries and by participating in the control of the associate companies. A 10% drop in the value of subsidiaries and associates would cause a drop in the value of Sava Reinsurance Company's strategic investment portfolio of EUR 10.5m (2009: EUR 8.9m)[33], which would entirely relate to the change in equity.

26.5.3.3 Currency risk

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

Over the years, Sava Reinsurance Company has been expanding its foreign-sourced business, which changed the structure of investments by currency. Nevertheless, as at year-end, euro-denominated liabilities still represented 84.9% (2009: 90.8%). It is also in this currency alone that Sava Reinsurance Company's liability fund exceeds its liabilities significantly, by EUR 41.5m (2009: 37.5m), whereas all other currencies produced an asset-liability mismatch deficit of EUR 16.2m (2009: 11.1m).

33. Since the estimated drop in the value of investments in subsidiaries and associates moves linearly with the applied percentage, a 20-percent drop in the value of investments would result in double the drop in the amount of the said investments.

Sava Reinsurance Company ensures asset-liability currency matching by directly matching the currency structure of assets and liabilities. Also in 2010, it adapted its investment policy in view of its prevailing euro-denominated liabilities.

As shown in the below tables, Sava Reinsurance Company's currency mismatch was EUR 16.2m (2009: EUR 11.1m) or 8.9% (2009: 6.3%) of the sum of gross technical provisions and credit risk/catastrophe equalisation reserves. Also in case of a drastic unfavourable change in euro exchange rates, this mismatch would not be a problem, given that the liability fund exceeded gross technical provisions and reserves by EUR 25.4m (2009: EUR 26.5m).

Investments of the capital fund are not exposed to currency risk.

Currency (mis)match as at 31 December 2010 (all amounts translated to EUR)

Currency	Liability fund (LF)*	Gross technical provisions (GTP) and reserves	Mismatch Max (GTP – LF, 0)
EUR	195,517,047	153,969,012	0
USD	3,798,631	11,380,792	7,582,161
KRW	3,269,007	3,949,727	680,720
RUB	0	2,925,161	2,925,161
TRY	1,081,203	1,483,743	402,540
HKD	865,022	1,265,065	400,044
Other	2,205,998	6,355,995	4,170,563
Total	**206,736,908**	**181,329,494**	**16,161,189**

*Assets supporting technical provisions.

The "Other" item includes all currencies for which technical provisions and reserves of Sava Reinsurance Company were less than EUR 1m at year-end 2010. Also for these currencies, the mismatch risk is calculated individually for each currency and then added up. Since any surplus of the liability fund over gross technical provisions plus reserves does not affect the mismatch, the "Other" item shows the correct mismatch of EUR 4.2m, although the difference between the amounts in columns two and three is smaller by EUR 20,566.

26.5.3.4 Concentration risk

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

Sava Reinsurance Company's investment portfolio is reasonably diversified in accordance with the Insurance Act, implementing regulations and Company internal rules in order to avoid large concentration of a certain type of investment, large concentration with any counterparty or economic sector or other potential forms of concentration. Its assets are invested with 91 issuers (deposits, debt securities and equity securities, mutual funds and such like) with different maturities.

The table below shows the investment structure of Sava Reinsurance Company by region. The table shows that the lion's share of investments are placed in Slovenia, 31 December 2010: 70.9% (31 December 2009: 64.5%).

Investment portfolio by region

(EUR)	31 Dec 2010		31 Dec 2009	
Market	Amount	As% of total	Amount	As% of total
Slovenia	156,960,691	70.9%	134,039,832	64.5%
Other EU countries	47,729,766	21.5%	55,836,282	26.9%
OECD[34]	6,198,321	2.8%	7,919,981	3.8%
Other countries	10,624,632	4.8%	10,117,679	4.9%
Total	221,513,410	100.0%	207,913,774	100.0%

In addition to diversification by region, the Company seeks to maximise diversification also by industry. The Company's largest exposure by industry is in the category banks and savings banks, 2010: 48.3% (2009: 34.9%). The exposure is large because of the large share of deposits.

Investment portfolio by industry

	31 Dec 2010		31 Dec 2009	
Market	Amount	As% of total	Amount	As% of total
Banks and savings banks	107,098,422	48.3%	72,620,085	34.9%
Government and Central Bank	46,620,807	21.0%	48,109,961	23.1%
Industry & commerce	24,425,025	11.0%	29,323,582	14.1%
Other financial institutions	10,387,237	4.7%	17,242,205	8.3%
Mutual funds	16,172,633	7.3%	24,991,847	12.0%
Insurance companies	16,809,286	7.6%	15,631,101	7.5%
Total	221,513,410	100.0%	207,918,782	100.0%

The largest single issuer of debt or equity securities that Sava Reinsurance Company is exposed to is the Republic of Slovenia. At 31 December 2010, the exposure to government bonds of the Republic of Slovenia was EUR 22.2m. Exposure to the ten largest issuers (excluding affiliates) totals EUR 82.6m, representing 37.3% of investments (2009: 42.8%).

We consider concentration risk as low, but are 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. Based on the two tables above and considering only the unfavourable developments in the local financial market, it could be concluded that exposure to concentration risk in 2010 and 2009 are practically the same.

26.5.4 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.

Sava Reinsurance Company calculates its liquidity ratio (which in 2010 moved well above the statutory minimum and never fell below 1) on a weekly basis within its liquidity risk management activities. In addition, the Company annually prepares a daily liquidity plan with planned cash-flows (from investments, reinsurance, expenses). Throughout 2010, the Company did not have any liquidity problems.

Liquidity risk is also mitigated through investing a large proportion of funds in highly liquid marketable securities, which can be converted to cash at any time. In addition, the controlling company concluded a call

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deposit contract with two commercial banks, which enables the Company to draw and return liquidity up to a maximum of EUR 500,000 on a daily basis. For extraordinary liquidity situations, the controlling company has arranged a credit line with a commercial bank in the total amount of EUR 5m.

Exposure to liquidity risk, being any surplus over regular liquidity funds, can be estimated as the maximum liability arising as a result of a single extraordinary net claim (EUR 5m) necessitating the use of credit lines. In the event of a large single (gross) claim or many small claims arising from a natural disaster, the claims handling period would be substantially longer and there would be sufficient time to liquidate equity or debt securities to meet any sudden liquidity requirement.

At the end of 2006 and at the beginning of 2007, Sava Reinsurance Company raised a subordinated loan in the amount of EUR 32m, to ensure capital adequacy required under criteria of a rating agency for a certain credit rating. Maturity of the loan is 20 years (the maturity date is 27 December 2026), 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%. Interest is payable quarterly; the Company has been servicing this debt regularly. As at 31 December 2010, the subordinated debt measured at amortised cost was EUR 31.2m (31 December 2009: EUR 31.1m).

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

Maturity of financial assets and liabilities

(EUR) 31 Dec 2010	Carrying amount	Up to 1 year	1–5 years	Over 5 years
Financial investments	221,513,410	110,117,730	72,543,257	38,852,422
- At fair value through profit or loss	0	0	0	0
- Held to maturity	8,168,143	1,541,824	6,626,320	0
- Loans and deposits	83,453,132	77,036,725	6,416,407	0
- Available-for-sale	129,892,134	31,539,182	59,500,530	38,852,422
Investment property	160,920	0	0	160,920
Financial investments in Group companies and in associates	106,236,355	0	0	106,236,355
Reinsurers' share of technical provisions	17,526,300	4,698,795	5,094,680	7,732,826
Receivables*	60,747,552	60,747,552	0	0
Cash and cash equivalents	169,193	169,193	0	0
TOTAL ASSETS	406,353,729	175,733,270	77,637,937	152,982,523
Subordinated liabilities	31,177,758	0	0	31,177,758
Technical provisions	173,941,974	47,063,868	50,391,973	76,486,133
Other provisions	112,165	4,492	9,110	98,563
Liabilities from operating activities**	34,984,985	32,084,985	2,900,000	0
Other liabilities	21,995,403	21,995,403	0	0
TOTAL LIABILITIES	262,212,285	101,148,748	53,301,083	107,762,454

(EUR) 31 Dec 2009	Carrying amount	Up to 1 year	1–5 years	Over 5 years
Financial investments	207,913,774	98,472,146	68,280,390	41,161,238
- At fair value through profit or loss	3,396,211	3,396,211	0	0
- Held to maturity	9,798,345	85,124	7,165,329	2,547,891
- Loans and deposits	36,865,091	33,462,101	3,402,990	0
- Available-for-sale	157,854,126	61,528,709	57,712,071	38,613,347
Investment property	1,244,886	0	0	1,244,886
Financial investments in Group companies and in associates	89,436,601	0	0	89,436,601
Reinsurers' share of technical provisions	25,148,351	8,719,660	8,376,287	8,052,403
Receivables*	67,751,051	67,751,051	0	0
Cash and cash equivalents	130,442	130,442	0	0
TOTAL ASSETS	391,625,106	175,073,299	76,656,677	139,895,128
Subordinated liabilities	31,135,777	0	0	31,135,777
Technical provisions	169,726,846	59,952,227	55,969,388	53,805,231
Other provisions	170,448	2,492	28,495	139,461
Liabilities from operating activities**	40,569,971	37,669,971	2,900,000	0
Other liabilities	12,506,736	3,516,767	8,989,969	0
TOTAL LIABILITIES	254,109,778	101,141,457	67,887,852	85,080,469

*Including deferred tax assets.
**Including deferred tax assets and other financial liabilities.

For liquidity it is vital that investments of the liability fund match relevant liabilities. The structure of the investments within the liability fund complies with the Insurance Act (ZZavar), and under the decision by the Insurance Supervision Agency, Sava Reinsurance Company is not obliged to comply with the statutory provision on localisation of the liability fund designated to cover the liabilities of foreign inwards reinsurance business. The table below shows that as at year-end 2010, the Company's liability fund exceeded its gross technical provisions and reserves by EUR 25.4m (31 December 2009: EUR 26.5m).

Coverage of gross technical provisions and reserves by liability fund (investments, cash and receivables)

(EUR)	31 Dec 2010		31 Dec 2009	
Type of investment	Value of investments	As% of technical provisions	Value of investments	As% of technical provisions
Deposits and money market instruments	51,138,030	28.2%	31,267,186	17.9%
Debt securities	74,115,644	40.9%	74,437,868	42.6%
Shares (excluding strategic shares)	2,123,553	1.2%	3,124,290	1.8%
Mutual funds	5,858,962	3.2%	6,736,601	3.9%
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants*	7,405,629	-	5,768,874	-
Investments - capital fund**	80,871,590	-	86,578,955	-
Total financial investments	221,513,410	73.5%	207,913,774	66.1%
Reinsurers' share of technical provisions	17,526,300	9.7%	25,148,351	14.4%
Receivables and cash	55,974,417	30.9%	60,632,426	34.7%
TOTAL – liability fund	206,736,908	114.0%	201,346,722	115.2%
Technical provisions plus reserves	181,329,494	100.0%	174,813,085	100.0%
Coverage of technical provisions in%	114.0%	-	115.2%	-
Suplus of the liability fund	25,407,414	14.0%	26,533,637	15.2%

*Financial investments of reinsurers i.r.o. reinsurance contracts with cedants are not included in the liability fund pursuant to the Companies Act (ZZavar), Article 121.
**Reserves include the credit risk equalisation reserve and the catastrophe equalisation reserve.

The table above shows the investment structure, in compliance also with other (specific) restrictions under the Insurance Act (ZZavar).

As at year-end 2010, the liability fund exceeded gross technical provisions and reserves by 14.0% (2009: 15.2%).

Asset-liability matching in terms of duration is at an appropriate level given the large amount by which the liability fund exceeded gross technical provisions and reserves, whereby any deficit arising out of any mismatch could be set off. The average duration of bond investments was 3.92 years (2009: 3.13 years), while the average duration of the majority of liabilities (gross claims provision and unearned premiums) was 5.36 years (2009: 3.94 years).

The table below shows the maturity profile of the investment portfolio with amounts relating to both the liability and the capital fund.

Maturity profile of financial investments

(EUR)	31 Dec 2010		31 Dec 2009	
Maturity	Amount	As% of total	Amount	As% of total
0–1 year	110,117,730	49.7%	98,472,146	47.4%
1–5 years	72,543,257	32.7%	68,280,390	32.8%
Over 5 years	38,852,422	17.5%	41,161,238	19.8%
Total	221,513,410	100.0%	207,913,774	100.0%

Maturity of gross technical provisions and reserves

(EUR)	31 Dec 2010		31 Dec 2009	
Maturity	Amount	As% of total	Amount	As% of total
0–1 year	47,063,868	26.0%	59,952,227	34.3%
1–5 years	50,391,973	27.8%	55,969,388	32.0%
Over 5 years	83,873,653	46.3%	58,891,470	33.7%
Total	181,329,494	100.0%	174,813,085	100.0%

Based on all criteria mentioned, we consider liquidity risk to be very modest and similar in both 2010 and 2009.

26.5.5 Credit risk

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

In accordance with the Insurance Act (ZZavar), implementing regulations and Company internal rules, the Company invests cash surpluses only in deposits placed with first-class banks, debt securities issued by entities with an appropriate credit rating, 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. Data are given in the table below.

Investments by issuer credit rating

(EUR)	31 Dec 2010		31 Dec 2009	
Rated by Moody's/S&P	Amount	As% of total	Amount	As% of total
Aaa/AAA	3,138,780	1.4%	3,967,050	1.9%
Aa/AA	27,622,807	12.5%	25,756,167	12.4%
A/A	39,504,797	17.8%	50,993,630	24.5%
Baa/BBB	33,674,242	15.2%	15,008,978	7.2%
Less than Baa/BBB	17,775,078	8.0%	956,863	0.5%
Not rated	99,797,706	45.1%	111,231,086	53.5%
Total	221,513,410	100.0%	207,913,774	100.0%

"Not rated" investments include mutual funds, deposits with unrated local banks and other investments where issuers have not published any rating details.

At 31 December 2010, 31.7% of the Company's investments were rated A or better (2009: 38.8%). The drop in the share of best-rated investments is mainly due to the downgrading of certain issuers.

Since bond rating is more important than the rating of equity securities[35], we are giving below a breakdown of the bond portfolio by issuer credit rating.

Bond portfolio by issuer credit rating

(EUR)	31 Dec 2010		31 Dec 2009	
Rated by Moody's/S&P	Amount	As% of total	Amount	As% of total
Aaa/AAA	3,138,780	2.9%	3,882,747	3.4%
Aa/AA	27,581,532	25.3%	27,059,635	23.9%
A/A	34,502,109	31.7%	37,321,568	33.0%
Baa/BBB	13,194,558	12.1%	16,834,375	14.9%
Less than Baa/BBB	15,797,304	14.5%	830,344	0.7%
Not rated	14,664,897	13.5%	27,305,544	24.1%
Total	108,879,179	100.0%	113,234,213	100.0%

At 31 December 2010, 59.9% (31 December 2009: 60.3%) of the bonds portfolio had an issuer credit rating at least equal to that of Sava Reinsurance Company. Bonds rated A or better represented 29.4% of Sava Reinsurance Company's investment portfolio (2009: 32.8%). The exposure to credit risk relating to investments is slightly larger than in 2009 by two criteria.

As at year-end 2010, receivables due from reinsurers totalled EUR 22.9m (2009: EUR 38.2m). Of this, retroceded gross technical provisions were EUR 17.5m (2009: EUR 25.1m), unearned premiums were EUR 2.2m, claims provisions EUR 15.3m, and receivables for reinsurers' shares of claims were EUR 5.4m (EUR 13.1m).

The total credit risk exposure of Sava Reinsurance Company arising from retrocessionaires represented 5.5% of total assets in 2010 (2009: 9.4%). The decrease in 2010 is a result of both lower payments in respect of natural disaster losses in past underwriting years and the fact that there were no major loss events in 2010. Retrocession programmes are mostly placed with first-class reinsurers with an adequate rating (at least A– according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). We considers this risk as low, particularly as the investment portfolio is adequately diversified. See the table below for details.

35. The credit risk of equity securities is assessed based on performance indicators.

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Receivables due from reinsurers by reinsurer credit rating

(EUR)	31 Dec 2010		31 Dec 2009	
Rated by Moody's/S&P	Amount	As% of total	Amount	As% of total
Aaa/AAA	798,212	3.48%	692,083	1.8%
Aa/AA	4,090,251	17.82%	5,232,020	13.7%
A/A	13,547,469	59.03%	28,451,749	74.5%
Baa/BBB	1,704,065	7.42%	1,497,138	3.9%
Less than Baa/BBB	529,721	2.31%	530,495	1.4%
Not rated	2,281,244	9.94%	1,797,633	4.7%
Total	22,950,963	100.00%	38,201,118	100.0%

The tables below shows an aging analysis of receivables, including the above-mentioned receivables for reinsurers' shares of claims.

Aging analysis of receivables

(EUR) 31 December 2010	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	37,796,902	9,857,803	4,430,855	52,085,560
Receivables for reinsurers' shares in claims	2,814,612	1,244,744	1,365,308	5,424,663
Receivables arising out of reinsurance and co-insurance business	40,611,513	11,102,547	5,796,163	57,510,224
Current tax assets	0	0	0	0
Receivables for commission	906,723	24,598	0	931,320
Short-term receivables arising out of investments	65,047	14,716	3,735	83,497
Other receivables	96,042	96	52,686	148,824
Other receivables	1,067,811	39,409	56,421	1,163,641
Total	41,679,324	11,141,956	5,852,584	58,673,864

(EUR) 31 December 2009	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	15,309,189	30,698,408	1,165,820	47,173,418
Receivables for reinsurers' shares in claims	7,550,682	4,343,713	1,177,248	13,071,643
Receivables arising out of reinsurance and co-insurance business	22,859,871	35,042,121	2,343,068	60,245,061
Current tax assets	3,500,244	0	0	3,500,244
Receivables for commission	514,496	844,460	67,846	1,426,802
Short-term receivables arising out of investments	10,170	13,843	109,374	133,387
Other receivables	324,473	7,583	820	332,876
Other receivables	849,139	865,886	178,040	1,893,065
Total	27,209,254	35,908,007	2,521,108	65,638,369

The Company tested receivables for impairment. Where receivables needed to be impaired, allowances were made accordingly. Receivables are discussed in greater detail in note 8.

26.5.6 Operational risk

Operational risk includes human capital risk, management control risk, IT risk, process risk, legal risk and such like. Sava Reinsurance Company is primarily exposed to risks arising from disruptions or inappropriate conduct of prescribed procedures and internal controls and disruptions in the management of the Company. Management considers that an efficient and effective system of internal controls is vital for operational risk management. Operational risk is generally associated with other risks (e.g. underwriting, market etc.); it tends to compound other risks. Negligence in the underwriting process, for example, significantly increases underwriting risks.

For the purpose of operational risk management, the Company has put in place adequate IT-supported procedures and controls in the most important areas of its operation. In addition, such risks are managed through the internal audit function, through staff training and enhanced risk awareness.

If broadly defined, operational risk includes political risks. We consider the exposure of Sava Reinsurance Company to political risk to be medium. However, due to the increasing desire of former Yugoslav countries to become members of the EU, we consider that the exposure to this risk, associated mainly with investments in subsidiaries, is decreasing.

We consider that the Company's overall exposure to operational risk in 2010 remained on essentially the same level as in 2009.

26.5.7 Implementing systematic risk management

Sava Reinsurance Company continues implementing risk management on a systematic basis, aware of the requirements brought about by the adopted Solvency II Directive, amongst them also risk-based capital calculation. For this reason, Sava Reinsurance Company is monitoring the drafting of acts relating to Solvency II, preparing for the changes and taking part in quantitative impact studies (QIS5 in 2010).

26.6 Notes to the financial statements – statement of financial position

1) Intangible assets

Movements in cost and accumulated amortisation of intangible assets

(EUR)	Software	Other intangible assets	Total
Cost			
As at 1 Jan 2010	363,109	13,776	376,885
Additions	52,798	1,859	54,657
Disposals	-122	0	-122
As at 31 Dec 2010	415,785	15,635	431,420
ACCUMULATED AMORTISATION			
As at 1 Jan 2010	195,068	0	195,068
Additions	57,860	0	57,860
Disposals	-122	0	-122
As at 31 Dec 2010	252,806	0	252,806
Carrying amount at 1 Jan 2010	168,042	13,776	181,818
Carrying amount at 31 Dec 2010	162,980	15,635	178,615

(EUR)	Software	Other intangible assets	Total
Cost			
As at 1 Jan 2009	371,003	9,553	380,556
Additions	37,892	4,223	42,115
Disposals	-45,786	0	-45,786
As at 31 Dec 2009	363,109	13,776	376,885
ACCUMULATED AMORTISATION			
As at 1 Jan 2009	191,058	0	191,058
Additions	49,796	0	49,796
Disposals	-45,786	0	-45,786
As at 31 Dec 2009	195,068	0	195,068
Carrying amount at 1 Jan 2009	179,945	9,553	189,498
Carrying amount at 31 Dec 2009	168,042	13,776	181,818

2) Property and equipment

Movements in cost and accumulated depreciation of property and equipment

(EUR)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
As at 1 Jan 2010	103,949	1,631,566	999,696	84,291	2,819,502
Additions	37,631	612,579	258,020	0	908,231
Disposals	0	0	-208,603	0	-208,603
As at 31 Dec 2010	141,580	2,244,145	1,049,113	84,291	3,519,129
ACCUMULATED DEPRECIATION					
As at 1 Jan 2010	0	281,433	694,721	34,719	1,010,873
Additions	0	134,716	92,747	1,570	229,033
Disposals	0	0	-171,946	0	-171,946
As at 31 Dec 2010	0	416,149	615,522	36,289	1,067,960
Carrying amount at 1 Jan 2010	103,949	1,350,133	304,974	49,572	1,808,628
Carrying amount at 31 Dec 2010	141,580	1,827,996	433,591	48,002	2,451,169

(EUR)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
As at 1 Jan 2009	103,949	1,631,566	1,171,487	83,929	2,990,931
Additions	0	0	66,545	362	66,907
Disposals	0	0	-238,336	0	-238,336
As at 31 Dec 2009	103,949	1,631,566	999,696	84,291	2,819,502
ACCUMULATED DEPRECIATION					
As at 1 Jan 2009	0	260,222	845,433	33,117	1,138,772
Additions	0	21,211	77,869	1,602	100,682
Disposals	0	0	-228,581	0	-228,581
As at 31 Dec 2009	0	281,433	694,721	34,719	1,010,873
Carrying amount at 1 Jan 2009	103,949	1,371,344	326,054	50,812	1,852,159
Carrying amount at 31 Dec 2009	103,949	1,350,133	304,975	49,572	1,808,628

The carrying amount of property and equipment changed significantly compared to the prior year. There was a significant change in buildings since the Company required more office space as a result of its growth. The Company cancelled its lease agreement for most of the investment property located at its registered office and increased the amount of land and buildings under Property and equipment.

3) Deferred tax assets and liabilities

(EUR)	31 Dec 2010	31 Dec 2009
Deferred tax assets	2,073,687	2,112,682
Deferred tax liabilities	-86,161	-323,814
Total	1,987,526	1,788,869

(EUR)	1 Jan 2010	Recognised in the IS	Recognised in the SFP	31 Dec 2010
Long-term financial assets	728,875	930,335	262,669	1,921,879
Short-term operating receivables	700,175	-563,780	0	136,395
Tax loss	667,546	-667,546	0	0
Provisions for jubilee benefits and severance pay (retirement)	16,085	-4,869	0	11,216
Other	-323,814	241,850	0	-81,963
Total	1,788,869	-64,010	262,669	1,987,526

In 2010, the Company derecognised deferred tax assets associated with realised temporary non-deductible impairment losses on investments in securities and with tax losses. In addition, the Company decreased deferred tax assets by EUR 266,867, representing the negative fair value reserve, which does not affect profit or loss in 2010.

4) Investment property

Movements in cost and accumulated depreciation of investment property

(EUR)	Land	Buildings	Total
Cost			
As at 1 Jan 2010	52,695	1,340,297	1,392,992
Disposal	-37,631	-1,160,829	-1,198,460
As at 31 Dec 2010	15,064	179,468	194,532
ACCUMULATED DEPRECIATION			
As at 1 Jan 2010	0	148,106	148,106
Additions	0	12,323	12,323
Disposal	0	-126,817	-126,817
As at 31 Dec 2010	0	33,612	33,612
Carrying amount at 1 Jan 2010	52,695	1,192,191	1,244,886
Carrying amount at 31 Dec 2010	15,064	145,855	160,920

(EUR)	Land	Buildings	Total
Cost			
As at 1 Jan 2009	52,695	1,340,297	1,392,992
Additions	0	0	0
As at 31 Dec 2009	52,695	1,340,297	1,392,992
ACCUMULATED DEPRECIATION			
As at 1 Jan 2009	0	130,682	130,682
Additions	0	17,424	17,424
As at 31 Dec 2009	0	148,106	148,106
Carrying amount at 1 Jan 2009	52,695	1,209,615	1,262,310
Carrying amount at 31 Dec 2009	52,695	1,192,191	1,244,886

Investment property assets comprise offices in the Bežigrajski dvor building at Dunajska 56 in Ljubljana, which the Company has leased out for an indefinite period of time. In 2010, the Company sold offices in Koper to a subsidiary company. The fair value of investment property was EUR 154,227. Disposals in land and buildings are related to transfers to property and equipment as discussed under note 2.

All investment property assets yield rent. Payments received by the Company for the investment properties leased out were EUR 85,738 in 2010, of which EUR 56,713 were from third parties and EUR 29,025 from affiliates. Maintenance costs associated with investment property are included in rent or charged to the lessees in a proportionate amount. These recovered costs amounted to EUR 18,821 in 2010.

5) Financial investments in subsidiaries and associates

Financial investments in subsidiaries and associates

(EUR)	31 Dec 2010	31 Dec 2009
Investments in shares of Group companies	85,306,872	68,507,119
Investments in shares of associates	20,929,483	20,929,483
Total	106,236,355	89,436,601

Financial investments in subsidiary and associate companies are recognised at cost in accordance with IAS 27 Consolidated and separate financial statements.

Financial Investments in shares of Group companies

(EUR)	1 Jan 2010		Acquisition / recapitalisation	Sales	Impairment loss (-)	31 Dec 2010	
	Holding	Value	Value	Value	Value	Holding	Value
Zavarovalnica Tilia	99.71%	13,845,473	0	-	-	99.71%	13,845,473
Sava osiguranje	99.99%	12,453,591	1,330,243	-	-	99.99%	13,783,834
Illyria	51.00%	6,231,591	8,500,000	-	-	100.00%	14,731,591
Sava Tabak	66.70%	8,652,622	0	-	-386,392	66.70%	8,266,230
Sava Montenegro	100.00%	11,372,634	4,000,386	-	-	100.00%	15,373,019
Sava Invest	51.00%	0	0	-	-	0.00%	0
Illyria Life	54.32%	1,785,893	2,250,000	-	-	100.00%	4,035,893
Sava životno osiguranje	99.99%	3,553,666	297,745	-	-	99.99%	3,851,411
Velebit usluge	100.00%	10,606,649	812,772	-	-	100.00%	11,419,421
Slorest	100.00%	5,000	0	-3,696	-1,304	0.00%	0
Total		68,507,118	17,191,146	-3,696	-387,696		85,306,872

(EUR)	1 Jan 2009		Acquisitions	Impairment loss (-)	31 Dec 2009	
	Holding	Value	Value	Value	Holding	Value
Zavarovalnica Tilia	99.68%	13,840,507	4,966	0	99.71%	13,845,473
Sava osiguranje	99.99%	12,453,591	0	0	99.99%	12,453,591
Illyria	51.00%	6,231,591	0	0	51.00%	6,231,591
Sava Tabak	66.70%	8,652,622	0	0	66.70%	8,652,622
Sava Montenegro	99.92%	13,951,256	3,007,175	-5,585,797	100.00%	11,372,634
Sava Invest	51.00%	102,000	0	-102,000	51.00%	0
Illyria Life	51.00%	1,785,893	0	0	54.32%	1,785,893
Sava životno osiguranje	99.99%	3,553,666	0	0	99.99%	3,553,666
Velebit usluge	-	-	10,606,650	0	100.00%	10,606,650
Slorest	-	-	5,000	0	100.00%	5,000
Total		60,571,125	3,012,141	-5,687,797		68,507,119

Financial investments in shares of associates

(EUR)	1 Jan 2010		31 Dec 2010	
	Holding	Value	Holding	Value
Zavarovalnica Maribor	45.79%	19,918,424	45.79%	19,918,424
Moja naložba	20.00%	1,011,059	20.00%	1,011,059
Total		20,929,483		20,929,483

(EUR)	1 Jan 2009		Acquisitions	31 Dec 2009	
	Holding	Value	Value	Holding	Value
Zavarovalnica Maribor	45.79%	13,416,845	6,501,579	45.79%	19,918,424
Moja naložba	20.00%	1,011,059	0	20.00%	1,011,059
Total		14,427,904	6,501,579		20,929,483

In 2010, the Company increased investments in Group companies by EUR 16.8m (2009: EUR 13.6m); investments in associate companies remained unchanged. Of this amount, EUR 6.4m was used to recapitalise existing Group companies, EUR 10.8m relates to new acquisitions and EUR 0.4m to impairments.

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 effected on 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. The estimated value of the put option as at 31 December 2010 and as at 31 December 2009 is nil.

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

At 31 December 2010 financial investments totalled EUR 221.5m, an increase of EUR 13.6m over 31 December 2009.

The Company pledged, in respect of its long-term loan of EUR 2.9m, 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 amount of EUR 3.5m and fair value of EUR 3.7m, which is shown under financial liabilities in note 21. The minimum ratio of the market value of pledged securities to the loan including interest and expenses as per contract is 1.1:1.0.

Pursuant to reinsurance contracts, part of the reinsurance premium is retained by reinsurers as an interest-earning deposit and generally released after one year. Receivables so arising amounted to EUR 7.4m and were included under the loans and receivables category of financial investments.

Financial investments

(EUR) 31 Dec 2010	Held-to-maturity		Available-for-sale	Loans and receivables	Total
	Carrying amount	Fair value			
Long-term financial assets					
Equity and other variable income securities and mutual funds	0	0	25,523,041	0	25,523,041
Debt securities and other fixed income securities	6,626,320	6,135,884	98,352,952	0	104,979,272
Other loans granted	0	0	0	6,702,331	6,702,331
Bank deposits	0	0	0	2,014,076	2,014,076
Short-term financial investments					
Held-for-trading securities or securities with a remaining maturity of less than one year	1,541,824	1,536,148	6,016,140	0	7,557,964
Bank deposits	0	0	0	67,331,096	67,331,096
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	7,405,629	7,405,629
Total	8,168,143	7,672,032	129,892,133	83,453,132	221,513,409

(EUR) 31 Dec 2009	Held-to-maturity		At fair value through P/L	Available-for-sale	Loans and receivables	Total
	Carrying amount	Fair value	Non-derivative Held for trading			
Long-term financial assets						
Equity and other variable income securities and mutual funds	0	0	0	38,537,478	0	38,537,478
Debt securities and other fixed income securities	9,713,221	8,167,214	0	87,784,638	0	97,497,859
Other loans granted	0	0	0	0	4,902,997	4,902,997
Short-term financial investments						
Held-for-trading shares and interests	0	0	1,474,364	0	0	1,474,364
Held-for-trading securities or securities with a remaining maturity of less than one year	85,124	85,710	1,921,847	31,532,011	0	33,538,982
Short-term loans granted	0	0	0	0	800,000	800,000
Bank deposits	0	0	0	0	25,393,220	25,393,220
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	5,768,874	5,768,874
Total	9,798,345	8,252,924	3,396,211	157,854,126	36,865,090	207,913,774

Sava Reinsurance 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 category 1 (financial assets at fair value through profit or loss) to category 4 (available for sale financial assets). The Company undertook this reclassification in response to changed conditions in capital markets since the Company 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 Company decided to impair all reclassified equities at the year-end. Reclassifications in 2008 thus had no effect on gross profit or loss, but they did affect net profit or loss due to the tax charge for the year, as impairment losses on financial assets and liabilities, unlike revaluation losses associated with financial assets at fair value through profit or loss, are tax non-deductible until disposal of assets. Of the reclassified investments of EUR 1.0m, at 31 December 2010 the Company held only a minor share (EUR 0.2m); other investments had been disposed of. In 2010, the Company did realise EUR 20,616 of net increases in the fair value reserve on existing investments, which would have increased investment income if the Company had not reclassify these investments.

Hierarchical classification of financial investments according to IFRS 7.27

(EUR) 31 Dec 2010	Available-for-sale		
	Level 1	Level 3	Total
Long-term financial assets			
Equity and other variable income securities and mutual funds	18,909,761	6,613,281	25,523,042
Debt securities and other fixed income securities	96,497,431	1,855,522	98,352,952
Short-term financial investments			
Held-for-trading securities or securities with a remaining maturity of less than one year	4,213,605	1,802,536	6,016,140
Total	119,620,796	10,271,338	129,892,133

(EUR) 31 Dec 2009	At fair value through P/L Non-derivative		Available-for-sale		
	Level 1	Total	Level 1	Level 3	Total
Long-term financial assets					
Equity and other variable income securities and mutual funds	0	0	29,632,348	8,905,130	38,537,478
Debt securities and other fixed income securities	0	0	87,784,638	0	87,784,638
Short-term financial investments					
Held-for-trading shares and interests	1,474,364	1,474,364	0	0	0
Held-for-trading securities or securities with a remaining maturity of less than one year	1,921,847	1,921,847	15,293,221	16,238,789	31,532,010
Total	**3,396,211**	**3,396,211**	**132,710,206**	**25,143,919**	**157,854,126**

At 31 December 2010, the Company held no financial assets at fair value through profit or loss. In 2009, this category included investments that the Company purchased through banks and stock brokerage firms under asset management contracts.

Held-for-trading securities and securities with a remaining maturity of less than one year that were in the category available for sale have decreased in 2010 because the Company decreased its investments in certificates of deposit.

Change in available for sale investments – level 3

(EUR) 31 Dec 2010	Available-for-sale – level 3						
	Initial balance	Acquisitions	Sales	Maturity	Impairment losses	Revaluation	Balance at 31 Dec
Long-term financial assets							
Equity and other variable income securities and mutual funds	8,905,130	0	0	0	-2,344,326	52,476	6,613,281
Debt securities and other fixed income securities	0	6,475,247	-4,619,725	0	0	0	1,855,522
Short-term financial investments							
Held-for-trading securities or securities with a remaining maturity of less than one year	16,238,789	7,876,802	-15,703,523	-6,250,000	-359,533	0	1,802,536
Total	25,143,919	14,352,049	-20,323,248	-6,250,000	-2,703,859	52,476	10,271,338

(EUR) 31 Dec 2009	Available-for-sale – level 3					
	Initial balance	Acquisitions	Sales	Maturity	Impairment losses	Balance at 31 Dec
Long-term financial assets						
Equity and other variable income securities and mutual funds	9,387,149	0	0	0	-482,018	8,905,130
Short-term financial investments						
Held-for-trading securities or securities with a remaining maturity of less than one year	12,461,374	46,255,747	-37,459,982	-5,018,351	0	16,238,789
Total	21,848,523	46,255,747	-37,459,982	-5,018,351	-482,018	25,143,919

Financial investments in subordinated debt instruments

Financial investments in subordinated debt instruments totalled EUR 19.6m (2009: EUR 15.3m). The share of these investments increased from 2009 and accounted for 9.1% of the Company's total investments at year-end 2010 (2009: 7.4%).

Loans granted to Group companies

(EUR)	Type of debt instrument	31 Dec 2010	31 Dec 2009
Sava osiguranje	loan	2,000,000	2,000,000
Illyria	loan	800,000	800,000
Sava Montenegro	loan	3,900,000	2,900,000
Total		6,700,000	5,700,000

Debt instruments of associate companies – bonds

(EUR)	Type of debt instrument	31 Dec 2010	31 Dec 2009
Zavarovalnica Maribor	bond	1,512,612	1,512,806

7) Reinsurers' share of technical provisions

(EUR)	31 Dec 2010	31 Dec 2009
Reinsurers' share of unearned premiums	2,264,623	2,199,545
Reinsurers' share of provisions for claims outstanding	15,261,677	22,929,930
Reinsurers' share of other technical provisions	0	18,876
Total	17,526,300	25,148,351

Reinsurers' share of unearned premiums remained largely on the same level, as the retrocession programme in 2010 had the same structure as in 2009. Claims provisions recorded a considerable fall as a result of continued payments relating to the catastrophic hail storm losses of 2008 and 2009 and some older motor liability claims, and the absence of any new major losses that would be retroceded. Other technical provisions include the provision for unexpired risk; a calculation on the retrocession level of the portfolio for 2010 showed that this provision was no longer necessary.

8) Receivables

The majority were receivables arising out of reinsurance contracts invoiced in the fourth quarter of 2010 but falling due only in 2011.

Receivables arising out of reinsurance contracts are not specifically secured. As explained in the notes to the financial statements, section 26.5.5, the Company is not exposed to significant risks as regards these receivables. Receivables have been tested for impairment.

Receivables by type

(EUR)	31 Dec 2010			31 Dec 2009		
	Gross amount	Allowance	Receivables	Gross amount	Allowance	Receivables
Receivables for premiums arising out of reinsurance and co-insurance	52,385,043	-299,483	52,085,560	47,367,227	-193,809	47,173,418
Receivables for shares in claims	5,459,778	-35,115	5,424,663	13,111,011	-39,368	13,071,643
Receivables arising out of reinsurance and co-insurance business	57,844,820	-334,597	57,510,224	60,478,238	-233,177	60,245,061
Current tax assets	0	0	0	3,500,244	0	3,500,244
Receivables for commission	931,320	0	931,320	1,426,801	0	1,426,801
Receivables arising out of investments	83,585	-88	83,497	133,475	-88	133,387
Other receivables	235,684	-86,860	148,824	2,210,931	-1,878,055	332,876
Other receivables	1,250,589	-86,948	1,163,641	3,771,207	-1,878,143	1,893,065
Total	**59,095,410**	**-421,545**	**58,673,864**	**67,749,689**	**-2,111,320**	**65,638,369**

The table gives an aging analysis of receivables; amounts are net of any allowances.

Aging analysis of receivables

(EUR) 31 Dec 2010	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	37,796,902	9,857,803	4,430,855	52,085,560
Receivables for reinsurers' shares in claims	2,814,612	1,244,744	1,365,308	5,424,663
Receivables arising out of reinsurance and co-insurance business	40,611,513	11,102,547	5,796,163	57,510,224
Receivables for commission	906,723	24,598	0	931,320
Short-term receivables arising out of investments	65,047	14,716	3,735	83,497
Other receivables	96,042	96	52,686	148,824
Other receivables	1,067,811	39,409	56,421	1,163,641
Total	**41,679,324**	**11,141,956**	**5,852,584**	**58,673,864**

(EUR) 31 Dec 2009	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	15,309,189	30,698,408	1,165,820	47,173,418
Receivables for reinsurers' shares in claims	7,550,682	4,343,713	1,177,248	13,071,643
Receivables arising out of reinsurance and co-insurance business	22,859,871	35,042,121	2,343,068	60,245,061
Current tax assets	3,500,244	0	0	3,500,244
Other short-term receivables arising out of insurance business	514,496	844,460	67,846	1,426,802
Short-term receivables arising out of investments	10,170	13,843	109,374	133,387
Other receivables	324,473	7,583	820	332,876
Other receivables	849,139	865,886	178,040	1,893,066
Total	**27,209,254**	**35,908,007**	**2,521,108**	**65,638,369**

All receivables are current.

9) Deferred acquisition costs

(EUR)	31 Dec 2010	31 Dec 2009
Deferred commission from inwards reinsurance in Slovenia and abroad	9,760,948	10,730,589
Deferred commission from outwards reinsurance in Slovenia and abroad	-569,147	-466,773
Total	9,191,801	10,263,816

All deferred acquisition costs are current.

10) Other assets

(EUR)	31 Dec 2010	31 Dec 2009
Diverse other assets	175,299	225,689

Other assets mainly include prepaid subscriptions and insurance premiums.

11) Cash and cash equivalents

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

12) Share capital

The General Meeting held in August 2007 amended the Articles of Association of Sava Reinsurance Company to introduce no-par-value shares.

In June 2008, Sava Reinsurance Company increased its share capital through the process of initial public offering. Thus, the Company's called-up capital increased by EUR 6.3m to EUR 39.1m.

The recapitalisation involved the issuance of 1,500,000 new shares. The Company's share capital as at year-end 2010 was thus divided into 9,362,519 shares (the same as at 31 December 2009). All shares are ordinary registered shares of the same class. Their holders are entitled to participate in the Company's control and profits (dividends). Shares are recorded in the Central Securities Clearing Corporation (KDD) under symbol POSR. One of its affiliates also holds Sava Reinsurance Company shares (Zavarovalnica Maribor held 416,433, accounting for a 4.45% stake).

At 31 December 2010, the Company still had EUR 10.1m of authorised capital.

As at year-end 2010, the register of shareholders showed 5,481 shareholders (31 December 2009: 5,712). On 11 June 2008, Sava Reinsurance Company listed in the standard equity market of the Ljubljana Stock Exchange.

Pursuant to a resolution of the General Meeting, the Company did not pay dividends in 2010.

13) Share premium

Upon completion of the initial public offering in June 2008, the Company increased its share premium by EUR 35.7m. The increase in share premium was recognised net of costs directly attributable to the initial public offering of EUR 2.8m. Thus at 31 December 2010, share premium totalled EUR 33.0m.

14) Profit reserves

Reserves provided for by the Articles of Association totalled EUR 11.5 and reached the prescribed amount already in 2006, while legal reserves totalled EUR 3.5 and also were not strengthened in the year.

Profit reserves

(EUR)	31 Dec 2010	31 Dec 2009	distributable/non-distributable
Legal reserves and reserves provided for in the articles of association	14,986,525	14,986,525	non-distributable
Reserve for treasury shares	1,774	1,774	non-distributable
Credit risk equalisation reserve	1,261,187	1,217,874	non-distributable
Catastrophe equalisation reserve	6,126,333	3,868,365	non-distributable
Other profit reserves	60,862,385	59,566,803	distributable
Total	83,238,204	79,641,342	

Reserves provided for by the Articles of Association are used:

- to settle the net loss which cannot be (fully) settled by debiting retained profit and other profit reserves, or the said sources of funds are not sufficient to settle the net loss in full (an instrument of additional protection of the Company's tied capital),
- to increase the share capital from the Company's own funds, and
- to regulate the Company's dividend policy.

In accordance with IFRSs, credit risk equalisation reserves and catastrophe equalisation reserves are shown under profit reserves.

These reserves are established pursuant to the Insurance Act (ZZavar). Thereunder, these reserves are treated as provisions, which are established and used through profit and loss. As these requirements are not consistent with IFRSs, Sava Reinsurance Company carries credit risk equalisation reserves and catastrophe equalisation reserves under profit reserves, and makes additions to and withdrawals from the reserve from profit for the year through the statement of changes in equity. If the financial statements were prepared in line with the Insurance Act, the gross profit for 2010 would be lower by EUR 2.3m or the net amount by EUR 1.8m (2009: larger net loss by EUR 203 thousand).

Since the technical result was positive by a small amount, the credit risk equalisation reserve was increased from EUR 1.2m at the end of 2009 to EUR 1.3m at the end of 2010; the catastrophe equalisation reserve (earthquake) grew from EUR 3.9m to EUR 6.1m as a result of favourable developments.

15) Treasury shares

As at year-end 2010, the Company held 210 treasury shares, which represent a deduction item in equity. In 2010, Sava Reinsurance Company did not make any transactions with treasury shares.

16) Fair value reserve

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

(EUR)	2010	2009
As at 1 January	-1,717,140	-10,570,904
Change in fair value	1,100,546	6,394,814
Transfer from fair value reserve to the IS due to impairment	-4,976,267	-7,523,963
Transfer from fair value reserve to the IS due to disposal	2,825,045	9,982,914
As at 31 December	-2,767,816	-1,717,140

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

17) Net diluted earnings/losses per share

(EUR)	2010	2009
Net earnings/losses for the period	7,193,724	-12,598,645
Weighted number of shares	9,362,519	9,362,519
Net diluted earnings/losses per share	**0.77**	**-1.35**

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

Statement of distributable profit for 2010

(EUR)	2010	2009
Net profit/loss for the year	7,193,724	-12,598,645
Release from profit reserve	0	14,231,780
Additions to other reserves by decision of the Management Board	3,596,862	1,633,134
Distributable profit allocated by the General Meeting	**3,596,862**	**0**

18) Subordinated liabilities

At the end of 2006 and at the beginning of 2007, Sava Reinsurance 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 Dec 2010	31,177,758
Debt currency	EUR
Maturity date	27.12.2026
Conversion into shareholders' equity applicable	n/a
Conversion into other liabilities applicable	n/a

Outstanding debt at effective interest rate as at 31 Dec 2009	31,135,777
Debt currency	EUR
Maturity date	27.12.2026
Conversion into shareholders' equity applicable	n/a
Conversion into other liabilities applicable	n/a

In 2010, the Company paid EUR 1.4m in interest on the subordinated debt (2009: EUR 1.6m), and EUR 69,845 in taxes on the subordinated debt, net of interest paid (2009: EUR 87,189).

19) Technical provisions

Movements in gross technical provisions

(EUR)	1 Jan 2010	Additions	Uses	31 Dec 2010
Gross unearned premiums	44,042,916	40,119,994	42,301,467	41,861,443
Gross provision for outstanding claims	123,869,342	66,618,500	58,994,943	131,492,897
Gross provision for bonuses, rebates and cancellations	226,569	203,540	226,569	203,540
Other gross technical provisions	1,588,018	384,094	1,588,019	384,092
Total	169,726,846	107,326,127	103,110,999	173,941,974

(EUR)	1 Jan 2009	Additions	Uses	31 Dec 2009
Gross unearned premiums	41,967,178	44,042,916	41,967,178	44,042,916
Gross provision for outstanding claims	116,458,980	45,393,853	37,983,491	123,869,342
Gross provision for bonuses, rebates and cancellations	309,973	226,569	309,973	226,569
Other gross technical provisions	572,878	1,588,019	572,879	1,588,018
Total	159,309,009	91,251,357	80,833,520	169,726,846

The fall in the gross unearned premium (5.0%) in 2010 is larger than the drop in gross premiums written (2.9%), which reflects the change in the portfolio structure: due to the 15.9% growth in non-proportional reinsurance business against a 6.2% growth in proportional reinsurance business, the share of the latter in the portfolio structure decreased from 87.8% to 84.5%; no unearned premium is accounted for non-proportional reinsurance business that is renewed at the year-end, which is why total unearned premiums have grown faster than premiums. The mentioned change in the portfolio structure is due to the decrease in quota share reinsurance business from Slovenian cedants and the growth in the foreign-sourced portfolio.

The gross provision for outstanding claims increased by 6.2% in 2010. The gross provision for outstanding claims relating to domestic business decreased by

9.4%, while the claims provision for foreign-sourced business increased by 38.1%. With Slovenian cedants, the decrease in the claims provision is a result of (i) the above mentioned shrinkage of this part of the portfolio, (ii) a favourable year without major loss events, and (iii) the hail storm payments made over the past underwriting years. The relatively larger growth in the claims provision relating to the international portfolio against a 15.9% growth in premium is due to a continuously large growth in premium in this part of the portfolio over the past underwriting years, which is reflected in the claims provision with a delay.

Provisions for bonuses, rebates and cancellations remained relatively low. In these, Sava Reinsurance Company participates through the quota share treaty of Slovenian cedants.

Other technical provisions comprise only the provision for unexpired risks, which decreased by 75.8% in 2010. This decrease is due to the above mentioned favourable loss development in 2010, which lowers the expected combined ratios. Of the classes of business that require such a provision, the expected combined ratio improved in "motor casco" and "ships hull", while it deteriorated in "suretyship". In 2010 it was not necessary to set aside such provisions for the retroceded part of the portfolio.

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

(EUR)	31 Dec 2010		31 Dec 2009	
	Expected combined ratio	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	62.3%	0	63.4%	0
Land vehicles casco	103.4%	192,416	110.5%	685,888
Aircraft hull	60.4%	0	64.4%	0
Ships hull	120.5%	74,983	132.1%	71,170
Goods in transit	85.5%	0	87.1%	0
Fire and natural forces	99.3%	0	103.7%	295,009
Other damage to property	96.4%	0	103.6%	191,235
Motor liability	82.9%	0	95.4%	0
Aircraft liability	54.8%	0	54.8%	0
Liability for ships	68.8%	0	64.0%	0
General liability	94.7%	0	103.5%	22,577
Credit	83.7%	0	115.9%	234,456
Suretyship	313.8%	116,694	298.0%	87,684
Miscellaneous financial loss	55.8%	0	77.8%	0
Legal expenses	5.8%	0	4.8%	0
Assistance	57.9%	0	54.7%	0
Life business	17.0%	0	9.0%	0
Unit-linked life	32.7%	0	26.8%	0
Total	93.6%	384,094	100.1%	1,588,019

Structure of the claims provision

(EUR)	31 Dec 2010	31 Dec 2009
Net IBNR	51,991,542	40,995,445
- gross provision	52,199,428	44,488,421
- reinsurers' share (-)	-207,886	-3,492,976
Net RBNS	64,239,679	59,943,967
- gross provision	79,293,471	79,380,921
- reinsurers' share (-)	-15,053,792	-19,436,954
Net provision for outstanding claims	116,231,221	100,939,412
Total gross provision for outstanding claims	131,492,898	123,869,342
Total reinsurers' share (-)	-15,261,677	-22,929,930
IBNR as% of gross provision for outstanding claims	39.7%	35.9%
IBNR as% of net provision for outstanding claims	44.7%	40.6%

The gross provision for outstanding claims is reported under liabilities; reinsurers' shares are reported under assets.

20) Other provisions

Other provisions comprise only provisions for long-term employee benefits. Assumptions for these provisions are given under heading 26.2.19 Other provisions.

Movements in other provisions

(EUR)	1 Jan 2010	Additions	Uses	Released	31 Dec 2010
Provision for severance pay upon retirement	140,157	24,341	0	84,478	80,020
Provision for jubilee benefits	30,291	7,135	2,417	2,863	32,145
Total	170,448	31,476	2,417	87,341	112,165

(EUR)	1 Jan 2009	Additions	Uses	Released	31 Dec 2009
Provision for severance pay upon retirement	203,021	48,500	71,501	39,863	140,157
Provision for jubilee benefits	23,646	8,951	2,306	0	30,291
Total	226,667	57,451	73,807	39,863	170,448

21) Other financial liabilities

Other financial liabilities comprise liabilities for a bank loan taken up by the Company.

22) Liabilities from operating activities

Operating liabilities comprise liabilities relating to premiums from outwards retrocession business and claims from inwards reinsurance business. Liabilities relate to amounts invoiced in the fourth quarter but falling due only in 2011.

Liabilities from reinsurance and co-insurance business

(EUR)	Maturity	
31 Dec 2010	Up to 1 year	Total
Liabilities for reinsurance premiums	4,680,984	4,680,984
Liabilities for shares in reinsurance claims	25,727,965	25,727,965
Total	30,408,949	30,408,949

(EUR)	Maturity	
31 Dec 2009	Up to 1 year	Total
Liabilities for reinsurance premiums	6,806,112	6,806,112
Liabilities for shares in reinsurance claims	30,539,431	30,539,431
Total	37,345,543	37,345,543

All liabilities are current.

The Company does not have liabilities arising out of co-insurance. Liabilities from operating activities include current tax liabilities of EUR 1.6m.

23) Other liabilities

Other liabilities include liabilities for retained deposits, amounts due to employees and clients, and other payables. Liabilities for insurance business relate to commission invoiced in the fourth quarter but falling due only in 2011.

Other liabilities

(EUR)	Maturity	
31 Dec 2010	Up to 1 year	Total
Other short-term liabilities for insurance business (commission)	12,338,642	12,338,642
Other short-term liabilities	8,986,055	8,986,055
Accrued expenses and deferred income	670,706	670,706
Total	21,995,403	21,995,403

(EUR)	Maturity	
31 Dec 2009	Up to 1 year	Total
Other short-term liabilities for insurance business (commission)	11,487,362	11,487,362
Other short-term liabilities	478,733	478,733
Accrued expenses and deferred income	540,641	540,641
Total	12,506,736	12,506,736

The largest item of short-term liabilities are liabilities for the settlement of the 49% interest in Illyria paid in January 2011.

Change in short-term provisions

(EUR)	1 Jan 2010	Additions	Uses	31 Dec 2010
Short-term accrued costs	31,104	321,340	58,752	293,692
- Auditing costs	31,104	69,120	58,752	41,472
- Accrued labour cost	0	252,220	0	252,220
Other accrued expenses and deferred income	509,537	3,000,808	3,133,332	377,014
- Liabilities for retained deposits	509,537	3,000,808	3,133,332	377,014
Total	540,641	3,322,148	3,192,084	670,706

(EUR)	1 Jan 2009	Additions	Uses	31 Dec 2009
Short-term accrued costs	34,063	78,528	81,487	31,104
- Auditing costs	34,063	78,528	81,487	31,104
Other accrued expenses and deferred income	274,771	2,572,730	2,337,964	509,537
- Liabilities for retained deposits	274,771	2,572,730	2,337,964	509,537
Total	308,834	2,651,258	2,419,451	540,641

26.7 Notes to the financial statements – income statement

24) Net earned premiums

Net earned premiums

(EUR) 2010	Gross premiums written	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	9,612,536	-115,709	581,687	11,357	10,089,870
Land vehicles casco	21,109,828	-3,535,807	1,014,644	-8,278	18,580,387
Aircraft hull	348,786	115	7,978	-1,332	355,548
Ships hull	2,104,229	-159,540	-156,254	-5,844	1,782,591
Goods in transit	3,473,123	-186,659	-57,194	2,172	3,231,443
Fire and natural forces	51,179,725	-9,534,982	-1,518,875	137,419	40,263,288
Other damage to property	26,085,753	-5,400,360	-71,156	59,414	20,673,651
Motor liability	22,719,116	-1,439,796	2,048,684	-55,983	23,272,022
Aircraft liability	185,674	-43,772	1,814	-100	143,616
Liability for ships	283,207	-5,102	6,452	320	284,878
General liability	3,538,608	-564,472	98,891	-2,795	3,070,233
Credit	702,388	0	212,975	0	915,362
Suretyship	199,354	0	-16,713	0	182,640
Miscellaneous financial loss	729,701	-349,256	7,675	-73,788	314,331
Legal expenses	7,379	0	5,613	0	12,991
Assistance	27,992	0	-9,476	0	18,516
Life business	366,204	-179,990	24,728	2,516	213,459
Unit-linked life	188,181	-95,777	0	0	92,404
Total non-life	142,307,398	-21,335,339	2,156,745	62,562	123,191,367
Total life	554,385	-275,767	24,728	2,516	305,863
Total	**142,861,784**	**-21,611,105**	**2,181,473**	**65,078**	**123,497,230**

(EUR) 2009	Gross premiums written	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	11,017,323	-113,474	-283,873	35,240	10,655,216
Land vehicles casco	23,393,421	-3,465,610	-119,387	-15,869	19,792,554
Aircraft hull	415,511	-45,153	-48,367	1,332	323,324
Ships hull	1,385,419	-88,853	1,341	1,654	1,299,562
Goods in transit	3,046,634	-140,690	111,358	221	3,017,523
Fire and natural forces	41,982,426	-9,958,585	-2,459,916	-426,421	29,137,505
Other damage to property	31,810,586	-8,283,471	-296,111	-31,225	23,199,779
Motor liability	26,980,210	-1,737,519	972,532	-72,118	26,143,104
Aircraft liability	390,187	-78,606	2,922	-3,651	310,851
Liability for ships	276,855	-3,650	-3,677	0	269,528
General liability	3,862,107	-665,743	108,934	-45,937	3,259,361
Credit	996,653	-11	-83,010	0	913,632
Suretyship	143,508	-57	32,438	-2,142	173,746
Miscellaneous financial loss	820,029	-480,976	-17,994	43,359	364,418
Legal expenses	16,683	0	843	0	17,526
Assistance	80,198	0	-5,304	0	74,895
Life business	264,069	-192,772	11,534	-33,200	49,630
Unit-linked life	200,512	-105,800	0	0	94,712
Total non-life	146,617,750	-25,062,398	-2,087,272	-515,557	118,952,523
Total life	464,580	-298,573	11,534	-33,200	144,342
Total	**147,082,330**	**-25,360,971**	**-2,075,738**	**-548,757**	**119,096,865**

The above table shows net (re)insurance premiums earned by class of insurance. Net earned premiums are net of the change in unearned premiums, which in 2010 amounted to EUR 2.2m. Sava Reinsurance Company has increased its premium volume: net premiums earned increased by 3.7% compared to 2009. Retroceded reinsurance premiums increased by 14.8% compared to the same period.

25) Investment income and expenses

Investment income, expenses and net investment income by IFRS categories

Investment income

(EUR) 2010	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Dividend income	0	27,559	0	0	117,379	0	0	0	144,938
Interest income	552,268	45,929	0	0	4,399,438	1,433,679	0	0	6,431,313
Change in fair value	0	121,749	0	0	209,769	0	0	0	331,518
Other financial income	0	0	0	0	199,178	0	85,738	0	284,916
Gains on disposal of investments	0	256,035	0	0	2,382,442	0	0	0	2,638,478
Total	552,268	451,272	0	0	7,308,207	1,433,679	85,738	0	9,831,163

Expenses for financial assets and liabilities

(EUR) 2010	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Interest expenses	0	0	0	0	0	104,978	0	1,438,890	1,543,868
Other financial expenses	0	36,779	0	0	94,272	0	12,324	0	143,376
Impairment of financial assets and liabilities	1,535,563	0	0	0	3,440,704	0	0	0	4,976,267
Losses on disposal of investments	0	375,025	0	0	244,342	0	0	0	619,367
Total	1,535,563	411,805	0	0	3,779,319	104,978	12,324	1,438,890	7,282,878

Net investment income

(EUR) 2010	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Dividend income	0	27,559	0	0	117,379	0	0	0	144,938
Interest income/ expense	552,268	45,929	0	0	4,399,438	1,328,701	0	-1,438,890	4,887,446
Change in fair value	-1,535,563	121,749	0	0	-3,230,936	0	0	0	-4,644,750
Other financial income/expenses	0	-36,779	0	0	104,906	0	73,414	0	141,540
Gains/losses on disposal of investments	0	-118,990	0	0	2,138,100	0	0	0	2,019,110
Total	-983,295	39,467	0	0	3,528,888	1,328,701	73,414	-1,438,890	2,548,285

Investment income by IFRS categories

(EUR) 2009	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Dividend income	0	25,815	0	0	730,438	0	0	0	756,253
Interest income	612,408	0	70,145	0	3,979,547	1,406,994	0	0	6,069,093
Change in fair value	0	43,210	0	0	178,782	73,452	0	0	295,444
Other financial income	0	7,243	0	0	0	0	136,208	0	143,451
Gains on disposal of investments	0	601,977	0	0	4,700,714	0	0	0	5,302,692
Total	612,408	678,246	70,145	0	9,589,481	1,480,446	136,208	0	12,566,932

Expenses for financial assets and liabilities

(EUR) 2009	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Interest expenses	0	0	0	5,394	0	181,068	0	1,739,954	1,926,416
Other financial expenses	0	4,439	0	0	100,854	0	17,424	0	122,717
Impairment of financial assets and liabilities	0	51,322	0	0	7,754,836	51,351	0	0	7,857,510
Losses on disposal of investments	0	401,006	0	0	8,653,692	0	0	0	9,054,698
Total	0	456,767	0	5,394	16,509,383	232,419	17,424	1,739,954	18,961,340

Net investment income

(EUR) 2009	Held-to-maturity	At fair value through P/L			Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
		Non-derivative		Derivatives					
		Held for trading	Designated as at fair value through P/L						
Dividend income	0	25,815	0	0	730,438	0	0	0	756,253
Interest income/ expense	612,408	0	70,145	-5,394	3,979,547	1,225,926	0	-1,739,954	4,142,678
Change in fair value	0	-8,112	0	0	-7,576,055	22,101	0	0	-7,562,065
Other financial income/expenses	0	2,804	0	0	-100,854	0	118,784	0	20,734
Gains/losses on disposal of investments	0	200,971	0	0	-3,952,978	0	0	0	-3,752,006
Total	612,408	221,479	70,145	-5,394	-6,919,901	1,248,027	118,784	-1,739,954	-6,394,408

In 2010, investment income totalled EUR 9.8m, EUR 2.7m less than in 2009. The decrease is largely attributable to the decrease in gains on the disposal of investments.

In 2010, investment expenses were EUR 7.3m, which is EUR 11.7m less than in 2009. The decrease in expenses is a result of a decrease in expenses from losses on the disposal of investments.

Investment income and expenses by source of funds

The Company records investment income and expenses separately depending on whether they relate to the capital fund or the liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions.

Investment income – non-life business

(EUR)	Liability fund	Liability fund
	2010	2009
Dividend income	54,414	93,253
Interest income	4,220,340	3,897,391
Change in fair value	331,518	295,444
Other financial income	100,161	7,243
Gains on disposal of investments	1,251,968	1,844,146
Total investment income - liability fund	5,958,401	6,137,478
	Capital fund	Capital fund
	2010	2009
Dividend income	90,524	662,999
Interest income	2,210,974	2,171,701
Other income	184,754	136,208
Gains on disposal of investments	1,386,510	3,458,546
Total investment income - capital fund	3,872,763	6,429,454
Total investment income	**9,831,163**	**12,566,932**

Investment expenses – non-life business

(EUR)	Liability fund	Liability fund
	2010	2009
Interest expenses	6,934	140,870
Other financial expenses	108,942	60,767
Change in fair value	1,958,049	587,229
Losses on disposal of investments	507,746	2,576,376
Total investment expenses - liability fund	2,581,671	3,365,243
	Capital fund	Capital fund
	2010	2009
Interest expenses	1,536,934	1,785,546
Other financial expenses	34,434	61,950
Change in fair value	3,018,218	7,270,280
Losses on disposal of investments	111,621	6,478,322
Total investment expenses - capital fund	4,701,207	15,596,098
Total investment expenses	7,282,878	18,961,340
Net investment income	**2,548,285**	**-6,394,408**

Impairment of investments

Impairment losses on bonds and CDs are a result of bankruptcy proceedings initiated against the company Poteza Naložbe and the initiation of compulsory settlement proceedings against the company Poteza Skupina. Impairment losses on shares also include those relating to subsidiaries of EUR 0.4m as set out in note 5. These impairment losses amounted to EUR 5.7m in 2009.

(EUR)	31 Dec 2010	31 Dec 2009
Bonds	1,994,396	895,194
Shares	2,960,538	6,577,585
Mutual funds	21,333	0
Loans	0	51,184
Total	**4,976,267**	**7,523,963**

26) Other technical income

This item includes reinsurance commission income.

Commission income net of deferred acquisition costs attributable to reinsurers

(EUR)	2010	2009
Personal accident	26,372	16,554
Land vehicles casco	128,926	173,009
Aircraft hull	1,988	5,417
Ships hull	10,936	7,252
Goods in transit	17,952	5,524
Fire and natural forces	1,268,506	1,972,502
Other damage to property	472,237	1,791,110
Motor liability	133,595	179,988
Aircraft liability	5,365	14,965
Liability for ships	-1	1
General liability	40,659	77,243
Miscellaneous financial loss	12,212	119,747
Life business	38,976	66,609
Unit-linked life	4,172	7,500
Total non-life	2,118,746	4,363,312
Total life	43,148	74,110
Total	**2,161,895**	**4,437,421**

In addition to reinsurance commission, this item also includes diverse other technical income of EUR 2.6m (2009: EUR 1.1m), resulting in total technical income of EUR 4.7m (2009: EUR 5.5m).

27) Other income

In 2010 other income included income from releases from provisions for jubilee benefits and severance pay upon retirement of EUR 87,341 and income from collected bad debts written-off totalling EUR 98. In 2009 such releases totalled EUR 39,872.

28) Net claims incurred

Net claims incurred

(EUR) 2010	Gross amount		Reinsurers' share (-)	Change in gross claims provision (+/-)	Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	Net claims incurred
	Gross claims paid excl. recourse receivables	Recourse receivables				
Personal accident	4,156,706	0	-4,695	-321,576	479	3,830,914
Land vehicles casco	16,627,403	-467,136	-1,512,931	-1,948,039	1,417,982	14,117,278
Aircraft hull	43,579	0	-60	161,659	15,898	221,076
Ships hull	1,737,237	0	-62,460	-303,127	-2,569	1,369,081
Goods in transit	2,010,994	-11,823	-134	-8,194	177,021	2,167,864
Fire and natural forces	21,362,132	-16,291	-5,629,244	10,866,732	2,131,617	28,714,945
Other damage to property	14,948,298	-9,746	-2,996,397	-2,164,137	1,778,748	11,556,767
Motor liability	14,918,479	-510,144	-2,342,829	4,169	1,709,763	13,779,438
Aircraft liability	27,903	0	-1,436	-56,480	5,530	-24,484
Liability for ships	49,199	0	-17	146,146	-102	195,226
General liability	1,806,892	-5,521	-15,816	1,468,334	-59,412	3,194,477
Credit	1,711,253	-694,190	0	-374,099	0	642,964
Suretyship	140,265	-23,011	0	65,505	0	182,759
Miscellaneous financial loss	171,850	0	983,228	49,634	552,345	1,757,057
Legal expenses	179	0	0	0	0	179
Assistance	20,375	0	0	-11,984	0	8,391
Life business	55,925	0	-34,642	35,556	-59,046	-2,207
Unit-linked life	42,067	0	-27,132	13,457	0	28,393
Total non-life	79,732,742	-1,737,862	-11,582,792	7,574,543	7,727,299	81,713,930
Total life	97,993	0	-61,774	49,013	-59,046	26,186
Total	79,830,734	-1,737,862	-11,644,566	7,623,557	7,668,253	81,740,116

(EUR) 2009	Gross amount		Reinsurers' share (-)	Change in gross claims provision (+/-)	Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	Net claims incurred
	Gross claims paid excl. recourse receivables	Recourse receivables				
Personal accident	4,047,495	0	-14,254	840,480	-7,058	4,866,662
Land vehicles casco	23,544,378	-406,726	-7,660,266	-1,874,412	3,847,988	17,450,962
Aircraft hull	131,312	0	-3,583	10,419	18,576	156,725
Ships hull	908,335	0	-30,650	1,227,023	9,119	2,113,828
Goods in transit	1,571,250	-11,837	-144	280,336	-151,940	1,687,664
Fire and natural forces	26,863,732	-4,146	-11,784,084	-276,996	6,293,894	21,092,400
Other damage to property	24,318,633	-42,675	-6,842,052	5,571,367	1,450,195	24,455,469
Motor liability	16,274,457	-625,662	-2,071,093	866,548	138,469	14,582,719
Aircraft liability	118,622	0	-8,270	160,946	39,749	311,047
Liability for ships	43,563	0	0	-68,731	-789	-25,957
General liability	2,110,110	-3,876	-79,519	501,843	441,860	2,970,418
Credit	1,780,688	-694,079	0	86,486	0	1,173,095
Suretyship	199,673	-37,010	0	280,536	0	443,199
Miscellaneous financial loss	592,688	0	-1,392,683	-155,096	-124,612	-1,079,702
Legal expenses	0	0	0	-124	0	-124
Assistance	19,011	0	0	2,625	0	21,636
Life business	69,565	0	-23,851	-42,978	20,500	23,236
Unit-linked life	40,459	0	-26,038	89	0	14,510
Total non-life	102,523,948	-1,826,010	-29,886,598	7,453,250	11,955,452	90,220,042
Total life	110,024	0	-49,889	-42,889	20,500	37,746
Total	**102,633,972**	**-1,826,010**	**-29,936,487**	**7,410,362**	**11,975,952**	**90,257,788**

The above tables show (columns from left to right) gross claims paid net of gross recourse receivables. This column is followed by claims recovered from retrocessionaires. In addition, net claims incurred include the change in the claims provision (both retained and retroceded).

Gross claims paid were 22.5% below the 2009 figure. Reinsurers' share of claims paid were 61.1% lower, while the change in the claims provision decreased by 21.1%, which also affects net claims incurred.

29) Change in other technical provisions

In 2009, releases from other net technical provisions were made in the amount of EUR 1.2m (2009: additions of EUR 949,348). The figures for both years relate to changes in the net provision for unexpired risks.

30) Expenses for bonuses and rebates

In 2010 the change in the provision for bonuses and rebates was EUR 23,029.

31) Operating expenses

The Company classifies operating expenses by nature. Compared to 2009, operating expenses decreased by 1.4%.

Breakdown of operating expenses

(EUR)	2010	2009
Acquisition costs (commissions)	31,939,417	34,031,527
Change in deferred acquisition costs	969,641	-379,669
Depreciation of operating assets	176,706	150,478
Labour costs	4,551,381	4,422,217
Salaries and wages	3,311,861	3,210,342
Social and pension insurance costs	593,128	589,721
Other labour costs	646,392	622,154
Remuneration of the Supervisory Board and Audit Committee, and payments under contracts for services	46,557	98,768
Other operating expenses	1,645,963	1,552,764
Entertainment, advertising, exhibition costs	63,573	139,243
Material and energy costs	153,361	151,863
Maintenance costs	15,587	14,789
Reimbursement of work-related costs	173,588	152,068
Costs of intellectual and personal services	463,199	350,309
Taxes, levies and charges independent of profit or loss, except for insurance	181,892	278,407
Transport and communication costs	55,038	56,707
Insurance costs	89,573	106,783
Expenses incurred in payment transactions and in bank services	52,855	52,131
Rentals and leases	7,822	7,485
Training costs	32,955	15,308
Other service costs	356,519	227,671
Total	39,329,664	39,876,086

Other operating expenses net of acquisition costs (commissions) and changes in deferred acquisition costs (commissions) represented an increased 4.5% share of gross premiums written in 2010 (2009: 4.2%).

In 2010, auditing costs totalled EUR 81,489 (2009: EUR 79,644).

Acquisition costs

(EUR)	2010	2009
Personal accident	2,564,340	3,546,138
Land vehicles casco	4,406,524	4,835,906
Aircraft hull	46,847	46,069
Ships hull	303,110	187,343
Goods in transit	702,400	603,706
Fire and natural forces	11,609,033	9,952,815
Other damage to property	5,746,861	7,276,465
Motor liability	5,199,489	6,059,925
Aircraft liability	97,776	82,682
Liability for ships	57,732	49,974
General liability	693,075	773,366
Credit	158,796	255,540
Suretyship	72,104	48,179
Miscellaneous financial loss	172,516	202,099
Legal expenses	1,771	4,354
Assistance	9,287	23,702
Life business	88,081	66,334
Unit-linked life	9,673	16,932
Total non-life	31,841,663	33,948,261
Total life	97,754	83,266
Total	**31,939,417**	**34,031,527**

Change in deferred acquisition costs

(EUR)	2010	2009
Personal accident	336,925	-121,407
Land vehicles casco	175,200	42,994
Aircraft hull	-14,047	-469
Ships hull	-12,082	-25,623
Goods in transit	-25,983	25,569
Fire and natural forces	-367,684	-548,982
Other damage to property	366,198	-534
Motor liability	421,717	172,767
Aircraft liability	86	427
Liability for ships	2,897	3,252
General liability	2,648	76,738
Credit	75,693	-18,569
Suretyship	-6,435	10,163
Miscellaneous financial loss	1,482	-5,794
Legal expenses	1,347	1,388
Assistance	1,806	941
Life business	9,872	7,470
Total non-life	959,769	-387,139
Total life	9,872	7,470
Total	**969,641**	**-379,669**

32) Other technical expenses

Other technical expenses comprise fees payable to the Insurance Supervision Agency and the Slovenian Insurance Association, as well as other technical expenses relating to non-life business.

33) Other expenses

Other expenses comprise expenses that cannot be classified as technical expenses. In 2010, these amounted to only EUR 166.

34) Income tax expense

Income tax expense

(EUR)	2010	2009
Current tax for the year	1,588,814	0
Income tax expense as recognised in the IS	1,588,814	0
Income from deferred tax arising from a previously unrecognised tax loss	0	-667,546
Income from deferred tax arising from a previously unrecognised tax credit	0	-3,164,951
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	64,011	2,425,583
Total deferred tax	64,011	-1,406,914
Total income tax expense in the income statement	1,652,825	-1,406,914

Deferred tax recognised in equity

(EUR)	2010			2009		
Income tax expense recognised in comprehensive income	Before tax	Income tax on other comprehensive income	After tax	Before tax	Income tax on other comprehensive income	After tax
Net gains/losses from non-current assets available for sale	-1,313,345	262,669	-1,050,676	11,067,204	2,213,441	8,853,763

Reconciliation of tax rate

(EUR)	2010		2009	
	%	Amount	%	Amount
Net profit/loss for the year	-	7,193,724	-	-12,598,645
Income tax expense	-	-1,652,825	-	-1,406,914
Profit/loss before tax	-	8,846,549	-	-14,005,559
Income tax expenses at statutory tax rate	20.00%	1,769,310	21%	-2,941,167
Non-deductible expenses	11.71%	1,036,042	-12.66%	1,691,267
Tax exempt income	-6.51%	-576,282	15.06%	-2,101,724
Income increasing the tax base	-		-21.53%	2,801,574
Tax incentives	-7.24%	-640,256	0.08%	-117,495
Income from deferred tax arising from a previously unrecognised tax credit	0.00%	0	24.05%	-3,164,951
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	0.72%	64,011	-17.61%	2,425,583
Total income tax expense in the income statement	18.68%	1,652,825	10.05%	-1,406,914

26.8 Notes to the financial statements – cash flow statement

35) Notes to the cash flow statement

The positive cash flow from operating activities in 2010 is mainly a result of the favourable claims development in the Slovenian portfolio, lower net operating expenses and especially lower investment expenses. Additional positive effects came from the positive change in receivables arising out of reinsurance and the positive change in relation to debt.

The table below presents items of the income statement not included in cash flow nor presented in other parts of the cash flow statement (other than in cash flow from operating activities).

(EUR)	2010	2009
Net profit/loss for the year	**7,193,724**	**-12,598,645**
Non-monetary items of the income statement not included in the cash flow statement	**13,006,555**	**22,730,965**
- change in unearned premiums	-2,246,551	2,624,495
- change in the provision for outstanding claims	15,291,810	19,386,313
- change in other technical provisions	-1,185,050	949,348
- operating expenses - amortisation/depreciation and change in deferred acquisition cost	1,146,346	-229,191
Eliminated investment income items	**-6,576,252**	**-6,825,346**
- interest received disclosed under B. a.) 1.	-6,431,314	-6,069,093
- cash receipts from dividends and participation in the profit of others disclosed under B. a.) 2.	-144,938	-756,253
Eliminated investment expense items	**1,543,868**	**1,926,416**
- interest paid disclosed under C. b.) 1.	1,543,868	1,926,416
Cash flows from operating activities - income statement items	**15,167,895**	**5,233,391**

26.9 Contingent receivables and liabilities

Based on a contract with the former owner of Velebit osiguranje and Velebit životno osiguranje, the Company recognises a contingent liability due to the former owner of both companies but also a contingent receivable to the non-controlling interest in both subsidiaries for the transfer of the lien on shares. The contingent liability in this regard is estimated at EUR 1.1m.

26.10 Related party disclosures

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

- owners and related enterprises;
- Management and Supervisory Board members and employees not subject to the tariff section of the collective agreement;
- subsidiary companies;
- associate companies.

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

Owners and related enterprises

The Company does not have business relationships with its largest shareholder, the Slovenian Restitution Fund.

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)	2010	2009
Management Board	504,640	515,665
Supervisory Board	27,532	47,323
Payments under individual employment contracts	1,961,106	2,284,196
Auditing committee	12,745	17,442
Total	2,506,023	2,864,625

Remuneration paid to Management Board members in 2010

(EUR)	Gross salary - fixed amount	Gross salary - variable amount	In-kind-benefits – insurance premium	In-kind benefits – use of company car	Total
Zvonko Ivanušič	172,517	0	6,219	6,963	185,699
Jošt Dolničar	145,261	0	5,140	3,622	154,023
Srečko Čebron	157,266	0	5,333	2,320	164,919
Total	475,043	0	16,691	12,904	504,640

Liabilities to Management Board members

(EUR)	31 Dec 2010	31 Dec 2009
Zvonko Ivanušič	6,817	6,723
Jošt Dolničar	5,279	5,413
Srečko Čebron	6,561	6,511
Total	18,657	18,647

At 31 December 2010 the Company had no liabilities to its Management Board members.

Remuneration paid to members of the Supervisory Board and the Auditing Committee in 2010

(EUR)		Attendance fees	Expenses reimbursed	Perks	Total
Supervisory Board members					
Branko Tomažič	Chairman of the Supervisory Board	5,148	3,475	0	8,623
Mateja Lovšin Herič	Deputy Chairperson of the Supervisory Board	4,290	29	0	4,318
Mateja Treven	Member of the Supervisory Board	3,300	42	0	3,342
Slaven Mićković	Member of the Supervisory Board	3,300	29	0	3,329
Aleš Mirnik	Member of the Supervisory Board	3,960	0	0	3,960
Nada Zidar	Member of the Supervisory Board	3,960	0	0	3,960
Total Supervisory Board members		23,957	3,574	0	27,532
Auditing Committee members					
Mateja Treven	Chairperson of the AC	3,003	0	0	3,003
Slaven Mićković	Member of the AC	1,650	0	0	1,650
Mateja Lovšin Herič	Member of the AC	2,409	0	0	2,409
Blanka Vezjak	Member of the AC	4,620	1,064	0	5,683
Total Auditing Committee members		11,682	1,064	0	12,745

At 31 December 2010 the Company had no liabilities to nor receivables due from any member of the Supervisory Board or Audit Committee.

(EUR)	Gross salary - fixed amount	Gross salary - variable amount	In-kind and other benefits	Total
Individual employment contracts	1,840,193	30,230	90,683	1,961,106

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Subsidiary companies

Investments in and amounts due from Group companies

Investments in and amounts due from Group companies

(EUR)		31 Dec 2010	31 Dec 2009
Debt securities and loans granted to Group companies	gross	6,700,000	5,750,000
	impairment loss	0	-50,000
	net	6,700,000	5,700,000
Receivables for premiums arising out of reinsurance assumed	gross	8,580,005	7,768,452
	impairment loss	0	0
	net	8,580,005	7,768,452
Short-term receivables arising out of investments	gross	61,255	7,293
	impairment loss	0	0
	net	61,255	7,293
Other short-term receivables arising out of insurance business	gross	0	69,060
	impairment loss	0	0
	net	0	69,060
Total		15,341,260	13,544,805

Liabilities to Group companies

Liabilities to Group companies

(EUR)	31 Dec 2010	31 Dec 2009
Liabilities for shares in reinsurance claims	4,570,127	4,364,252
Other short-term liabilities	1,683,116	1,673,815
Total (net of provisions)	6,253,243	6,038,067

Liabilities to affiliated companies by maturity

(EUR)	Maturity	
As at 31 Dec 2010	Up to 1 year	Total
Liabilities for shares in reinsurance claims	4,570,127	4,570,127
Other short-term liabilities	1,683,116	1,683,116
Total (net of provisions)	6,253,243	6,253,243

Liabilities to affiliated companies by maturity

(EUR)	Maturity	
As at 31 Dec 2009	Up to 1 year	Total
Liabilities for shares in reinsurance claims	4,364,252	4,364,252
Other short-term liabilities	1,673,815	1,673,815
Total (net of provisions)	6,038,067	6,038,067

Income from and expenses for transactions with Group companies

Income from and expenses for transactions with Group companies

(EUR)	2010	2009
Gross premiums written	21,872,461	26,541,377
Gross claims paid	-14,327,856	-14,848,663
Income from recourse receivables	448,295	409,782
Other operating expenses	51,512	-75,567
Other investment income	29,025	38,700
Interest income	223,057	158,450
Acquisition costs	-4,735,981	-6,623,498
Other non-life income	55,144	14,293

Associate companies

Investments in and amounts due from associates

(EUR)		31 Dec 2010	31 Dec 2009
Debt securities and loans granted to Group companies	gross	1,512,612	1,512,807
	impairment loss	0	0
	net	1,512,612	1,512,807
Receivables from policyholders	gross	0	2,276
	impairment loss	0	0
	net	0	2,276
Receivables for premiums arising out of reinsurance assumed	gross	10,405,032	13,477,236
	impairment loss	0	0
	net	10,405,032	13,477,236
Short-term receivables arising out of investments	gross	0	115,508
	impairment loss	0	0
	net	0	115,508
Total		11,917,645	15,105,551

Liabilities to associates

(EUR)	31 Dec 2010	31 Dec 2009
Liabilities for shares in reinsurance claims	8,876,223	16,697,324
Other short-term liabilities	2,454,283	2,930,002

Income from and expenses for associate companies

(EUR)	2010	2009
Gross premiums written	51,124,634	58,789,684
Gross claims paid	31,679,708	54,571,313
Income from recourse receivables	-1,126,104	-1,385,760
Interest income	113,871	113,885
Acquisition costs	-10,218,143	-6,623,498
Income from shares in associates	0	-86,784
Additional pension insurance premium	59,527	58,615

Characteristics of debt instruments of affiliated companies

Bond issued by Zavarovalnica Maribor:

- subordinated bond; issue amount: EUR 7,000,000; principal repayment: on maturity
- interest rate: 7.5%
- interest payable on 25 February, 25 May, 25 August, 25 November
- maturity date: 25 August 2015

Loans granted to Sava osiguranje:

1. loan in the amount of EUR 500,000:

- principal repayment: on maturity
- interest rate: 6-month Euribor + 105 basis points (act/360)
- loan draw-down date: 21 May 2007
- interest payable on 1 June and 1 December
- maturity date: 1 June 2015
- the debtor has the right to partial or full early repayment by giving two days notice to the creditor.

2. loan in the amount of EUR 1,500,000:

- principal repayment: on maturity
- interest rate: 4.0%, interest calculation act/360
- loan draw-down date: 29 December 2010
- interest payable monthly
- maturity date: 30 December 2011

Loans granted to Illyria:

1. Loan in the amount of EUR 400,000:

- principal repayment: on maturity
- interest rate: 4.5% (interest rate changed from 7% by annex)
- loan draw-down date: 22 April 2009
- interest payable at maturity
- maturity date 17 January 2011 (maturity date changed from 22 April 2010 by annex)
- the debtor has the right to partial or full early repayment by giving two days notice to the creditor.

2. Loan in the amount of EUR 400,000:

- principal repayment: on maturity
- interest rate: 4.5% (interest rate changed from 5% by annex)
- loan draw-down date: 24 November 2009
- interest payable at maturity
- maturity date 31 January 2011 (maturity date changed from 20 January 2010 by annex)
- the debtor has the right to partial or full early repayment by giving two days notice to the creditor.

Loans granted to Sava Montenegro:

1. Loan in the amount of EUR 2,900,000:

- principal repayment: on maturity
- interest rate: 3-month Euribor + 2.6%
- loan draw-down date: 4 August 2009
- interest payable quarterly:
- maturity date: 3 June 2012
- the debtor has the right to partial or full early repayment by giving five days notice to the creditor.

2. Loan in the amount of EUR 1,000,000:

- principal repayment: on maturity
- interest rate: 4%
- loan draw-down date: 1 December 2010
- interest payable quarterly:
- maturity date: 1 December 2013
- the debtor has the right to partial or full early repayment by giving five days notice to the creditor.

27 Significant Events after the Reporting Date

- On 31 January 2011, the controlling company received a request from the Securities Market Agency that the companies:
  - Zavarovalnica Triglav, d.d., Miklošičeva cesta 19, Ljubljana,
  - Slovenska odškodninska družba, d.d., Mala ulica 5, Ljubljana,
  - Nova kreditna banka Maribor, d.d., Vita Kraigherja 4, Maribor,
  - Aerodrom Ljubljana, d.d., Zgornji Brnik 130A, Brnik-Aerodrom,

  being shareholders of the controlling company, who are deemed to act in concert, issue a statement on the facts and circumstances relevant for the decision of the Securities Market Agency relating to a potential obligation on behalf of the listed companies to make a takeover bid for POSR shares in accordance with the Takeover Act. Pozavarovalnica Sava, being the target company in the proceedings, has examined the request and issued a statement within the given time limit. At the time of preparing this report, the Securities Market Agency has yet to conclude the proceedings.

- Pursuant to the decision of the Supervisory Board of 5 October 2010 and on the basis of the licence issued by the Insurance Supervision Agency, on 3 February 2011, for performing the function of Management Board Member, Mateja Treven started her 5-year term of office as Management Board Member in the controlling company on 3 February 2011.

- At the beginning of February 2011, the controlling company recapitalised the subsidiary Sava životno osiguranje (Serbia) with EUR 320 thousand.

- At the end of February, the controlling company received a claim from the designers of its former logo in the amount of EUR 450 thousand. The proceedings have not been concluded by the time of preparing this report but the controlling company does not expect any financial obligations in this regard.

- In mid March 2011, the controlling company adopted a resolution to recapitalise its subsidiary Sava Tabak (Macedonia) with EUR 2.5m.

- Furthermore, at the end of March 2011, the controlling company adopted a resolution to recapitalise its subsidiary Velebit usluge (Croatia) with EUR 1.5m.

We brace for change
before change sets in.
This is the only way to achieve excellence.

Appendix

Appendix A – Financial statements of Sava Reinsurance Company pursuant to requirements of the Insurance Supervision Agency

Statement of financial position – assets

(EUR)	31 Dec 2010	31 Dec 2009	Index
ASSETS (A–F)	418,350,613	404,105,056	103.5
A. INTANGIBLE ASSETS, DEFERRED COSTS AND ACCRUED INCOME	**178,615**	**181,818**	**98.2**
1. Intangible assets	162,980	168,042	97.0
4. Other long-term deferred expenses and accrued income	15,635	13,776	113.5
B. LAND AND BUILDINGS AND FINANCIAL INVESTMENTS	**347,406,560**	**325,197,695**	**106.8**
I. LAND AND BUILDINGS	2,130,496	2,698,968	78.9
a.) directly used in insurance activities	1,969,576	1,454,082	135.5
1. Land directly used in insurance activities	141,580	103,949	136.2
2. Buildings directly used in insurance activities	1,827,996	1,350,133	135.4
b.) Land and buildings not direcly used in insurance activities	160,920	1,244,886	12.9
1. Land	15,065	52,695	28.6
2. Buildings	145,855	1,192,191	12.2
II. FINANCIAL INVESTMENTS IN GROUP COMPANIES AND IN ASSOCIATES	114,448,967	96,649,409	118.4
1. Shares and participating interests in Group companies	85,306,872	68,507,119	124.5
2. Debt securities and loans granted to Group companies	6,700,000	5,700,000	117.5
3. Shares and interests in associates	20,929,483	20,929,483	100.0
4. Debt securities and loans granted to associates	1,512,612	1,512,807	100.0
III. OTHER FINANCIAL INVESTMENTS	205,895,168	194,932,093	105.6
1. Long-term financial assets	131,006,108	134,525,527	97.4
1.1. Equity and other variable income securities and mutual funds	25,523,041	38,537,478	66.2
1.2. Debt securities and other fixed income securities	103,466,660	95,985,052	107.8
1.5. Other loans granted	2,331	2,997	77.8
1.6. Bank deposits	2,014,076	0	0.0
2. Short-term financial investments	74,889,060	60,406,566	124.0
2.1. Held-for-trading shares and interests	0	1,474,364	0.0
2.2. Held-for-trading securities or securities with a remaining maturity of less than one year	7,557,964	33,538,982	22.5
2.4. Short-term deposits with banks	67,331,096	25,393,220	265.2
IV. Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,405,629	5,768,874	128.4
VI. TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS AND CO-INSURERS (separate item for co-insurance)	17,526,300	25,148,351	69.7
A. From unearned premiums	2,264,623	2,199,545	103.0
C. From provisions for claims outstanding	15,261,677	22,929,930	66.6
E. From other technical provisions	0	18,876	0.0
D. RECEIVABLES	**60,747,552**	**67,751,051**	**89.7**
II. Receivables arising out of co-insurance and reinsurance business	57,510,223	60,245,061	95.5
2. Receivables for premiums arising out of reinsurance assumed	52,085,560	47,173,418	110.4
2.1 Receivables due from Group companies	8,580,001	7,768,452	110.5
2.2 Receivables due from associates	10,405,032	13,477,236	77.2
2.3 Receivables due from others	33,100,527	25,927,730	127.7
4. Receivables for reinsurers' shares in claims	5,424,663	13,071,643	41.5
4.3 Receivables due from others	5,424,663	13,071,643	41.5

(EUR)	31 Dec 2010	31 Dec 2009	Index
III. OTHER RECEIVABLES AND DEFERRED TAX ASSETS	3,237,329	7,505,990	43.1
1. Receivables for advances for intangible assets	68,640	0	0.0
1.3 Receivables due from others	68,640	0	0.0
2. Other short-term receivables arising out of insurance business	931,320	1,426,801	65.3
2.3 Receivables due from others	931,320	1,426,801	65.3
3. Short-term receivables arising out of investments	83,497	133,387	62.6
3.1 Receivables due from Group companies	61,255	7,294	0.0
3.3 Receivables due from others	22,242	126,093	17.6
4. Other short-term receivables	80,184	133,854	59.9
4.1 Receivables due from Group companies	0	69,060	0.0
4.3 Receivables due from others	80,184	64,794	123.8
5. Long-term receivables	0	199,022	0.0
5.3 Receivables due from others	0	199,022	0.0
6. Tax assets (income tax)	0	3,500,244	0.0
7. Deferred tax assets	2,073,687	2,112,682	98.2
E. SUNDRY ASSETS	650,786	484,988	134.2
I. PROPERTY AND EQUIPMENT OTHER THAN LAND AND BUILDINGS	481,593	354,546	135.8
1. Equipment	433,591	304,974	142.2
2. Other property and equipment	48,002	49,572	96.8
II. Cash and cash equivalents	169,193	130,442	129.7
F. SHORT-TERM ACCRUED INCOME AND DEFERRED EXPENSES	9,367,100	10,489,504	89.3
1. Accrued interest and rent	0	88	0.0
2. Short-term deferred acquisition costs	9,191,801	0	0.0
2.1 Short-term deferred costs due to Group companies	1,844,727	0	0.0
2.2 Short-term deferred costs due to associated companies	4,103,706	0	0.0
2.3 Short-term deferred costs due to others	3,243,368	0	0.0
3. Other short-term accrued income and deferred expenses	175,299	10,489,416	1.7
H. OFF BALANCE SHEET ITEMS	5,041,677	3,965,753	127.1

Statement of financial position – liabilities

(EUR)	31 Dec 2010	31 Dec 2009	Index
EQUITY AND LIABILITIES (A–H)	418,350,613	404,105,056	103.5
A. EQUITY	**156,138,328**	**149,995,279**	**104.1**
I. CALLED-UP CAPITAL	39,069,099	39,069,099	100.0
1. Basic capital	39,069,099	39,069,099	100.0
II. SHARE PREMIUM	33,003,752	33,003,752	100.0
III. PROFIT RESERVES	83,236,430	79,639,568	104.5
2. Legal reserves and reserves provided for in the articles of association	14,986,525	14,986,525	100.0
3. Reserves for treasury shares and own interests	1,774	1,774	100.0
4. Treasury shares and own interests (deduction item)	-1,774	-1,774	100.0
5. Credit risk equalisation reserve	1,261,187	1,217,874	103.6
6. Catastrophe equalisation reserve	6,126,333	3,868,365	158.4
7. Other profit reserves	60,862,385	0	-
IV. FAIR VALUE RESERVE	-2,767,816	-1,717,140	161.2
2. Fair value reserve relating to long-term financial investments	-2,767,816	-1,717,140	161.2
V. RETAINED EARNINGS	0	59,566,803	-
VI. NET PROFIT/LOSS FOR THE YEAR	3,596,862	0	-
B. SUBORDINATED LIABILITIES	**31,177,758**	**31,135,777**	**100.1**
C. GROSS TECHNICAL PROVISIONS AND DEFERRED PREMIUMS EARNED	**173,941,974**	**169,726,846**	**102.5**
I. GROSS UNEARNED PREMIUMS	41,861,443	44,042,916	95.1
III. GROSS PROVISION FOR OUTSTANDING CLAIMS	131,492,898	123,869,342	106.2
IV. GROSS PROVISION FOR BONUSES AND REBATES	203,540	226,569	89.8
V. OTHER GROSS TECHNICAL PROVISIONS	384,094	1,588,019	24.2
E. PROVISIONS FOR OTHER RISKS AND CHARGES	**112,165**	**170,448**	**65.8**
1. Provisions for pensions	112,165	170,448	65.8
G. OTHER LIABILITIES	**56,309,683**	**52,536,066**	**107.2**
II. LIABILITIES FROM CO-INSURANCE AND REINSURANCE BUSINESS	30,408,949	37,345,544	81.4
2. Liabilities for reinsurance premiums	4,680,984	6,806,112	68.8
2.3 Liabilities to other companies	4,680,984	6,806,112	68.8
4. Liabilities for shares in reinsurance claims	25,727,965	30,539,431	84.3
4.1 Liabilities to Group companies	4,570,127	4,364,252	104.7
4.2 Liabilities to associates	8,876,223	16,697,324	53.2
4.3 Liabilities to other companies	12,281,614	9,477,855	129.6
VI. OTHER LIABILITIES	25,900,734	15,190,522	170.5
a.) Other long-term liabilities	2,986,161	3,223,814	92.6
2. Other long-term liabilities	2,900,000	2,900,000	100.0
2.3 Other long-term liabilities to others	2,900,000	2,900,000	100.0
3. Deferred tax liabilities	86,161	323,814	26.6
b.) Other short-term liabilities	22,914,573	11,966,708	191.5
1. Short-term liabilities due to employees	283,180	269,929	104.9
2. Other short-term liabilities for insurance business	12,338,642	11,487,362	107.4
2.1 Other short-term liabilities to Group companies	1,683,116	1,673,815	100.6
2.2 Other short-term liabilities to associates	2,454,283	2,928,682	83.8
2.3 Other short-term liabilities to others	8,201,243	6,884,866	119.1
3. Short-term liabilities arising out of financing	1,061	613	173.2
3.3 Short-term liabilities to others arising out of financing	1,061	613	173.2
4. Tax liabilities (income tax)	1,588,814	0	-
5. Other short-term liabilities	8,702,875	208,804	4168.0
5.3 Other short-term liabilities to others	8,702,875	208,804	4168.0
H. ACCRUED EXPENSES AND DEFERRED INCOME	**670,706**	**540,640**	**124.1**
1. Accrued costs and expenses	293,692	31,104	944.2
2. Other accrued expenses and deferred income	377,013	509,536	74.0
J. OFF BALANCE SHEET ITEMS	**5,041,677**	**3,965,753**	**127.1**

Statement of total comprehensive income

(EUR)	2010	2009	Index
A Technical account – non-life business other than health business			
I. Net earned premiums	123,497,230	119,096,865	103.7
1. Gross premiums written	142,861,784	147,082,330	97.1
1.1 Gross written premiums for Group companies	21,872,461	26,541,376	82.4
1.2 Gross written premiums for associated companies	51,124,634	58,782,766	87.0
1.3 Gross written premiums for other companies	69,864,688	61,758,188	113.1
4. Gross reinsurance premiums written (-)	-21,611,105	-25,360,971	85.2
4.3 Gross reinsurance premiums written for other companies	-21,611,105	-25,360,971	85.2
5. Change in gross unearned premiums (+/-)	2,181,473	-2,075,738	-105.1
6. Change in unearned premiums for the reinsurance and co-insurance part (+/-)	65,078	-548,757	-11.9
II. Allocated investment return transferred from the non-technical account (item D VIII)	3,377,126	2,805,500	120.4
IV. Net claims incurred	81,740,116	90,257,788	90.6
1. Gross claims paid	79,830,734	102,633,972	77.8
1.1 Gross claims paid for Group companies	14,327,856	14,848,663	96.5
1.2 Gross claims paid for associated companies	31,679,708	54,559,651	58.1
1.3 Gross claims paid for other companies	33,823,170	33,225,658	101.8
2. Income from gross recourse receivables (-)	-1,737,862	-1,826,010	95.2
4. Reinsurers' share (-)	-11,644,566	-29,936,487	38.9
4.3 Reinsurers' share for other companies (-)	-11,644,566	-29,936,487	38.9
5. Change in gross claims provision (+/-)	7,623,557	7,410,362	102.9
6. Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	7,668,253	11,975,952	64.0
V. Change in other net technical provisions (+/-)	-1,185,050	949,348	-124.8
VI. Net expenses for bonuses and rebates	-23,029	0	0.0
1.1 Net expenses for bonuses and rebates for other group companies	-51,512	0	0.0
1.2 Net expenses for bonuses and rebates for associates	-15,886	0	0.0
1.3 Net expenses for bonuses and rebates for other companies	44,368	0	0.0
VII. Net operating expenses	37,167,769	35,438,665	104.9
1. Acquisition costs	31,939,417	34,031,527	93.9
2. Change in deferred acquisition costs (+/-)	969,641	-379,669	-255.4
3. Other operating expenses	6,420,606	6,224,228	103.2
3.1. Depreciation/amortisation of operating assets	176,706	150,478	117.4
3.2. Labour costs	4,551,381	4,422,218	102.9
- salaries and wages	3,311,861	3,210,342	103.2
- social and pension insurance costs	593,128	589,721	100.6
- other labour costs	646,392	622,154	103.9
3.3. Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions	43,293	98,768	43.8
3.4. Other operating expenses	1,649,227	1,552,765	106.2
3.4.1 Other operating expenses for group companies	73,872	75,567	0.0
3.4.1 Diverse other operating expenses for associates	0	0	0.0
3.4.1 Other operating expenses for associates	1,575,355	1,477,198	106.6
4. Income from reinsurance commission and share in the balance on the reinsurance account (-)	-2,161,895	-4,437,421	48.7
4.3 Income from reinsurance commission for other companies	-2,161,895	-4,437,421	48.7
VIII. Other net technical expenses	183,605	149,926	122.5
1. Expenses for loss prevention activities	72	77	0.0
3. Other net technical expenses	183,533	149,849	122.5
IX. Balance on the technical account - non-life business other than health business (I+II+III-IV-V-VI-VII-VIII)	8,990,945	-4,893,362	383.7

(EUR)	2010	2009	Index
D. Non-technical account			
I. Balance on the technical account – non-life business other than health business (A X)	8,990,945	-4,893,362	-383.7
IV. Investment income	9,831,162	12,566,933	78.2
1. Income from participating interests	144,938	756,253	19.2
1.1. Income from participating interests in Group companies	0	244,479	0.0
1.3. Income from participating interests in other companies	144,938	511,774	28.3
2. Income from other investments	7,047,747	6,507,989	108.3
2.1. Income from land and buildings	85,738	136,208	63.0
- in Group companies	29,025	38,700	75.0
- in other companies	56,713	97,508	58.2
2.2. Interest income	6,431,313	6,069,093	106.0
- in Group companies	223,057	158,450	140.8
- in associated companies	113,871	113,885	0.0
- in other companies	6,094,385	5,796,758	105.1
2.3. Other investment income	530,696	302,687	175.3
2.3.1. Financial income from revaluation	331,518	300,966	110.2
- in other companies	331,518	300,966	110.2
2.3.2. Other financial income	199,178	1,721	11571.3
- in other companies	199,178	1,721	11571.3
4. Gains on disposal of investments	2,638,478	5,302,692	49.8
VII. Investment expenses	7,282,878	18,961,340	38.4
1. Depreciation of investments not necessary for operations	12,324	17,424	70.7
2. Asset management expenses, interest expenses and other financial expenses	1,640,547	2,031,708	80.8
2.3 Asset management expenses, interest expenses and other financial expenses for other companies	1,640,547	2,031,708	80.8
3. Financial expenses from revaluation	5,066,392	7,857,510	64.5
4. Losses on disposal of investments	563,615	9,054,698	6.2
VIII. Allocated investment return transferred to the technical account for non-life business other than health business (A II)	3,377,126	2,805,500	120.4
IX. Other technical income	2,579,474	1,101,647	234.2
1. Other income from non-life business other than health business	2,579,474	1,101,647	234.2
1.1. Other income from non-life business from Group companies	55,144	14,293	0.0
1.3. Other income from non-life business from other companies	2,524,330	1,087,354	232.2
X. Other technical expenses	1,982,302	1,080,831	183.4
1. Other expenses for non-life business other than health business	1,982,302	1,080,831	183.4
1.3. Other expenses for non-life business from other companies	1,982,302	1,080,831	183.4
XI. Other income	87,439	67,558	0.0
1. Other non-life income	87,439	67,558	0.0
1.3. Other income from non-life business from other companies	87,439	67,558	0.0
XII. Other expenses	166	663	25.1
1. Other non-life expenses	166	663	25.1
1.3. Other expenses for non-life business from other companies	166	663	25.1
XIII. Profit/loss for the year before tax (I+II+III+IV+V+VI-VII-VIII+IX-X+XI-XII)	8,846,549	-14,005,559	263.2
1. Profit/loss for the period for non-life business	8,846,549	-14,005,559	263.2
XIV. Tax on profit	1,588,814	0	0.0
1.1. Tax on profit from non-life business	1,588,814	0	0.0
XV. Deferred tax	64,011	-1,406,914	204.6
1.1. Deferred tax for non-life business	64,011	-1,406,914	204.6
XVI. Net profit/loss for the period (XIII-XIV+XV)	7,193,724	-12,598,645	257.1
- From non-life business	7,193,724	-12,598,645	257.1

(EUR)	2010	2009	Index
E. Calculation of comprehensive income			
I. PROFIT/LOSS FOR THE YEAR, NET OF TAX	7,193,724	-12,598,645	257.1
II. Other comprehensive income, net of tax (1+2+3+4+5+6+7+8+9)	-1,050,675	8,853,763	-211.9
4. Net change in fair value of available-for-sale financial assets	-1,313,344	11,067,204	-211.9
9. Income tax on other comprehensive income	262,669	-2,213,441	211.9
III. Total comprehensive income (I + II)	6,143,048	-3,744,882	364.0

Appendix B – Financial statements of the Sava Re Group pursuant to requirements of the Insurance Supervision Agency

Statement of financial position – assets

(EUR)	31 Dec 2010	31 Dec 2009	Index
ASSETS (A–F)	578,385,408	560,711,611	103.2
A. INTANGIBLE ASSETS, DEFERRED COSTS AND ACCRUED INCOME	**23,289,847**	**23,846,535**	**97.7**
1. Intangible assets	1,976,846	2,126,839	93.0
2. Goodwill	21,297,366	21,683,758	98.2
3. Long-term deferred acquisition costs	0	22,162	-
4. Other long-term deferred expenses and accrued income	15,635	13,776	113.5
B. LAND AND BUILDINGS AND FINANCIAL INVESTMENTS	**413,344,395**	**391,233,999**	**105.7**
I. LAND AND BUILDINGS	27,062,051	26,556,548	101.9
a.) directly used in insurance activities	22,155,133	20,782,984	106.6
1. Land directly used in insurance activities	3,829,199	2,596,694	147.5
2. Buildings directly used in insurance activities	18,325,934	18,186,290	100.8
b.) Land and buildings not directly used in insurance activities	4,906,918	5,773,564	85.0
1. Land	436,595	136,048	320.9
2. Buildings	4,470,323	5,637,516	79.3
II. FINANCIAL INVESTMENTS IN GROUP COMPANIES AND IN ASSOCIATES	43,834,978	39,159,287	111.9
3. Shares and interests in associates	42,322,366	37,646,480	112.4
4. Debt securities and loans granted to associates	1,512,612	1,512,807	100.0
III. OTHER FINANCIAL INVESTMENTS	315,307,199	290,849,879	108.4
1. Long-term financial assets	145,932,942	145,814,469	100.1
1.1. Equity and other variable income securities and mutual funds	27,649,001	40,614,387	68.1
1.2. Debt securities and other fixed income securities	111,146,385	99,364,719	111.9
1.3. Shares in investment funds	1,444,494	898,530	160.8
1.4. Mortgage loans	270,287	0	-
1.5. Other loans granted	958,379	1,122,628	85.4
1.6. Bank deposits	3,879,258	3,328,016	116.6
1.7. Other financial investments	585,138	486,189	120.4
2. Short-term financial investments	169,374,257	145,035,410	116.8
2.1. Held-for-trading shares and interests	5,792	1,477,731	0.4
2.2. Held-for-trading securities or securities with a remaining maturity of less than one year	51,347,608	69,301,101	74.1
2.3. Short-term loans granted	616,553	1,381,815	44.6
2.4. Short-term deposits with banks	117,404,304	69,525,028	168.9
2.5. Other short-term financial investments	0	3,349,735	-
IV. Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	7,405,629	5,768,874	128.4
VI. TECHNICAL PROVISIONS TRANSFERRED TO REINSURERS AND CO-INSURERS (separate item for co-insurance)	19,734,539	28,899,410	68.3
A. From unearned premiums	3,245,993	3,314,792	97.9
B. From mathematical provisions	306	23	1,330.4
C. From provisions for claims outstanding	16,502,903	24,609,525	67.1
E. From other technical provisions	-14,663	975,070	-1.5
C. INVESTMENTS FOR THE BENEFIT OF LIFE-INSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK	**23,716,699**	**17,861,634**	**132.8**
D. RECEIVABLES	**90,303,383**	**98,578,816**	**91.6**

(EUR)	31 Dec 2010	31 Dec 2009	Index
I. Receivables arising out of primary insurance business	32,052,974	33,717,412	95.1
1. Receivables due from policyholders	28,443,683	30,114,104	94.5
1.2 Receivables due from associates	22,468	2,276	987.2
1.3 Receivables due from others	28,421,215	30,111,828	94.4
2. Receivables due from insurance intermediaries	1,265,810	1,236,674	102.4
2.3 Receivables due from others	1,265,810	1,236,674	102.4
3. Other receivables arising out of primary insurance business	2,343,481	2,366,634	99.0
3.2 Receivables due from associates	0	25,603	-
3.3 Receivables due from others	2,343,481	2,341,031	100.1
II. Receivables arising out of co-insurance and reinsurance business	49,959,107	53,400,807	93.6
1. Receivables for premiums arising out of assumed co-insurance	286,071	259,381	110.3
1.3 Receivables due from others	286,071	259,381	110.3
2. Receivables for premiums arising out of reinsurance assumed	43,505,559	39,576,011	109.9
2.2 Receivables due from associates	10,405,032	13,477,236	77.2
2.3 Receivables due from others	33,100,527	26,098,775	126.8
3. Receivables for shares in co-insurance claims	167,241	0	-
3.3 Receivables due from others	167,241	0	-
4. Receivables for reinsurers' shares in claims	5,901,071	13,565,324	43.5
4.2 Receivables due from associates	26,635	0	-
4.3 Receivables due from others	5,874,436	13,565,324	43.3
5. Other receivables from co-insurance and reinsurance	99,165	91	0.0
5.2 Receivables due from associates	3,078	0	-
5.3 Receivables due from others	96,087	91	0.0
III. OTHER RECEIVABLES AND DEFERRED TAX ASSETS	8,291,302	11,460,597	72.4
1. Receivables for advances for intangible assets	172,821	224,898	76.8
1.3 Receivables due from others	172,821	224,898	76.8
2. Other short-term receivables arising out of insurance business	3,300,921	3,130,192	105.5
2.2 Receivables due from associates	46,252	0	-
2.3 Receivables due from others	3,254,669	3,130,192	104.0
3. Short-term receivables arising out of investments	827,315	1,051,743	78.7
3.2 Receivables due from associates	0	115,508	-
3.3 Receivables due from others	827,315	936,235	88.4
4. Other short-term receivables	1,333,888	307,803	433.4
4.2 Receivables due from associates	117,635	0	-
4.3 Receivables due from others	1,216,253	307,803	395.1
5. Long-term receivables	197,766	364,573	54.2
5.3 Receivables due from others	197,766	364,573	54.2
6. Tax assets (income tax)	222,510	4,012,543	5.6
7. Deferred tax assets	2,236,081	2,368,845	94.4
E. SUNDRY ASSETS	**8,680,647**	**9,902,229**	**87.7**
I. PROPERTY AND EQUIPMENT OTHER THAN LAND AND BUILDINGS	4,556,464	4,047,845	112.6
1. Equipment	4,129,478	3,672,710	112.4
2. Other property and equipment	426,986	375,135	113.8
II. Cash and cash equivalents	4,026,604	5,617,457	71.7
III. INVENTORIES AND OTHER ASSETS	97,579	236,927	41.2
1. Inventories	97,579	176,927	55.2
2. Other assets	0	60,000	-

(EUR)	31 Dec 2010	31 Dec 2009	Index
F. SHORT-TERM ACCRUED INCOME AND DEFERRED EXPENSES	17,975,246	18,298,511	98.2
1. Accrued interest and rent	66,653	74,417	89.6
2. Short-term deferred acquisition costs	17,318,841	9,370,016	184.8
2.1 Short-term deferred costs due to Group companies	6,220	0	-
2.2 Short-term deferred costs due to associated companies	4,103,706	0	-
2.3 Short-term deferred costs due to others	13,208,915	9,370,016	141.0
3. Other short-term accrued income and deferred expenses	589,752	8,854,078	6.7
G. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	1,075,190	989,887	108.6
H. OFF BALANCE SHEET ITEMS	24,866,239	20,518,867	121.2

Statement of financial position – liabilities

(EUR)	31 Dec 2010	31 Dec 2009	Index
EQUITY AND LIABILITIES (A–H)	578,385,408	560,711,611	103.2
A. Equity	**154,684,611**	**161,677,406**	**95.7**
I. Called-up capital	39,069,099	39,069,099	100.0
1. Basic capital	39,069,099	39,069,099	100.0
II. Share premium	25,417,397	33,003,756	77.0
III. Profit reserves	85,360,245	80,277,970	106.3
2. Legal reserves and reserves provided for in the articles of association	16,660,613	15,277,932	109.1
3. Reserves for treasury shares and own interests	1,774	1,774	100.0
4. Treasury shares and own interests (deduction item)	-1,774	-1,774	100.0
5. Credit risk equalisation reserve	1,261,187	1,217,874	103.6
6. Catastrophe equalisation reserve	6,576,060	4,215,361	156.0
7. Other profit reserves	60,862,385	59,566,803	102.2
IV. Fair value reserve	-2,533,479	-1,141,240	222.0
2. Fair value reserve relating to long-term financial investments	-357,532	614,131	-58.2
3. Fair value reserve relating to short-term financial investments	236,073	-70,194	-336.3
4. Other fair value reserve	-2,412,020	-1,685,177	143.1
V. Retained earnings	557,800	13,524,831	4.1
VI. Net profit/loss for the year	2,370,698	-12,341,747	0.0
VII. Non-controlling interest in equity	4,442,851	9,284,737	47.9
B. SUBORDINATED LIABILITIES	**31,177,758**	**31,135,777**	**100.1**
C. GROSS TECHNICAL PROVISIONS AND DEFERRED PREMIUMS EARNED	**303,287,249**	**288,282,904**	**105.2**
I. Gross unearned premiums	87,101,437	86,012,274	101.3
II. Gross mathematical provisions	15,228,730	13,363,461	114.0
III. Gross provision for outstanding claims	197,489,172	184,313,617	107.2
IV. Gross provision for bonuses and rebates	544,113	463,528	117.4
V. Other gross technical provisions	2,923,797	4,130,024	70.8
D. GROSS TECHNICAL PROVISIONS FOR THE BENEFIT OF LIFE-INSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK	**23,626,363**	**17,953,979**	**131.6**
E. PROVISIONS FOR OTHER RISKS AND CHARGES	**768,854**	**872,101**	**88.2**
1. Provisions for pensions	768,002	871,249	88.2
2. Other provisions	852	852	100.0
2.3 Other provisions from relations with other companies	852	852	100.0
G. Other liabilities	**61,845,088**	**58,497,816**	**105.7**
I. LIABILITIES FROM PRIMARY INSURANCE BUSINESS	4,456,726	5,122,163	87.0
1. Liabilities to policyholders	3,072,553	3,827,514	80.3
1.3 Liabilities to other companies	3,072,553	3,827,514	80.3
2. Liabilities to insurance intermediaries	74,294	161,489	46.0
2.3 Liabilities to other companies	74,294	161,489	46.0
3. Liabilities from primary insurance business	1,309,879	1,133,160	115.6
3.3 Liabilities to other companies	1,309,879	1,133,160	115.6
II. Liabilities from co-insurance and reinsurance business	26,514,118	34,399,199	77.1
1. Liabilities for co-insurance premiums	67,996	23,525	289.0
1.2 Liabilities to associates	41,038	0	-
1.3 Liabilities to other companies	26,958	23,525	114.6
2. Liabilities for reinsurance premiums	5,287,988	7,777,028	68.0
2.2 Liabilities to associates	0	27,620	-
2.3 Liabilities to other companies	5,287,988	7,749,408	68.2

(EUR)	31 Dec 2010	31 Dec 2009	Index
3. Liabilities for shares in co-insurance claims	297	0	-
3.3 Liabilities to other companies	297	0	-
4. Liabilities for shares in reinsurance claims	21,157,837	26,598,646	79.5
4.2 Liabilities to associates	8,876,223	16,697,324	53.2
4.3 Liabilities to other companies	12,281,614	9,901,322	124.0
IV. Liabilities to banks	238,398	0	-
VI. Other liabilities	30,635,846	18,976,454	161.4
a.) Other long-term liabilities	3,375,801	3,366,881	100.3
1. Long-term liabilities from financial lease contracts	289,191	78,535	368.2
2. Other long-term liabilities	2,900,000	2,902,687	99.9
2.3 Other long-term liabilities to others	2,900,000	2,902,687	99.9
3. Deferred tax liabilities	186,610	385,659	48.4
b.) Other short-term liabilities	27,260,045	15,609,573	174.6
1. Short-term liabilities due to employees	1,315,782	1,440,284	91.4
2. Other short-term liabilities for insurance business	11,719,398	11,162,584	105.0
2.2 Other short-term liabilities to associates	2,455,628	2,930,002	83.8
2.3 Other short-term liabilities to others	9,263,770	8,232,582	112.5
3. Short-term liabilities arising out of financing	19,529	271,231	7.2
3.3 Short-term liabilities to others arising out of financing	19,529	271,231	7.2
4. Tax liabilities (income tax)	2,745,525	655,546	0.0
5. Other short-term liabilities	11,459,811	2,079,928	551.0
5.3 Other short-term liabilities to others	11,459,811	2,079,928	551.0
H. ACCRUED EXPENSES AND DEFERRED INCOME	2,995,482	2,291,627	130.7
1. Accrued costs and expenses	1,124,650	821,550	0.0
2. Other accrued expenses and deferred income	1,870,832	1,470,077	127.3
J. OFF BALANCE SHEET ITEMS	24,866,239	20,518,867	121.2

Statement of total comprehensive income

(EUR)	2010	2009	Index
A Technical account – non-life business other than health business			
I. Net earned premiums	213,296,701	202,473,077	105.4
1. Gross premiums written	239,912,801	235,617,325	101.8
1.2 Gross written premiums for associated companies	51,145,169	58,789,684	87.0
1.3 Gross written premiums for other companies	188,767,632	176,827,641	106.8
2. Premiums written for assumed co-insurance (+)	572,702	303,362	188.8
2.3 Premiums written for assumed co-insurance for other countries	572,702	303,362	188.8
3. Premiums written for ceded co-insurance (-)	-216,450	-139,510	155.2
3.3 Premiums written for ceded co-insurance for other companies	-216,450	-139,510	155.2
4. Gross reinsurance premiums written (-)	-25,059,025	-28,980,823	86.5
4.2 Gross reinsurance premiums written for associates	-13,786	0	-
4.3 Gross reinsurance premiums written for other companies	-25,045,239	-28,980,823	86.4
5. Change in gross unearned premiums (+/-)	49,673	-5,045,498	-1.0
6. Change in unearned premiums for the reinsurance and co-insurance part (+/-)	-1,963,000	718,221	-273.3
II. Allocated investment return transferred from the non-technical account (item D VIII)	7,656,783	-299,520	-2556.4
III. Other net technical income	805,522	623,384	129.2
1.2 Other net technical income for associates	24,824	0	-
1.3 Other net technical income for other companies	780,698	623,384	125.2
IV. Net claims incurred	134,478,799	144,000,065	93.4
1. Gross claims paid	130,332,674	150,800,238	86.4
1.2 Gross claims paid for associated companies	31,679,708	54,571,313	58.1
1.3 Gross claims paid for other companies	98,652,966	96,228,925	102.5
2. Income from gross recourse receivables (-)	-4,829,303	-4,904,316	98.5
3. Co-insurers' share (+/-)	-97,067	91,461	-106.1
3.3 Co-insurers' share for other companies	-97,067	91,461	-106.1
4. Reinsurers' share (-)	-13,168,967	-31,785,865	41.4
4.2 Reinsurers' share for other companies	-11,830	-4,243	278.8
4.3 Reinsurers' share for other companies (-)	-13,157,137	-31,781,622	41.4
5. Change in gross claims provision (+/-)	14,393,817	18,141,854	79.3
6. Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	7,847,645	11,656,693	67.3
V. Change in other net technical provisions (+/-)	-217,374	1,658,330	-13.1
VI. Net expenses for bonuses and rebates	721,907	675,655	106.9
1.2 Net expenses for bonuses and rebates for associates	-15,886	0	-
1.3 Net expenses for bonuses and rebates for other companies	737,793	675,655	109.2
VII. Net operating expenses	74,928,395	69,900,195	107.2
1. Acquisition costs	42,499,492	41,302,533	102.9
2. Change in deferred acquisition costs (+/-)	-625,402	-913,976	68.4
3. Other operating expenses	35,533,658	34,229,838	103.8
3.1. Depreciation/amortisation of operating assets	1,874,648	1,743,354	107.5
3.2. Labour costs	19,878,356	19,695,395	100.9
- salaries and wages	15,080,116	14,695,409	102.6
- social and pension insurance costs	3,077,244	3,082,819	99.8
- other labour costs	1,720,996	1,917,167	89.8
3.3. Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions	366,368	603,303	60.7
3.4. Other operating expenses	13,414,286	12,187,786	110.1

(EUR)	2010	2009	Index
3.4.1 Diverse other operating expenses for associates	0	1,337	0.0
3.4.1 Other operating expenses for associates	13,414,286	12,186,449	110.1
4. Income from reinsurance commission and share in the balance on the reinsurance account (-)	-2,479,353	-4,718,200	52.6
4.2 Income from reinsurance commission for other associates	-2,121	-375	0.0
4.3 Income from reinsurance commission for other companies	-2,477,232	-4,717,825	52.5
VIII. Other net technical expenses	3,692,378	3,354,869	110.1
1. Expenses for loss prevention activities	682,893	548,788	124.4
2. Contributions for covering claims of uninsured and unidentified vehicles	1,892,457	1,947,383	97.2
3. Other net technical expenses	1,117,028	858,698	130.1
IX. Balance on the technical account - non-life business other than health business (I+II+III-IV-V--VI-VII-VIII)	8,154,901	-16,792,173	248.6
B Technical account – life business			
I. Net earned premiums	12,492,760	11,284,789	110.7
1. Gross premiums written	12,532,979	11,407,225	109.9
4. Gross reinsurance premiums written (-)	-25,677	-23,604	108.8
4.3 Gross reinsurance premiums written for other companies	-25,677	-23,604	108.8
5. Change in gross unearned premiums (+/-)	-24,845	-108,036	23.0
6. Change in unearned premiums for the reinsurance part (+/-)	10,303	9,204	111.9
II. Investment income	1,432,130	1,422,959	100.6
1. Income from participating interests	21,443	0	-
1.3. Income from participating interests in other companies	21,443	0	-
2. Income from other investments	1,393,999	1,420,305	98.2
2.2. Interest income	1,105,344	1,017,157	108.7
- in other companies	1,105,344	1,017,157	108.7
2.3. Other investment income	288,655	403,148	71.6
2.3.1. Financial income from revaluation	90,200	0	-
- in other companies	90,200	0	-
2.3.2. Other financial income	198,455	403,148	49.2
- in Group companies	0	4,509	-
- in other companies	198,455	398,639	49.8
4. Gains on disposal of investments	16,688	2,654	0.0
III. Net unrealised gains on investments of life insurance policyholders who bear the investment risk	3,678,265	3,951,842	93.1
IV. Other net technical income	10,926	13,349	0.0
V. Net claims incurred	2,540,608	1,621,605	156.7
1. Gross claims paid	2,613,520	1,617,844	161.5
4. Change in gross claims provision (+/-)	-67,197	6,476	-1037.6
5. Change in the provision for outstanding claims for the reinsurance (+/-)	-5,715	-2,715	0.0
VI. Change in diverse other net technical provisions (+/-)	7,638,492	8,914,941	85.7
1. Change in the mathematical provision	7,638,492	8,913,101	85.7
1.1. Change in the gross mathematical provision (+/-)	7,638,775	8,913,046	85.7
1.2. Change in the reinsurers' share (+/-)	-283	55	-514.6
2. Change in other net technical provisions (+/-)	0	1,840	-
2.1. Change in gross other technical provisions (+/-)	0	1,840	-

(EUR)	2010	2009	Index
VIII. Net operating expenses	**6,771,072**	**5,512,019**	**122.8**
1. Acquisition costs	2,335,156	1,402,970	166.4
2. Change in deferred acquisition costs (+/-)	-165,233	147,944	-111.7
3. Other operating expenses	4,601,558	3,961,199	116.2
3.1. Depreciation/amortisation of operating assets	114,475	62,209	184.0
3.2. Labour costs	2,687,338	2,494,024	107.8
- salaries and wages	2,090,349	1,887,882	110.7
- social and pension insurance costs	458,874	414,046	110.8
- other labour costs	138,115	192,096	71.9
3.3. Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions	14,998	15,148	99.0
3.4. Other operating expenses	1,784,747	1,389,818	128.4
3.4.1 Other operating expenses for associates	1,784,747	1,389,818	128.4
4. Income from reinsurance commission and share in the balance on the reinsurance account (-)	-409	-94	435.1
4.3 Income from reinsurance commission for other companies	-409	-94	435.1
IX. Investment expenses	**316,737**	**249,710**	**126.8**
2. Asset management expenses, interest expenses and other financial expenses	57,574	249,505	23.1
2.3 Asset management expenses, interest expenses and other financial expenses for other companies	57,574	249,505	23.1
3. Financial expenses from revaluation	170,259	0	-
4. Losses on disposal of investments	88,904	205	0.0
X. Net unrealised losses on investments of life insurance policyholders who bear the investment risk	**1,706,353**	**928,795**	**183.7**
XI. Other net technical expenses	**15,356**	**13,121**	**117.0**
2. Other net technical expenses	15,356	13,121	117.0
XII. Allocated investment return transferred to the non-technical account (item D V) (-)	**17,082**	**32,239**	**53.0**
XIII. Balance on the technical account - life business (I+II+III+IV-V+VI-VII-VIII-IX-X-XI-XII)	**-1,391,619**	**-599,491**	**232.1**
C Technical account – health business			
I. Net earned premiums	**6,084,568**	**3,669,973**	**165.8**
1. Gross premiums written	6,084,568	4,088,676	148.8
3. Change in gross unearned premiums (+/-)	0	-418,703	-
IV. Net claims incurred	**2,990,554**	**2,196,566**	**136.2**
1. Gross claims paid	3,152,713	1,876,594	168.0
4. Change in gross claims provision (+/-)	-162,159	319,972	-50.7
VII. Net operating expenses	**1,108,457**	**1,119,879**	**99.0**
1. Acquisition costs	236,285	458,244	51.6
3. Other operating expenses	872,172	661,635	131.8
3.1. Depreciation/amortisation of operating assets	25,327	32,915	77.0
3.2. Labour costs	147,688	137,844	107.1
- salaries and wages	140,655	102,514	137.2
- social and pension insurance costs	7,033	5,126	137.2
- other labour costs	0	30,204	-
3.3. Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions	37,358	67,856	55.1
3.4. Other operating expenses	661,799	423,020	156.5
3.4.1 Other operating expenses for associates	661,799	423,020	156.5
XI. Balance on the technical account - health business (I+II+III-IV+V-VI-VII-VIII-IX-X)	**1,985,557**	**353,528**	**561.6**
XIII. Balance on the technical account - health business (XI - XII)	**1,985,557**	**353,528**	**561.6**

(EUR)	2010	2009	Index
D. Non-technical account			
I. Balance on the technical account – non-life business other than health business (A X)	8,154,901	-16,792,173	248.6
II. Balance on the technical account – life business (B XIII)	-1,391,619	-599,491	232.1
III. Balance on the technical account – health business (C. XIII)	1,985,557	353,528	561.6
IV. Investment income	19,840,265	16,975,594	116.9
1. Income from participating interests	5,239,823	791,955	661.6
1.2. Income from shares in associates	5,055,301	167,497	3018.1
1.3. Income from participating interests in other companies	184,522	624,458	29.5
2. Income from other investments	11,545,446	9,879,840	116.9
2.1. Income from land and buildings	141,189	124,903	113.0
- in other companies	141,189	124,903	113.0
2.2. Interest income	10,441,753	9,167,163	113.9
- in associated companies	113,871	113,885	100.0
- in other companies	10,327,882	9,053,278	114.1
2.3. Other investment income	962,504	587,774	163.8
2.3.1. Financial income from revaluation	726,865	534,180	136.1
- in other companies	726,865	534,180	136.1
2.3.2. Other financial income	235,639	53,594	439.7
- in other companies	235,639	53,594	439.7
4. Gains on disposal of investments	3,054,996	6,303,799	48.5
V. Allocated investment return transferred to the technical account – life business (B XII)	17,082	32,239	53.0
VII. Investment expenses	8,212,403	22,522,626	36.5
1. Depreciation of investments not necessary for operations	65,040	52,732	123.3
2. Asset management expenses, interest expenses and other financial expenses	1,936,291	2,553,092	75.8
2.2 Asset management expenses, interest expenses and other financial expenses for associates	0	254,281	-
2.3 Asset management expenses, interest expenses and other financial expenses for other companies	1,936,291	2,298,811	84.2
3. Financial expenses from revaluation	5,404,773	10,465,216	51.7
4. Losses on disposal of investments	806,299	9,451,586	8.5
VIII. Allocated investment return transferred to the technical account for non-life business other than health business (A II)	7,656,783	-299,520	-2556.4
IX. Other technical income	3,335,346	2,446,831	136.3
1. Other income from non-life business other than health business	3,328,822	2,343,934	142.0
1.3. Other income from non-life business from other companies	3,328,822	2,343,934	142.0
2. Other income from life business	6,524	102,897	6.3
2.3 Other income from life business from other companies	6,524	102,897	6.3
X. Other technical expenses	5,919,852	3,594,939	164.7
1. Other expenses for non-life business other than health business	5,914,944	3,501,941	168.9
1.3. Other expenses for non-life business from other companies	5,914,944	3,501,941	168.9
2. Other expenses for life business	4,908	92,998	5.3
2.3 Other expenses for life business from other companies	4,908	92,998	5.3
XI. Other income	477,851	822,509	58.1
1. Other non-life income	477,851	822,509	58.1
1.3. Other income from non-life business from other companies	477,851	822,509	58.1
XII. Other expenses	1,789,999	5,766,439	31.0
1. Other non-life expenses	1,777,817	5,766,439	30.8
1.3. Other expenses for non-life business from other companies	1,777,817	5,766,439	30.8
2. Other expenses for life business	12,182	0	-
2.3 Other expenses for life business from other companies	12,182	0	-

(EUR)	2010	2009	Index
XIII. Profit/loss for the year before tax (I+II+III+IV+V+VI-VII-VIII+IX-X+XI-XII)	8,840,346	-28,345,447	231.2
1. Profit/loss for the period for non-life business	8,239,892	-28,141,622	229.3
2. Profit/loss for the period for life business	-1,385,103	-557,353	248.5
3. Profit/loss for the period for health business	1,985,557	353,528	561.6
XIV. Tax on profit	3,206,791	1,309,293	244.9
1.1. Tax on profit from non-life business	2,784,181	994,831	279.9
1.2. Tax on profit for life business	118,382	9,764	1212.4
1.3. Tax on profit for health business	304,228	304,698	99.9
XV. Deferred tax	112,885	-1,438,528	207.9
1.1. Deferred tax for non-life business	116,730	-1,438,528	208.1
1.2. Deferred tax for life business	-3,845	0	-
XVI. Net profit/loss for the period (XIII-XIV+XV)	5,520,670	-28,216,212	219.6
- From non-life business	5,338,981	-27,697,925	219.3
- From life business	-1,499,640	-567,117	264.4
- From health business	1,681,329	48,830	3443.2
E. Calculation of comprehensive income			
I. PROFIT/LOSS FOR THE YEAR, NET OF TAX	5,520,670	-28,216,212	219.6
II. OTHER COMPREHENSIVE GAIN, NET OF TAX (1+2+3+4+5+6+7+8+9+10)	-1,406,357	10,524,628	-213.4
4. Net change in fair value of available-for-sale financial assets	-839,846	12,207,061	-206.9
7. Net gains/losses attributable to the Group recognised in the fair value reserve and retained profit/loss relating to investments in equity-accounted associated and jointly-controlled companies	-14,112	1,795,924	-200.8
9. Income tax on other comprehensive income	174,447	-2,797,515	206.2
10. Net gains/losses from translation of financial statements	-726,846	-680,842	106.8
III. Total comprehensive income (I + II)	4,114,313	-17,691,584	223.3

Appendix C – Financial statements of the Sava Re Group pursuant to SKL 2009

Statement of financial position

(EUR)						31 Dec 2010
	Non-life business	Life business	Health business	Group total	Consolidated	Total
ASSETS	618,952,229	55,904,513	5,219,105	680,075,848	-101,690,439	578,385,408
Intangible assets	1,711,068	281,413	0	1,992,481	21,297,366	23,289,847
Property and equipment	21,234,658	4,457,529	1,019,410	26,711,597	0	26,711,597
Deferred tax assets	2,228,480	7,601	0	2,236,081	0	2,236,081
Investment property	4,776,580	130,338	0	4,906,918	0	4,906,918
Financial investments in associated companies	118,444,335	1,020,071	900,000	120,364,406	-78,042,041	42,322,366
Financial investments:	304,848,153	24,150,407	2,008,380	331,006,940	-6,781,500	324,225,440
- Loans and deposits	125,584,425	9,939,799	2,008,380	137,532,604	-6,781,500	130,751,104
- Held to maturity	16,366,945	1,605,060	0	17,972,005	0	17,972,005
- Available for sale	159,755,931	11,605,880	0	171,361,811	0	171,361,811
- At fair value through profit or loss	3,140,851	999,666	0	4,140,517	0	4,140,517
Funds for the benefit of policyholders who bear the investment risk	0	23,716,699	0	23,716,699	0	23,716,699
Reinsurers' share of technical provisions	42,839,593	39,281	0	42,878,874	-23,144,335	19,734,539
Receivables	101,894,471	579,344	613,417	103,087,232	-15,019,929	88,067,303
Receivables arising out of primary insurance business	31,284,096	248,406	536,757	32,069,259	-16,285	32,052,974
Receivables arising out of reinsurance and co-insurance business	64,818,947	12,660	0	64,831,607	-14,872,500	49,959,107
Tax receivables	127,840	94,670	0	222,510	0	222,510
Other receivables	5,663,588	223,608	76,660	5,963,856	-131,144	5,832,712
Deferred acquisition costs	16,807,845	200,576	310,420	17,318,841	0	17,318,841
Other assets	688,687	53,020	12,278	753,985	0	753,985
Cash and cash equivalents	2,490,722	1,180,681	355,200	4,026,603	0	4,026,603
Non-current assets held for sale	987,637	87,553	0	1,075,190	0	1,075,190
LIABILITIES AND EQUITY	618,952,229	55,904,513	5,219,105	680,075,848	-101,690,439	578,385,408
Equity	193,291,552	15,312,585	2,892,205	211,496,341	-56,811,733	154,684,610
Basic capital	88,537,820	21,516,950	1,130,000	111,184,770	-72,115,671	39,069,099
Share premium	33,003,752	56	0	33,003,808	-7,586,412	25,417,396
Profit reserves	85,823,278	336,491	0	86,159,769	-797,750	85,362,019
Treasury shares	-1,774	0	0	-1,774	0	-1,774
Fair value reserve	-683,837	244,490	0	-439,347	317,887	-121,459

					31 Dec 2009
Non-life business	Life business	Health business	Group total	Consolidated	Total
597,490,923	49,389,904	1,982,394	648,863,221	-88,151,613	560,711,611
1,853,642	309,135	0	2,162,777	21,683,758	23,846,535
19,867,208	4,186,642	776,980	24,830,829	0	24,830,829
2,365,089	3,756	0	2,368,845	0	2,368,845
5,773,564	0	0	5,773,564	0	5,773,564
100,830,033	395,300	904,360	102,129,694	-64,483,213	37,646,481
278,944,163	24,887,397	0	303,831,559	-5,700,000	298,131,559
58,320,081	9,579,970	0	67,900,051	-5,700,000	62,200,051
31,274,852	3,399,279	0	34,674,131	0	34,674,131
183,594,743	10,843,712	0	194,438,455	0	194,438,455
5,754,487	1,064,436	0	6,818,923	0	6,818,923
0	17,861,634	0	17,861,634	0	17,861,634
54,665,497	22,845	0	54,688,342	-25,788,932	28,899,410
109,004,032	954,452	114,712	110,073,197	-13,863,226	96,209,971
33,840,012	213,322	114,712	34,168,046	-450,634	33,717,412
66,281,901	6,650	0	66,288,552	-12,887,745	53,400,807
3,905,475	107,068	0	4,012,543	0	4,012,543
4,976,644	627,412	0	5,604,056	-524,847	5,079,209
17,318,344	46,071	40,052	17,404,467	0	17,404,467
1,056,609	74,362	0	1,130,971	0	1,130,971
4,822,856	648,311	146,290	5,617,457	0	5,617,457
989,887	0	0	989,887	0	989,887
597,490,923	49,389,904	1,982,394	648,863,221	-88,151,613	560,711,611
186,246,687	16,814,712	1,415,461	204,476,860	-42,799,457	161,677,406
84,652,393	21,219,205	1,130,000	107,001,598	-67,932,499	39,069,099
33,032,247	56	0	33,032,303	-28,547	33,003,756
84,832,119	0	0	84,832,119	-4,552,375	80,279,744
-1,774	0	0	-1,774	0	-1,774
270,387	81,097	0	351,485	192,452	543,937

(EUR)						31 Dec 2010
	Non-life business	Life business	Health business	Group total	Consolidated	Total
Retained earnings	-7,550,539	-4,057,899	0	-11,608,438	12,166,238	557,800
Net profit/loss for the year	-4,159,968	-1,943,673	1,762,205	-4,341,436	6,712,134	2,370,698
Translation reserve	-1,677,182	-783,830	0	-2,461,011	48,990	-2,412,020
Equity attributable to equity holders of the controlling company	*193,291,551*	*15,312,585*	*2,892,205*	*211,496,341*	*-61,254,584*	*150,241,759*
Non-controlling interest in equity	*0*	*0*	*0*	*0*	*4,442,851*	*4,442,851*
Subordinated liabilities	31,177,758	0	0	31,177,758	0	31,177,758
Technical provisions	310,363,483	15,666,210	401,890	326,431,583	-23,144,335	303,287,248
Unearned premiums	94,177,377	319,067	206,587	94,703,031	-7,601,594	87,101,437
Mathematical provisions	0	15,228,730	0	15,228,730	0	15,228,730
Provision for outstanding claims	212,577,216	118,413	195,303	212,890,932	-15,401,760	197,489,172
Other technical provisions	3,608,890	0	0	3,608,890	-140,981	3,467,909
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	23,626,363	0	23,626,363	0	23,626,363
Other provisions	695,192	73,662	0	768,854	0	768,854
Deferred tax liabilities	125,174	61,436	0	186,610	0	186,610
Other financial liabilities	9,468,681	0	0	9,468,681	-6,801,580	2,667,101
Liabilities from operating activities	44,775,475	199,360	1,925,010	46,899,845	-13,183,474	33,716,371
Liabilities from primary insurance business	2,663,281	29,467	1,774,179	4,466,927	-10,200	4,456,727
Liabilities from reinsurance and co-insurance business	39,607,798	79,595	0	39,687,393	-13,173,274	26,514,119
Current income tax liabilities	2,504,396	90,298	150,831	2,745,525	0	2,745,525
Other liabilities	29,054,916	964,897	0	30,019,811	-1,749,317	28,270,495

					31 Dec 2009
Non-life business	Life business	Health business	Group total	Consolidated	Total
-389,136	-3,266,680	0	-3,655,816	17,180,647	13,524,831
-14,843,108	-791,221	285,461	-15,348,868	3,007,121	-12,341,747
-1,306,441	-427,745	0	-1,734,186	49,009	-1,685,177
186,246,687	*16,814,711*	*1,415,460*	*204,476,860*	*-52,084,193*	*152,392,668*
0	*0*	*0*	*0*	*9,284,737*	*9,284,738*
31,135,777	0	0	31,135,777	0	31,135,777
299,841,327	13,778,365	452,144	314,071,836	-25,788,932	288,282,904
95,145,814	255,074	94,682	95,495,570	-9,483,296	86,012,274
0	13,363,461	0	13,363,461	0	13,363,461
199,909,468	159,830	357,462	200,426,760	-16,113,143	184,313,617
4,786,045	0	0	4,786,045	-192,493	4,593,552
0	17,953,979	0	17,953,979	0	17,953,979
802,502	69,599	0	872,101	0	872,101
365,384	20,275	0	385,659	0	385,659
5,989,575	2,687	0	5,992,262	-2,818,344	3,173,918
51,948,194	115,181	102,358	52,165,733	-11,988,825	40,176,908
4,981,513	46,756	102,358	5,130,627	-8,464	5,122,163
46,327,759	51,801	0	46,379,560	-11,980,361	34,399,199
638,922	16,624	0	655,546	0	655,546
21,161,475	635,106	12,431	21,809,012	-4,756,054	17,052,958

Income statement

(EUR)						2010
	Non-life business	Life business	Health business	Total	Consolidated	Total
Net earned premiums	213,497,902	12,394,003	6,084,568	231,976,473	-102,444	231,874,029
Gross premiums written	262,534,443	12,532,979	6,084,568	281,151,990	-22,048,940	259,103,050
Written premiums ceded to reinsurers and co-insurers	-46,854,119	-124,434	0	-46,978,553	21,677,401	-25,301,152
Change in net unearned pre-miums	-2,182,422	-14,542	0	-2,196,964	269,095	-1,927,869
Income from investments in affiliates	210,210	0	0	210,210	4,845,091	5,055,301
Profit from investments in equity--accounted associated companies	0	0	0	0	5,055,301	5,055,301
Other investment income	210,210	0	0	210,210	-210,210	0
Investment income	15,046,057	5,110,395	0	20,156,452	-261,093	19,895,359
Other technical income	11,393,659	30,942	0	11,424,601	-4,793,045	6,631,556
Commission income	7,095,933	13,492	0	7,109,425	-4,629,663	2,479,762
Other technical income	4,297,726	17,450	0	4,315,176	-163,382	4,151,794
Other income	498,247	0	0	498,247	-20,396	477,851
Net claims incurred	-134,488,878	-2,540,031	-2,990,554	-140,019,463	9,502	-140,009,961
Gross claims paid less income from recourse receivables	-139,382,932	-2,613,520	-3,152,713	-145,149,165	13,879,561	-131,269,604
Reinsurers' and co-insurers' share of claims paid	27,177,893	577	0	27,178,470	-13,912,436	13,266,034
Change in the net provision for outstanding claims	-22,283,839	72,912	162,159	-22,048,768	42,377	-22,006,391
Change in other technical provisions	217,374	-1,926,812	0	-1,709,438	0	-1,709,438
Change in other technical provisi-ons for policyholders who bear the investment risk	0	-5,711,680	0	-5,711,680	0	-5,711,680
Expenses for bonuses and rebates	-721,907	0	0	-721,907	0	-721,907
Operating expenses	-82,198,821	-6,793,923	-1,108,457	-90,101,201	4,813,515	-85,287,686
Acquisition costs	-46,548,666	-2,169,923	-236,285	-48,954,874	4,674,576	-44,280,298
Other operating expenses	-35,650,155	-4,624,000	-872,172	-41,146,327	138,939	-41,007,388
Expenses for investments in affiliates, of this	0	0	0	0	0	0
Loss arising out of investments in equity-accounted associated companies	0	0	0	0	0	0
Expenses for financial assets and liabilities	-8,437,143	-2,023,090	0	-10,460,233	224,740	-10,235,493
Impairment losses on financial assets not measured at fair value through profit or loss	-4,976,267	0	0	-4,976,267	0	-4,976,267
Other technical expenses	-9,657,002	-20,264	0	-9,677,266	49,680	-9,627,586
Other expenses	-1,778,181	-12,182	0	-1,790,363	364	-1,789,999
Profit/loss before tax	3,581,517	-1,492,642	1,985,557	4,074,432	4,765,914	8,840,346
Income tax expense	-2,900,911	-114,537	-304,228	-3,319,676	0	-3,319,676
Net profit/loss for the period	680,606	-1,607,179	1,681,329	754,756	4,765,914	5,520,670

					2009
Non-life business	Life business	Health business	Total	Consolidated	Total
202,467,770	11,217,545	3,669,973	217,355,288	72,551	217,427,839
262,659,217	11,407,225	4,088,676	278,155,118	-26,738,530	251,416,588
-55,864,170	-90,848	0	-55,955,018	26,811,081	-29,143,938
-4,327,277	-98,832	-418,703	-4,844,812	0	-4,844,812
497,882	4,509	0	502,391	-334,894	167,497
0	0	0	0	167,497	167,497
0	0	0	0	0	0
16,812,606	5,370,292	0	22,182,898	0	22,182,898
14,137,481	123,867	0	14,261,348	-6,459,490	7,801,857
11,080,032	7,621	0	11,087,653	-6,369,359	4,718,294
3,057,449	116,246	0	3,173,695	-90,131	3,083,564
822,509	0	0	822,509	0	822,509
-144,000,421	-1,621,249	-2,196,566	-147,818,236	0	-147,818,236
-160,307,553	-1,617,844	-1,876,594	-163,801,991	14,411,631	-149,390,360
46,105,679	356	0	46,106,035	-14,411,631	31,694,404
-29,798,547	-3,761	-319,972	-30,122,280	0	-30,122,280
-1,683,370	-1,709,146	0	-3,392,516	25,040	-3,367,476
0	-7,205,795	0	-7,205,795	0	-7,205,795
-650,615	0	0	-650,615	-25,040	-675,655
-81,103,628	-5,558,258	-1,119,879	-87,781,765	6,531,378	-81,250,387
-46,757,916	-1,550,914	-458,244	-48,767,074	6,369,359	-42,397,715
-34,345,712	-4,007,344	-661,635	-39,014,691	162,019	-38,852,672
-287,041	0	0	-287,041	32,760	-254,281
0	0		0	-254,281	-254,281
-22,268,345	-1,178,505	0	-23,446,850	0	-23,446,850
-6,347,533	0		-6,347,533	0	-6,347,533
-6,856,810	-106,119	0	-6,962,929	0	-6,962,929
-5,766,439	0	0	-5,766,439	0	-5,766,439
-27,878,421	-662,859	353,528	-28,187,752	-157,695	-28,345,446
443,697	-9,764	-304,698	129,235	0	129,235
-27,434,724	-672,623	48,830	-28,058,517	-157,695	-28,216,212

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

Administrative expenses ratio = operating expense – acquisition costs / gross premiums written

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

Associate
In accordance with IAS 28, associates are entities in which the investor has significant influence on the financial and operating policy decisions and which 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
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/after deduction of reinsurance.

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

Combined ratio
the aggregation of the loss ratio and the expense ratio.
Net (incurred) combined ratio = net claims incurred + operating expenses – (reinsurance) commission income / 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 = operating expenses – commission income / (net) 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 = operating expenses / gross premums written

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

IBNR – provision for claims that are **Incurred But Not Reported**
IBNER – provision for claims that are **Incurred But Not Enough Reported**
RBNS – provision for claims that are **Reported But Not Settled**
IBNS – provision for claims that are **Incurred But Not Settled**
IBNS = RBNS + IBNR

Insurance density = gross premiums written / number of inhabitants

Insurance penetration = gross premiums written / gross domestic product

Liability fund
Assets supporting technical provisions.

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Long-term business fund
Assets supporting mathematical provisions.

Loss ratio (Incurred loss ratio)
Gross (incurred) loss ratio = gross claims incurred / gross premiums earned
Net (incurred) loss ratio = net claims incurred / 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 = gross claims paid / gross premiums written
Net paid loss ratio = net claims paid / net premiums written

Premiums earned
The portion of premiums written that relates to the expired portion of the policy period for a given period adjusted for change in unearned premiums. Gross/net – before/after deduction of reinsurance.

Premiums written
The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Gross/net – before/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. 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 = 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 (i) any agreement with any third parties under recourse issues, (ii) court decisions, or (iii) for credit business – 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
Underwriting result = 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.

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