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TRANSLATION OF THE AUDITED ANNUAL REPORT OF THE SAVA RE GROUP 2011

Ljubljana, 16 April 2012

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, 16 April 2012

Summary of key performance indicators[1]

(EUR)	Sava Re Group		Sava Reinsurance Company	
	2011	2010	2011	2010
Gross premiums written	**258,415,195**	**259,103,050**	**140,350,370**	**142,861,784**
Year-on-year change	-0.3%	3.1%	-1.8%	-2.9%
Gross premiums written - Slovenia	129,086,873	129,022,307	66,062,678	71,450,127
Gross premiums written - international	129,328,322	130,080,743	74,287,692	71,411,657
International premium as % of total GPW	50.0%	50.2%	52.9%	50.0%
Gross claims paid	**128,376,839**	**131,269,604**	**70,685,269**	**78,092,872**
Year-on-year change	-2.2%	-12.1%	-9.5%	-22.5%
Net incurred loss ratio	58.1%	61.1%	61.5%	65.2%
Operating expenses including reinsurance commission income	**85,177,224**	**82,807,924**	**36,931,215**	**37,167,769**
Year-on-year change	2.9%	8.2%	-0.6%	4.9%
Net expense ratio	36.2%	35.7%	30.2%	30.1%
Net combined ratio (total expenses / total income, excl. investments)	**98.3%**	**102.5%**	**92.2%**	**95.1%**
Net investment income (inv. income – inv. expenses)[2]	**6,652,185**	**12,743,253**	**1,316,643**	**2,427,842**
Year-on-year change	-47.8%	1189.4%	-45.8%	139.9%
Realised investment return	1.8%	3.6%	0.4%	0.8%
Profit/loss, net of tax	**4,066,402**	**5,520,670**	**8,637,292**	**7,193,724**
Year-on-year change	-26.3%	119.6%	20.1%	157.1%
Comprehensive income	-6,605,376	4,114,311	2,316,198	6,143,048
Total assets	**582,037,026**	**578,385,408**	**417,051,465**	**418,350,613**
Year-on-year change	0.6%	3.2%	-0.3%	3.5%
Shareholders' equity	**148,080,050**	**154,684,609**	**158,454,528**	**156,138,328**
Year-on-year change	-4.3%	-4.3%	1.5%	4.1%
Net technical provisions	**322,940,184**	**307,179,073**	**166,275,281**	**156,415,674**
Year-on-year change	5.1%	10.8%	6.3%	8.2%
ROE (profit/loss for the period/average equity)	2.7%	3.5%	5.5%	4.7%
Book value of shares	15.82	16.52	16.92	16.68
Net earnings/loss per share	0.43	0.59	0.92	0.77
No. of employees at 31 December (full-time basis)	1,530	1,580	66	65

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

[2] The net investment income item does not include income in respect of reinsurance contracts with cedants nor the net income from investments for the benefit of life insurance policyholders who bear the investment risk.

BUSINESS REPORT

CONSOLIDATED FINANCIAL STATEMENTS WITH NOTES

1 TO THE SHAREHOLDERS OF SAVA REINSURANCE COMPANY

Dear Shareholder,

In recent years, Sava Reinsurance Company has made an important development from a reinsurer writing most of its reinsurance business in the domestic market to a regionally known insurance group with 54 percent of its income coming from primary insurance. We have also increasingly directed our reinsurance operations to international markets where premium growth has been so good that over the past five years, the share of foreign-sourced reinsurance premium in total premium has increased from 32 percent to over 50 percent.

The Group strategy is to post positive underwriting results at stable investment returns.

We are still not completely satisfied with the results of the Group, but we are content that we have completed the restructuring of assets and liabilities of Group companies. While in recent years we have enjoyed the fruits of establishing appropriate levels of technical provisions and of selective underwriting, in 2011 there was a significant decrease in the share of premium receivables in total company assets, and a relative increase in financial investments. The restructuring was aimed at creating investment portfolios that would be less exposed to volatility in financial markets and would comply with all restrictions imposed by risk management. The Group has been pursuing the strategy of posting positive underwriting results at stable investment returns since the onset of the economic crisis.

The reinsurance segment was profitable despite large catastrophic loss events.

The reinsurance segment was the most successful segment in 2011. The share of foreign-sourced reinsurance premiums in total premiums reached 53 percent; international premiums grew by 4 percent. We recorded the largest growth rates in Japan, China, India, Singapore, South Korea, Australia, Russia, Africa and, in Europe, in Sweden and Italy. This is why we naturally continue to see the highest growth potential in Asian markets. In any case, it is important to diversify risks geographically. The year 2011 was marked by severe natural catastrophes (the Japan earthquake, floods in Thailand and the New Zealand earthquake); however, due to sufficient diversification, we also recorded a profit on our foreign-sourced portfolio. The Slovenian insurance market was spared from major natural disasters. There were no significant property losses, while the results of motor third party liability remain satisfactory thanks to a reduction in the number of traffic accidents. The underwriting result for the Slovenian reinsurance business is therefore favourable. The decrease in premium from Slovenia was planned and impacted total premiums written; it has, however, also resulted in the release of capital for further growth abroad and in the lowering of double exposure in relation to affiliated companies in Slovenia. The result of Sava Reinsurance Company for 2011 also included the dividend payout from Zavarovalnica Maribor, which ended the year successfully. In view of the structure of the investment portfolio of Sava Reinsurance Company, we expect that dividend income will continue to contribute significantly towards achieving an appropriate return on equity.

The reinsurance segment is most exposed to the risk of change in credit rating. Despite the distress caused by sovereign rating downgrades in the euro area, from which Slovenia was not exempt, the credit rating of Sava Reinsurance Company remained on the A– level. The outlook changed from stable to negative; the rating, however, remained exposed to the risk of a downgrade in sovereign rating. We believe that a rating downgrade for Sava Reinsurance Company would dampen growth in reinsurance premiums abroad, but would cause no significant distress in the movement of the total premium volume.

Insurance markets remain challenging.

Non-life insurance operations managed to generate the target premium volume, and we are particularly glad to see premium growth in Slovenia as it is a very competitive market where growth is difficult to achieve. Zavarovalnica Tilia has been gaining in recognition throughout Slovenia while achieving good business results. We are also satisfied with the growth in our Montenegrin company, which (after several years of losses) may serve to illustrate that restructuring can be a way to improved results, although the road may be a bumpy one.

In contrast, 2011 was a turbulent year for our subsidiaries in Kosovo and Macedonia: new management teams were appointed in both companies to form a platform that will be able to generate stable results and growth in the future; in the restructuring in 2011, however, the companies incurred large losses.

I would like to underline that the motor third party liability business (the most important class of insurance in the region) is still under heavy pressure, and that competition in these markets is not driven by the quality, the range or scope of services, but by the amount of commission offered to agents. This kind of competition is not acceptable for Sava Re Group companies, and I believe that time will prove that for insurers such practices are not sustainable over the long term. This affected most severely our Serbian company whose written premiums shrank by over 20 percent. Nevertheless, it succeeded in ending the year with a profit despite the difficult circumstances.

The previous three years have also been difficult for the Croatian insurance market: market premium volume has been eroded and liquidity is poor. Under such circumstances, for a young company it is all the more difficult to generate income sufficient to cover fixed costs. So in 2011 we made a thorough review of our opportunities for operating in the market and although circumstances are challenging, we decided not to withdraw. We believe that during the EU accession process, there will be a rebound in the Croatian economy, including the insurance sector, and that by solid management, we will be able to make a profit even though current market conditions may compel us to wait a year or two longer than initially expected for positive results to materialise.

Life insurance markets in the region are shrinking as a result of high cancellation and surrender rates.

We believe that the markets we entered are the only ones left on the Continent that still hold high growth potential. It may realistically be expected that their integration into the European Union will bring about a number of improvements in political, administrative, legal and economic structures. This will result in economic growth and increased private consumption, which will trigger demand for property and life insurance products. Such a development can only be beneficial for both the insurance and reinsurance business.

We are building processes, we are building relationships.

Another major step forward that we made in 2011 is in unifying information technology within the Group. This platform will enable us to enhance business processes, allowing for further improvements in cost efficiency and the productivity of our sales networks.

We have also made important progress towards greater social responsibility and to a common understanding of its significance in the Group. A caring attitude towards the environment (natural as well as social) contributes to the Group's recognition, to a better corporate climate and connection with the environment. The Sava Re Day celebrated in 2011 for the first time was well received both by our employees as well as by the people to whom we offered our assistance. We decided that each of our 1530 employees in all six markets where we are present should make a personal contribution through different forms of humanitarian activities. In 2012, this day will be dedicated to the natural environment and our care for it as all Sava Re employees will be participating in the Slovenia-wide clean-up action "Let's clean up Slovenia" with similar actions, albeit on a smaller scope, underway in other countries.

We remain a financially stable company with the goal of ensuring a stable dividend policy and value for our shareholders.

Sava Reinsurance Company remains a financially strong company. The available capital is 190 percent of required capital. The Company will start paying out dividends when it achieves its target ratio between required and minimum capital; currently the only constraint is the unknown method for calculating required capital under the Solvency II regime. We would like to ensure a stable dividend policy that will make the Sava Re shares more attractive and increase trading on the stock market. Through buying POSR shares, my colleagues on the Board and I wish to demonstrate to current and potential shareholders that we believe that the daily efforts of our management and each individual employee will be reflected in our results.

Our goals are clear. We want to generate an 11 percent return on equity, take advantage of the growth potentials in insurance markets where we are present, control loss ratios with effective claims handling and control expense ratios by using cost synergies within the Sava Re Group, and offer an adequate dividend yield to our shareholders. We also want to be known for the quality of our services, and through the continuous sharing of best practices within the Group, we believe we can make progress faster as Group companies are joined under the auspices of Sava Reinsurance Company.

Zvonko Ivanušič
Chairman of the Management Board of Sava Reinsurance Company

2 SAVA REINSURANCE COMPANY AND THE SAVA RE GROUP – BASIC DETAILS

2.1 Company Profile of Sava Reinsurance Company

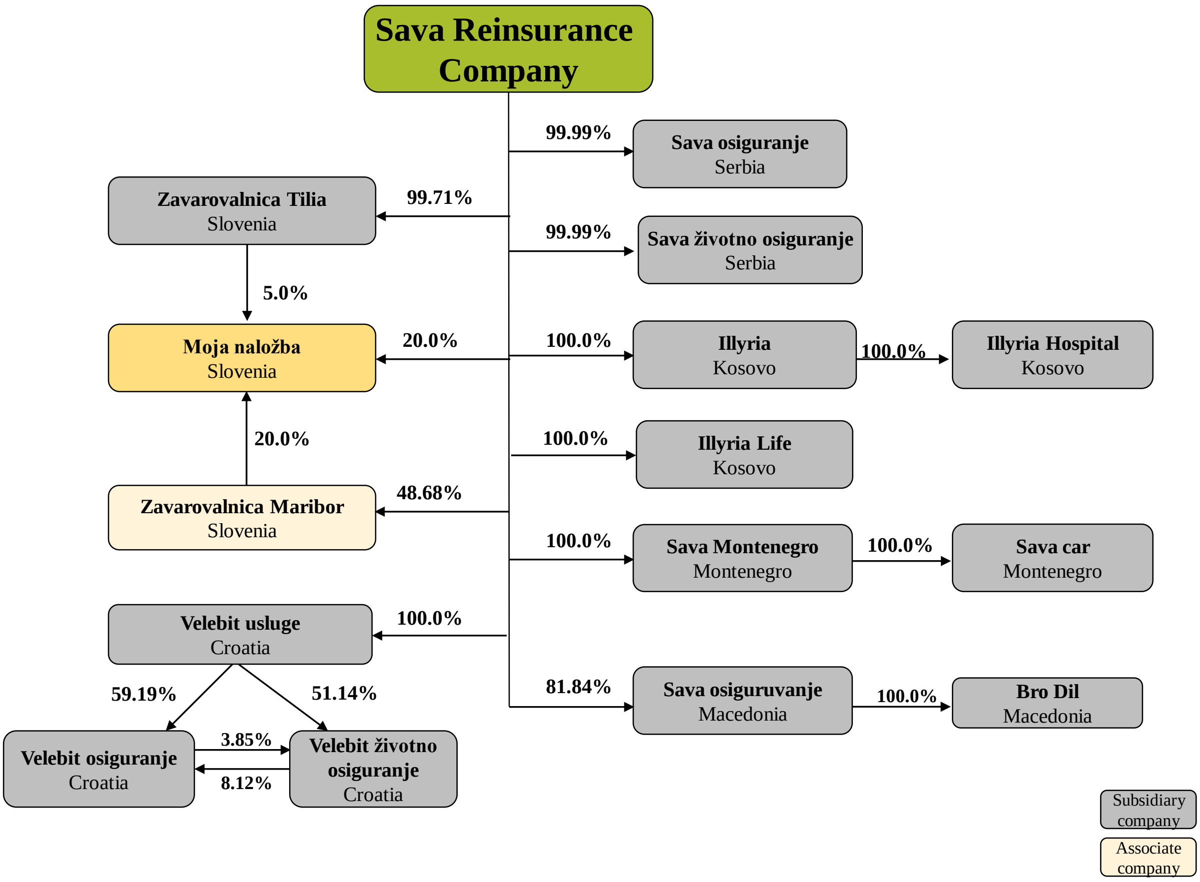
Company name:	Pozavarovalnica Sava d.d. Sava Reinsurance Company
Registered office:	Dunajska 56 1000 Ljubljana Slovenia
Telephone (switchboard):	(01) 47 50 200
Telefax:	(01) 47 50 264
E-mail:	info@sava-re.si
Website:	www.sava-re.si
Company ID number:	5063825
Tax number:	17986141
Share capital:	EUR 39,069,099 (no. of no-par-value shares: 9,362,519)
Governance and supervision bodies:	MANAGEMENT BOARD Zvonko Ivanušič (Chairman) Jošt Dolničar (Member) Srečko Čebron (Member) Mateja Treven (Member) SUPERVISORY BOARD Branko Tomažič (Chairman) Mateja Lovšin Herič (Deputy Chairperson) Slaven Mićković (Member) Gregor Hudobivnik (Member) Martin Albreht (Member – employee representative) Samo Selan (Member – employee representative)
Date of entry into court register:	28 December 1990, Ljubljana District Court
Certified auditor:	KPMG, Slovenija, podjetje za revidiranje, d.o.o. Železna cesta 8a 1000 Ljubljana Slovenia
Largest shareholder and holding:	Slovenska odškodninska družba, d.d. 25.0% + one share (no-par-value shares: 2,340,631)
S&P credit rating:	A– /negative/; January 2012
The Company has no branches.	

2.2 Presentation of the Sava Re Group and associates

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

2.3 Sava Re Group structure including associate companies

Sava Re Group structure including associate companies as at 31 December 2011



2.4 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 osiguruvanje (Skopje), Illyria (Pristina), Sava Montenegro (Podgorica), and Velebit osiguranje (Zagreb) are non-life insurance companies. 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 associated company Moja naložbe (Maribor) is a pension company. The indirect subsidiary Bro-Dil (Macedonia) is a stock broking firm (wholly-owned by the insurer Sava osiguruvanje), 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).

2.5 Company profiles of Sava Re Group members and associates as at 31 December 2011

At year-end 2011, 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
Share capital (EUR)	39,069,099	55,426,291	14,317,673	6,301,109	6,554,683
Book value of equity interest (EUR)		26,981,519	14,276,152	2,187,745	6,554,028
Equity interests (voting rights) held by Group members:	Zavarovalnica Maribor: 4.45%	Sava Reinsurance Company: 48.68%	Sava Reinsurance Company: 99.71%	Pozavarovalnica Sava: 20.0% Zavarovalnica Maribor: 20.0% Zavarovalnica Tilia: 5.0%	Sava Reinsurance Company: 99.99%
Governing bodies	**Management Board** Zvonko Ivanušič (Chair), Jošt Dolničar, Srečko Čebron, Mateja Treven **Supervisory Board** Branko Tomažič (Chair.), Mateja Lovšin Herič, Slaven Mićković, Gregor Hudobivnik, Martin Albreht, Samo Selan	**Management Board** Drago Cotar (Chair.), David Kastelic, Marko Planinšec, Srečko Čarni, Borut Celcer **Supervisory Board** Matjaž Kovačič (Chair), Dušan Čeč, Janez Komelj, Manja Skernišak, Edi Kosi, Robert Ciglarič	**Management Board** Andrej Kavšek (Chair), Tadej Avsec, Jaka Dolenc **Supervisory Board** Zvonko Ivanušič (Chair), Jošt Dolničar, Jože Razpotnik	**Management Board** Lojze Grobelnik (Chair), Igor Pšunder **Supervisory Board** Andrej Plos (Chair), Uroš Lorenčič, Simon Hvalec, Marko Planinšec, Mojca Androjna, Hermina Kastelec, Igor Marinič, Dušan Šuligoj, Viljem Pozeb	**Board of Directors** Duško Jovanović (Chair), David Kastelic, Maja Krumberger, Goran Milićević, Jošt Dolničar, Mateja Treven **Supervisory Board** Dušan Čeč (Chair), Janez Komelj, Slobodan Kopanja
Position in the Group	*parent, reinsurer*	*associate insurance company*	*subsidiary insurance company*	*associated company*	*subsidiary insurance company*

Company name	Illyria	Sava osiguruvanje, Skopje	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
Share capital (EUR)	3,228,050	5,482,458	4,033,303	75,661	3,691,855
Book value of equity interest (EUR)	3,228,050	4,486,844	4,033,303	61,921	3,691,486
Equity interests (voting rights) held by Group members:	Sava Reinsurance Company: 100.0%	Sava Reinsurance Company: 81.84%	Sava Reinsurance Company: 100.0%	Sava osiguruvanje: 100.0%	Sava Reinsurance Company: 99.99%
Governing bodies	**Managing Director** Uroš Lorenčič **Board of Directors** Primož Močivnik (Chair), Rok Moljk, Robert Sraka, Ramis Ahmetaj	**Executive Director: Peter Skvarča** **Chief Executive Director: Ruse Drakulovski** **Board of Directors** Jošt Dolničar (Chair), Rok Moljk, David Kastelic, Zagorac Tumbovski, Milan Viršek	**Executive Director** Nebojša Šćekić **Board of Directors** Milan Viršek (Chair), Jošt Dolničar, Edita Rituper	**Executive Director** Iskra Kostova **Board of Directors** Jordan Ralupovski (Chair), Melita Gugulovska, Mirče Kitanoski	**Board of Directors** Matej Herlec (Chair.), Polona Pirš Zupančič, Jaka Dolenc **Supervisory Board** 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	Illyria Hospital
Registered office	Sheshi Nëna Terezë 33, 10000 Priština, Kosovo	Savska 144 a, 10000 Zagreb, Croatia	Savska 144a, 10000 Zagreb, Croatia	Savska 144a, 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
Share capital (EUR)	3,285,893	12,213,184	12,377,539	8,936,429	1,800,000
Book value of equity interest (EUR)	3,285,893	12,213,184	7,843,646	4,772,947	1,800,000
Equity interests (voting rights) held by Group members:	Sava Reinsurance Company: 100.0%	Sava Reinsurance Company: 100.0%	Velebit usluge: 59.19% Velebit životno osiguranje: 8.12%	Velebit usluge: 51.14% Velebit osiguranje: 3.85%	Illyria: 100.0%
Governing bodies	**Managing Director** Ramis Ahmetaj **Board of Directors** Primož Močivnik (Chair.), Robert Sraka, Uroš Lorenčič, Rok Moljk	**Managing Director** Rok Moljk	**Management Board** Dražen Kulić (Chair), Krešimir Vrbić **Supervisory Board** Milan Viršek (Chair), Dragutin Sokačić, Hermina Kastelec, Primož Močivnik, Josip Šeremet	**Management Board** Tibor Kralj (Chair), Kristina Cvitanović - Zorić **Supervisory Board** Rok Moljk (Chair), Pero Ćosić, Iris Vencelj, Uroš Lorenčič, Dino Braš	**Managing Director:** Rok Moljk
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
Share capital (EUR)	65,000
Book value of equity interest (EUR)	65,000
Equity interests (voting rights) held by Group members:	Sava Montenegro: 100.0%
Governing bodies	**Executive Director** Marijana Babić
Position in the Group	*indirect subsidiary*

3 SIGNIFICANT EVENTS IN 2011

- On 31 January 2011, the controlling company received a request (and two subsequent amending letters on 9 and 29 February 2012) 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,
  - Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d., Dunajska cesta 119, Ljubljana,
  - Poštna banka Slovenije, d.d., the bank group of Nova kreditna banka Maribor, d.d., Vita Kraigherja 5, Maribor,

  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. Sava Reinsurance 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 yet to conclude the proceedings.
- At the end of February, the Company received a claim from the designers of its former logo in the amount of EUR 0.4m. The proceedings have not concluded by the time this report is being prepared but the Company does not expect any financial obligations in this regard.
- Taking advantage of its pre-emptive rights, Sava Reinsurance Company took part in the first round of the recapitalisation of Zavarovalnica Maribor with a contribution of EUR 5,860,707. As a result, Sava Reinsurance Company was assigned 1,025,101 new shares. In the second round, the Company was assigned no new shares. After the recapitalisation, Sava Reinsurance Company held 5,702,117 shares of Zavarovalnica Maribor equivalent to 45.79% of the Zavarovalnica Maribor share capital. The resolution was entered in the court register in August 2011.
- In line with its strategy, in July and August Sava Reinsurance Company bought 360,199 additional shares of Zavarovalnica Maribor and now owns 6,062,316 shares of the insurer. The latest purchase was entered in the central securities register at KDD on 23 August 2011. After these additional acquisitions, Sava Reinsurance Company's holding in Zavarovalnica Maribor increased from 45.79% to 48.68%. Sava Reinsurance Company is the second largest shareholder of Zavarovalnica Maribor.
- In 2011, the controlling company recapitalised the following subsidiaries:
  - Sava životno osiguranje (Serbia): EUR 0.3m and 0.4m; the resolutions were entered in the court register in March and September 2011, respectively.
  - Velebit usluge (Croatia): EUR 2.0m; the resolution was entered in the court register in September 2011.
  - Sava osiguruvanje (Macedonia): EUR 2.5m; the resolution was entered in the court register in September 2011.
- In June 2011, Sava Reinsurance Company and AtaHolding OJSC of Azerbaijan signed a memorandum of co-operation regarding the establishment of a life insurance company in Azerbaijan.

- In October 2011, the rating agency Standard & Poor's ("S&P") published a new rating report for Sava Reinsurance Company, reaffirming its previous long-term credit and financial strength rating of A– with a stable outlook.
- In November the Macedonian subsidiary Sava Tabak changed its name to Sava osiguruvanje (Macedonia) and assumed the corporate design of the Sava Re Group.
- In December S&P announced a possible downgrade (to BBB+) as a result of the downgrade for Slovenia.
- In December the controlling company granted a subordinate loan to its subsidiary Velebit osiguranje in the amount of EUR 1.4m.

4 SIGNIFICANT EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

- As announced at the end of 2011, in January 2012 S&P reviewed the sovereign credit ratings of euro zone members that had been placed on CreditWatch. Slovenia was downgraded from AA– to A+. After the sovereign downgrade of Slovenia, S&P reaffirmed Sava Reinsurance Company's current credit and financial strength rating of A–, but with a negative outlook. Thereafter, the Company was no longer on CreditWatch.
- In February 2012, the Macedonian subsidiary Sava osiguruvanje sold all shares of Goldmak.
- In March 2012, the controlling company recapitalised its Kosovan subsidiary Illyria with EUR 2.2m.
- On 2 April 2011, the POSR share was transferred to the prime market of the Ljubljana Stock Exchange.
- On 2 April 2012, the Management Board or Sava Reinsurance Company adopted the resolution to initiate liquidation proceedings in the company Bro-Dil.

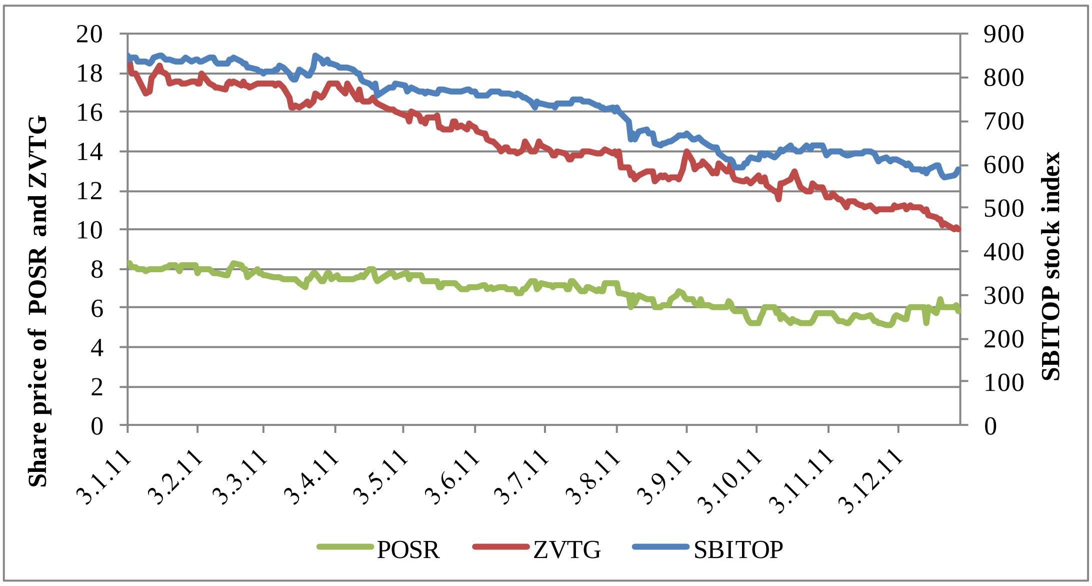
5 SHAREHOLDERS AND SHARE TRADING

5.1 Developments in capital markets and impacts on the trend of the POSR share

The year 2011 started out well in global capital markets in the face of natural catastrophes and despite the tensions in the Middle East. However, trends turned negative in the second half of the year as a result of the escalating European debt crisis, and at the end of the summer also global macroeconomic indicators deteriorated. Thus global stock indices plummeted in the third quarter, the German Dax losing over 25% and the US S&P and Dow Jones down by 15.5% and 12%, respectively. The last quarter 2011 was very volatile as global stock exchanges were pressured by the Greek bailout. At the end of the year, markets reacted positively to the decision of the European Central Bank to launch its Long-term Refinancing Operation through which it extended loans of almost EUR 500bn to European banks at a 1% interest rate and with a maturity of three years.

In 2011 the Slovenian capital market continued to suffer due to low liquidity, further pushing down stock prices. Another negative impact came from not having realised the sales of certain shares in government-owned companies. Trends in the Slovenian capital markets do not move in line with economic performance since performance indicators of major members of the Ljubljana Stock Exchange were favourable both in 2010 and 2011. The Slovenian SBITOP stock index fell by 30% in 2011; the POSR share lost 27.4%.

Movement in the POSR share price in 2011 compared to the share of Zavarovalnica Triglav and the SBITOP stock index.



5.2 General details on the share

Basic details about the POSR share[3]

	31. 12. 2011	31. 12. 2010
Share capital (EUR)	39,069,099	39,069,099
No. of shares	9,362,519	9,362,519
Ticker symbol	POSR	POSR
Type of share	common	common
Listing	Ljubljana Stock Exchange, standard market	Ljubljana Stock Exchange, standard market
Number of treasury shares	210	210
Net earnings/loss per share (EUR)	0.92	0.77
Consolidated net earnings/loss per share (EUR)	0.43	0.59
Book value of shares (EUR)	16.92	16.68
Consolidated book value of shares (EUR)	15.82	16.52
Share price at reporting date (EUR)	5.81	8.00
Average share price in reporting year (EUR)	6.82	9.46
Minimum share price in reporting year (EUR)	5.15	7.60
Maximum share price in reporting year (EUR)	8.30	14.35
Trade volume in the reporting year (EUR)	2,180,800	5,139,500

In 2011, the Company did not pay dividends. In 2011, the Company did not have conditional equity.

As at 31 December 2011, 96.5% of shareholders were Slovenian and 3.5% foreign. The largest shareholder of the POSR share is the Slovenian Restitution Fund (SOD), which holds 25% plus one share. A list of the ten largest shareholders is given in the section "Details pursuant to Article 70 (6) of the Companies Act (ZGD-1)".

Shareholder Structure of Sava Reinsurance Company as at 31 December 2011

	Domestic investors	Foreign investors
Banks	14.4%	0.6%
Other financial institutions	30.3%	2.3%
Natural persons	17.2%	0.2%
Investment funds and mutual funds	15.1%	0.4%
Other commercial companies	2.4%	0.0%
Insurers and pension companies	17.1%	0.0%
Total	96.5%	3.5%

The "Other financial institutions" item includes the Slovenian Restitution Company with a holding of 25% plus one share.
Source: Central securities register KDD d.d. and own sources

[3] Net earnings per share / no. of shares excl. treasury shares (9,362,309).
Book value of shares = equity at 31 December / no. of shares (9,362,309).

Analyst coverage on the POSR share is regularly provided by three financial institutions: Alta Invest d.d., KD banka d.d. and Silkroutefinancial Limited London. In 2011 all institutions recommended potential investors to buy the share. Target prices were the following:

Share analyst	Target price (EUR)
Alta Invest d.d.	9.40
KD banka d.d.	8.40
Silkroutefinancial Limited London	8.36

In 2011, the Management Board members of Sava Reinsurance Company purchased POSR shares, thus showing their confidence in the future operations of the Company.

5.3 Investor relations

The public relations policy of Sava Reinsurance Company is in line with the Financial Instruments Market Act (ZTFI), the Company's Act (ZGD), notification recommendations of the LJSE to public companies, the Corporate Governance Code for Public Joint-Stock Companies and with the Rules of Procedure of the Supervisory Board. Announcements are publish as per financial calendar and current requirements.

Current investors are the primary target group in communicating with investors as they have already put their trust in the company by buying the shares. Therefore, Sava Reinsurance Company is committed to prompt, uniform and transparent informing with regular announcements through the LJSE website (SEOnet) and its own website (www.sava-re.si).

The Company convenes general shareholder meeting on a regular annual basis, with notice given through its website and in one of the Slovenian daily newspapers. After the event, the general meeting resolutions are published.

The Company organises quarterly meetings with analysts and investors who monitor the Company's operations and publish reports on Sava Reinsurance Company. Analyst reports are posted at the Company's website.

The Company regularly participates in conferences organised by stock exchanges and organises individual visits to current and potential investors, in Slovenia as well as abroad.

Sava Reinsurance Company regularly co-operates with the media in both the domestic and international markets, organises press conferences, posts public announcements and promptly replies to questions from the media. In this way information on the Company is available through public means of communication to the broader financial community.

The Company would like to give stakeholders a true and fair view of its operations and consequently a true and fair estimate of the value of its share, and it seeks to attract as many as possible long-term domestic and international investors for the POSR share.

Current and potential investors are invited to send any questions relating to the Company to ir@sava-re.si.

6 REPORT OF THE SUPERVISORY BOARD

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board, a 6-member body according to its rules of procedure, functioned with only five members up until 10 June 2011, as follows: Branko Tomažič (Chairman), Mateja Lovšin Herič (Deputy Chairperson), Slaven Mićković (member), Aleš Mirnik (member – employee representative) and Nada Zidar (member – employee representative). As from 10 June 2011, it was composed of Branko Tomažič (Chairman), Mateja Lovšin Herič (Deputy Chairperson), Slaven Mićković (member), Samo Selan (member – employee representative) and Martin Albreht (member – employee representative).

When Gregor Hudobivnik joined the Supervisory Board on 29 June 2011, it again started operating in its complete 6-member composition.

ACTIVITIES OF THE SUPERVISORY BOARD

The Supervisory Board met 11 times in 2011. In the course of the year, the Supervisory Board, within its statutory mandate and within the terms of the Articles of Association, discussed all relevant aspects of the operations and activities of Sava Reinsurance Company and the Sava Re Group. 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 2011, the Supervisory Board approved the business plan and budget for the Company and the Group for the financial year 2011 as well as the Sava Re Group strategic plan for the 2011–2015 period.

In 2011, the Supervisory Board, within its statutory mandate, oversaw the Company's internal audit. It approved the Internal Audit Charter of the Sava Re Group (reviewed the Charter) and the annual internal audit plan for 2011. It also considered the internal audit reports for the second half of 2010, and discussed the annual internal audit report for 2010. It considered quarterly internal audit reports for the three months to 31 March 2011, for the three months to 30 June 2011 and for the three months to 30 September 2011. 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 are being taken into consideration by the Management Board. It further notes that internal audit found no significant or material irregularities in the operations of either the Company or the Group.

In addition, the Supervisory Board was presented the report on the annual assessment of the quality of internal audit activity at Sava Reinsurance Company stating the assessor's opinion that the activities of the Group internal audit of Sava Re Group comply with the International Standards for the Professional Practice of Internal Auditing.

In addition to the above-mentioned documents, in 2011 the Supervisory Board also considered the Unaudited Annual Report of Sava Reinsurance Company and the Sava Re

Group 2010, as well as its interim financial reports for the periods January–March 2011 and January–September 2011 and the Unaudited (Consolidated) Financial Report of the Sava Re Group and Sava Reinsurance Company for the Period January–June 2011.

In 2011, the Supervisory Board adopted the Annual Report of the Sava Re Group and Sava Reinsurance Company 2010, and presented it at the General Meeting together with the Report on Internal Audit 2010, the Supervisory Board's own report for 2010, and its own opinion on the Annual Report 2010.

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 a new (replacement) member of the Supervisory Board and an external auditor for the 2011 financial year.

In accordance with the "Criteria for Remuneration of Members of Supervisory Bodies in Companies Including Government Equity Holdings" and "Recommendations for Determining Attendance Fees and Remunerations for Supervisory Board Members" adopted by the Capital Assets Management Agency, the Supervisory Board proposed to the General Meeting of shareholders to revise the remuneration system for Supervisory Board members and members of its committees.

Based on the amendments to the remuneration system for Supervisory Board members and members of its committees, in 2011 the Supervisory Board adopted amendments to the Rules of Procedure of the Supervisory Board.

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 osiguruvanje (Skopje), Sava Life (Belgrade) and Velebit usluge (Zagreb).

Besides reports on subsidiaries, the Supervisory Board discussed a report on its investment in Zavarovalnica Maribor and was informed of the need to recapitalise this associate company.

The Supervisory Board received regular reports from the Management Board on reinsurance matters: on major loss events in global markets and potential losses to be born by the Company.

Upon recommendation of the Management Board and in accordance with the Corporate Governance Code for Public Joint-Stock Companies, the Supervisory Board adopted, in 2011, a document titled "Corporate Governance Policy of Sava Reinsurance Company and the Sava Re Group".

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

In 2011 the three-member Audit Committee, a mandatory committee of the Supervisory Board, was composed of Mateja Lovšin Herič (Chairperson), Slaven Mićković (member) and Blanka Vezjak (member).

Activities of the Audit Committee in 2011

The Audit Committee of the Supervisory Board met eight times in 2011.

The Audit Committee was mostly concerned with whether materials for Supervisory Board meetings, which are the responsibility of the Audit Committee, comply with all relevant standards, such as if materials were being prepared observing the reporting principle of consistency. Based on a Supervisory Board resolution and taking into account the challenging conditions in capital markets, the Audit Committee discussed quarterly reports on the investment policy of Sava Reinsurance Company.

The Chairperson of the Audit Committee reported on its activities and positions at Supervisory Board meetings. In addition, the Audit Committee prepared a written report on its activities in 2010.

The Supervisory Board also adopted a quality assessment of the activities undertaken by the Audit Committee.

The Supervisory Board believes that 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.

Furthermore, the Supervisory Board believes that the composition of the Audit Committee is appropriate and that its members have such character traits that will ensure the quality and independence of its operations.

The Supervisory Board is also of the opinion that the composition of the Audit Committee is appropriate and that it had all prerequisites for working effectively.

NOMINATION COMMITTEE

In accordance with the recommendations of the Corporate Governance Code for Public Joint-Stock Companies and in response to the need to nominate to the General Meeting a candidate for Supervisory Board member, in April 2011 the Supervisory Board established a standing three-member Nominations Committee composed of Branko Tomažič (Chairman), Mateja Lovšin Herič (member) and Vesna Razpotnik (member).

Activities of the Nomination Committee in 2011

The Supervisory Board Nomination Committee was convened once in 2011. The Nomination Committee carefully examined all applications for a new (replacement) Supervisory Board member and recommended one candidate to the Supervisory Board.

ANNUAL REPORT 2011

The Company submitted the "Audited Annual Report of the Sava Re Group and Sava Reinsurance Company 2011" for approval to the Supervisory Board. Within its statutory mandate, in its meeting on 24 April 2012 the Supervisory Board examined the Annual Report 2011.

The Audit Committee of the Supervisory Board discussed the annual report 2011 including the audit report and the audit letter addressed to management after conclusion of the preliminary audit, and issued its opinion and position thereon.

The Supervisory Board was also presented with the opinion of the auditor KPMG Slovenija, podjetje za revidiranje, d.o.o., who audited the Annual Report of the Sava Re Group and Sava Reinsurance Company for 2011, and also carried out audits in Sava Re Group subsidiary companies.

The Supervisory Board noted that the annual report for 2011 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.

Based on its examination of the annual report for 2011, as well as on the opinion of the external auditor and that of the Audit Committee, the Supervisory Board considers that the annual report for 2011 gives a true and fair view of assets and liabilities, the financial position, profit or loss and cash flows of Sava Reinsurance Company and the Sava Re Group.

The Supervisory Board hereby approves the "Audited Annual Report of the Sava Re Group and Sava Reinsurance Company 2011" as submitted by the Management Board.

DETERMINATION AND PROPOSAL FOR APPROPRIATION OF DISTRIBUTABLE PROFIT OF SAVA REINSURANCE COMPANY

Distributable profit of the financial year 2011 of EUR 7,915,508 is to remain unallocated.

CONCLUSION

The Supervisory Board considers that the operations of Sava Reinsurance Company in 2011 were very successful, although this is not true for all subsidiaries in the Sava Re Group since their activities in the Western Balkans is carried on under very restrained circumstances. Still the Supervisory Board remains optimistic about the future largely because of the good organisation of the Company and the potential it sees in its human capital. In 2012, the Management Board of the controlling company must take measures that will significantly improve the results of individual subsidiaries.

In addition to its day-to-day activities, the Supervisory Board will give special attention to overseeing the operations of the Sava Re Group and implementation of strategic goals and will, within its means and powers, offer the Management Board its full support.

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

Branko Tomažič
Chairman of the Supervisory Board of Sava Reinsurance Company

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

7.1 Corporate Governance Policy

In its 45th session on 21 November 2011, the Management Board of Sava Reinsurance Company d.d., Dunajska 56, Ljubljana, and the Supervisory Board in its 29th session on 12 December 2011 adopted the Corporate Governance Policy of Sava Reinsurance Company and the Sava Re Group. The document sets out the main policies for corporate governance of Sava Reinsurance Company and the Sava Re Group and represents a commitment for the future. This Corporate Governance Policy is available through the Ljubljana Stock Exchange Seonet information system and from the Company's website www.sava-re.si.

7.2 Statement of compliance with the Corporate Governance Code for Public Joint-Stock Companies

The Management Board and the Supervisory Board of Sava Reinsurance Company hereby confirm that they operate in compliance with the Corporate Governance Code for Public Joint-Stock Companies of 8 December 2009 as adopted by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia, which is available from the website of the Ljubljana Stock Exchange, Ljubljana (http://www.ljse.si) in Slovenian and English, except for the deviations expressly explained below.

7.2.1. The Supervisory Board

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 2011 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 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 8.8 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.

Recommendation 9, 9.1 and 9.3.:
The Supervisory Board does not evaluate the competence and efficiency of each individual Supervisory Board member because the Board functions as a whole. As a rule, the Supervisory Board meets in its full composition and adopts decisions jointly, which makes it difficult to evaluate the contribution of each individual member. 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.

Recommendation 13.1.:
As one member's four-year term of office expired prematurely in 2010, the Supervisory Board appointed, in April 2011, a standing five-member Nomination Committee as a special consulting body. This was tasked with selecting objectively and transparently candidate members of the Supervisory Board to be proposed to the General Meeting for election.
However, the Supervisory Board has not appointed a standing personnel committee. Should need arise, the Nomination Committee can also be tasked with responsibilities of a personnel committee. The Supervisory Board carries out other duties within its terms of reference without a specific committee as this did not prove to be necessary.

7.2.2. Transparency

Recommendation 20.2.:
The Company does not have a single document including a communication strategy for the prevention of situations leading towards insider trading. The content of recommendation 20.2 is largely set out in internal acts or implemented in practice.

This statement relates to the period from adoption of the previous statement of compliance with the Corporate Governance Code for Public Joint-Stock Companies, i.e., 15 April 2011, up until 16 April 2012.

7.3 Governance and supervision bodies of Sava Reinsurance Company

Management system

Sava Reinsurance Company has a two-tier management system with a Management Board that manages and a Supervisory Board that oversees the operations.

7.3.1. General Meeting of Shareholders

Terms of reference:
The General Meeting decides the following:
- approval of the annual report, unless approved by the Supervisory Board or if the Management Board and Supervisory Board have left the decision about its approval to the General Meeting of Shareholders;
- the appropriation 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:
The General Meeting of Shareholders, through which the shareholders of Sava Reinsurance Company exercise their rights in the affairs of the company, is convened at least once a year, no later than August. The General Meeting may be convened in other cases as provided by law, the Company's Articles of Association and whenever this is in the interest of the Company. 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 in 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:
General Meeting resolutions are adopted by a majority of votes cast (simple majority), unless a larger majority or other requirements are stipulated by law or the Articles of Association.

Exercise of voting rights in General Meeting:
Shareholders may exercise their voting rights in 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.

General Meeting in 2011:
There has been only one General meeting of shareholders called in 2011. The 24th General Meeting was held at the Horus hall of Austria Trend Hotel Ljubljana on 29 June 2011. The Meeting was presented the approved annual report 2010 with the auditor's opinion and with a written report of the Supervisory Board to the annual report and the annual report on internal auditing for 2010 with the opinion of the Supervisory Board thereto. The General Meeting passed a resolution on the appropriation of distributable profit and on granting a discharge to the Management Board and the Supervisory Board for the year 2010, it elected a new Supervisory Board member (shareholder representative) and was informed of the names of the two new Supervisory Board members who are employee representatives. The General Meeting decided on amendments to the Articles of Association and on amending the

remuneration system for Supervisory Board members and to members of its committees. The Auditor appointed for the 2011 financial year is KPMG Slovenija, podjetje za revidiranje d.o.o., Železna cesta 8a, Ljubljana.

No challenging actions were announced in the General Meeting.

General Meeting in 2012:

In line with the financial calendar, the regular annual General Meeting of the Shareholders of Sava Reinsurance Company is scheduled to take place on 28 May 2012. The notice for the General Meeting together with proposed resolutions, venue and requirements for participation will be published through the SEOnet information system of the Ljubljana Stock Exchange, in the daily newspaper Delo and on the Companies website.

7.3.2. The Supervisory Board

Activities of the Supervisory Board:

The Supervisory Board shall supervise the management of the Company's operations. In this, it shall act in accordance with the applicable legislation, particularly the Slovenian Companies Act and the Insurance Act, as well as with the Company's Articles of Association and the Supervisory Board's Rules of Procedure. As a rule, it meets at least four times a year, normally after the end of a financial quarter.

Terms of reference:

Major responsibilities of the Supervisory Board:

- to approve the annual business plan and budget of the Sava Reinsurance Company and the Sava Re Group as prepared by the Management Board;
- to approve the development strategy of the Sava Reinsurance Company and the Sava Re Group as 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 examine the annual and interim reports of Sava Reinsurance Company and the Sava Re 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.

The Supervisory Board in 2011:

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 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.

Three Supervisory Board members (shareholder representatives) started their four-year term of office in July 2009. After Mateja Treven resigned as Supervisory Board member on 15 December 2010, the Supervisory Board has functioned with five members.

On 29 June 2011, the General Meeting was presented Mateja Treven's statement of resignation from the functions of Supervisory Board Member and Chairperson of the Audit Committee and elected Gregor Hudobivnik as new Supervisory Board member (shareholder representative). The new Supervisory Board member began his term of office on the day of his election, i.e., on 29 June 2011. His term of office will expire upon expiry of the term of office of the remaining Supervisory Board members who are shareholder representatives, i.e., on 14 July 2013.

The four-year term of office of former employee representatives in the Supervisory Board Nada Zidar and Aleš Mirnik expired on 10 June 2011. Pursuant to the Workers' Participation in Management Act, the Workers' Council of Sava Reinsurance Company elected its representatives to the Supervisory Board of Sava Reinsurance Company, Martin Albreht and Samo Selan, for a term of four years. Martin Albreht and Samo Selan began their term of office on 10 June 2011.

Composition of the Supervisory Board at 31 December 2011:

Chairman:	Branko Tomažič
Deputy Chairperson:	Mateja Lovšin Herič
Member:	Slaven Mićković
Member:	Gregor Hudobivnik
Member (employee representative):	Martin Albreht
Member (employee representative):	Samo Selan

Employment, qualification, brief presentation, beginning of term of office, memberships of other management or supervisory bodies:

Representatives of capital:

Branko Tomažič, Chairman of the Supervisory Board (born 1943)
Employment: retiree.
Qualifications: University graduated economist.
Brief presentation: The Chairman of the Supervisory Board has extensive experience from the gambling and tourism industry gained when chairing the Management Board of Hit, d.d. Retired since 2006.
Beginning of term of office: 14 July 2009.
Term of office: 4 years.
Memberships of other management or supervisory bodies**:**

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

Mateja Lovšin Herič, Deputy Chairperson of the Supervisory board (born 1969)
Employment: Slovenska odškodninska družba, d.d.
Qualifications: University graduated economist.
Brief presentation: The Deputy Chairperson of the Supervisory Board has extensive experience in equity investments. She gained extensive experience through leading large and

complex projects in which the Slovenian Restitution Company was involved, such as the privatisation of Slovenian insurance companies. As from 2006, Mateja is a senior executive for equity investments with the Slovenian Restitution Company. She holds a certificate issued by the Association of Supervisory Board Members certifying that she is a qualified member of supervisory and management bodies required by persons to be appointed to such bodies by the government of the Republic of Slovenia.
Beginning of term of office: 14 July 2009.
Term of office: 4 years.
Memberships of other management or supervisory bodies**: /**

Slaven Mićković, ***Member of the Supervisory Board*** (born 1958)
Employment: Ministry of Finance.
Qualifications: Master of science in mathematics, PhD in economics.
Brief presentation: The Supervisory Board member has experience in valuation of companies. Over the past 15 years of service for the Ministry of Finance, he has been involved in projecting income and in calculating the impact of economic activities and of population aging on public finance. In recent years, he has been participating in various international projects on behalf of the Slovenian government.
Beginning of term of office: 14 July 2009.
Term of office: 4 years.
Memberships of other management or supervisory bodies**:**

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

Gregor Hudobivnik, ***Member of the Supervisory Board*** (born 1965)
Employment: Abanka Vipa d.d.
Qualifications: University graduated lawyer.
Brief presentation: The Supervisory Board member has extensive experience in banking. In 2005 he was appointed Member of the Management Board of Abanka Vipa d.d. responsible for finance, operational support, development & IT, and risk management.
Beginning of term of office: 29 June 2011.
Term of office: 14 July 2013.
Memberships of other management or supervisory bodies**:**

- Abančna DZU, Pražakova ulica 8, Ljubljana – Chairman of the Supervisory Board.

Employee representatives

Martin Albreht, ***Member of the Supervisory Board*** (born 1956)
Employment: Sava Reinsurance Company d.d.
Qualifications: Graduated economist.
Brief presentation: This Supervisory Board member has extensive experience in accounting and in the implementation of computer applications for accounting. He joined Sava Reinsurance Company in 2007. Since 2010 he is Executive Director of the Accounting Department.
Beginning of term of office: 10 June 2011.
Term of office: 4 years.
Memberships of other management or supervisory bodies**: /**

Samo Selan, ***Member of the Supervisory Board*** (born 1971)
Employment: Sava Reinsurance Company d.d.
Qualifications: University graduated electrical engineer.

Brief presentation: The Supervisory Board member has over ten years of experience in reinsurance underwriting. Since 2009, he is Director of the Retrocession in the Reinsurance Department. His first mandate as employee representative in the Supervisory Board of Sava Reinsurance Company was in the period 2003–2007. He is successful in both his professional field as well as in the field of worker participation in management.
Beginning of term of office: 10 June 2011.
Term of office: 4 years.
Memberships of other management or supervisory bodies**:**

- Sava životno osiguranje, a.d., Bulevar vojvode Mišića 51, 11000 Belgrade, Serbia – Member of the Board of Directors.

Statement of independence:
The Supervisory Board members committed themselves, upon entering their office and again in 2011, to meeting the criteria of independence as set out in point C.3 of Annex C to the Corporate Governance Code for Public Joint-Stock Companies by signing a "Statement on the independence of Supervisory Board members of Sava Reinsurance Company". These statements have been posted on the Company's website www.sava-re.si, under "Company/Supervisory Board".

Remunerations, compensations and other benefits:
Remuneration of Supervisory Board members is discussed in detail under the section "Third-party disclosures" in the notes to the financial statements.

Shareholdings of Supervisory Board members:
POSR shares held by Supervisory Board members as at 31 December 2011

	No. of shares	Holding (%)
Supervisory Board members		
Gregor Hudobivnik	192	0.002%
Total	192	0.002%

More information on the activities of the Supervisory Board is provided in the "Report of the Supervisory Board".

7.3.3. Supervisory Board Committees

Pursuant to legislation, the Corporate Governance Code for Public Joint-Stock Companies and best practice, the Supervisory Board appoints one or more committees or commissions, and tasks them with specific areas, with the preparation of draft resolutions of the Supervisory Board, the implementation of resolutions of the Supervisory Board, thereby offering it professional support.

The Supervisory Board of Sava Reinsurance Company established two Committees: the Audit Committee and the Nomination Committee.

The 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.

On 20 July 2009, the current Supervisory Board appointed an 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.

Activities of the Audit Committee:

The duties and terms of reference of the Audit Committee of the Supervisory Board are set out in the Companies Act, 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).

Terms of reference:

Major responsibilities of the Audit Committee:

- 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 nominate an auditor for the Company's annual report to be appointed by the Supervisory Board;
- to oversee 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.

The Audit Committee in 2011:

In the first six months of 2011 there were no changes in the composition of the Audit Committee.

Members of the Supervisory Board Audit Committee as at 31 December 2011:

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

The Nomination Committee

Pursuant to the recommendations of the Corporate Governance Code for Public Joint-Stock Companies and in view of the fact that in 2011 a new member was to be nominated to the Supervisory Board, the Supervisory Board set up a standing Nomination Committee as a special consultation body for the Supervisory Board for the purpose of carrying out objective and transparent proceedings for the nomination of candidates to fill Supervisory Board vacancies and recommend to the Supervisory Board which candidates to propose to the General Meeting for election.

On 20 April 2011, the Supervisory Board appointed a Nomination Committee in the following composition:

- Branko Tomažič, Chairman,
- Mateja Lovšin Herič, member,
- Vesna Razpotnik, member.

Activities of the Nomination Committee:

The terms of reference of the Nomination Committee is governed by the Corporate Governance Code for Public Joint-Stock Companies.

Terms of reference:

Major responsibilities of the Nomination Committee of the Supervisory Board:

- to support the Supervisory Board in preparing proposals, defining selection criteria and candidates for new Supervisory Board members;
- to assist the Supervisory Board in other matters pertaining to the Supervisory Board where Supervisory Board members may experience conflicts of interest.

The Nomination Committee in 2011:

Since its appointment on 20 April 2011 there were no changes in the composition of the Committee.

Members of the Nomination Committee as at 31 December 2011:

Chairman:	Branko Tomažič
Member:	Mateja Lovšin Herič
External member:	Vesna Razpotnik

7.3.4. The Management Board

The Role of the 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.

Terms of reference:

Major responsibilities of the Management Board:

- to run and organise the operations of Sava Reinsurance Company and the Sava Re Group;
- to represent Sava Reinsurance Company;
- to bear responsibility for the legality of operations of Sava Reinsurance Company;
- to adopt the development strategy of Sava Reinsurance Company and the Sava Re Group, which is to be presented to the Supervisory Board for consent;
- to adopt the business plan and budget of Sava Reinsurance Company and the Sava Re Group, which is to be presented to the Supervisory Board for consent;

- to adopt internal acts of Sava Reinsurance Company;
- to report to the Supervisory Board on operations of the Company and the Group;
- to prepare a draft annual report and submit it to the Supervisory Board for approval together with the auditor's report and a proposal regarding appropriation of distributable profit;
- to convene the General Meeting of Shareholders;
- to implement the resolutions adopted by the General Meeting and the Supervisory Board.

Powers of the Management Board (increase in share capital)

On 14 April 2008, the General Meeting of Sava Reinsurance Company 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 carry rights and are 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.

The Management Board in 2011:

In accordance with the Articles of Association of Sava Reinsurance Company, the Company is managed and represented by a two-to-five member management board. In 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 five-year term of office of Zvonko Ivanušič and Jošt Dolničar started on 31 December 2008, Srečko Čebron started his five-year term of office as Board Member on 1 February 2009, and Mateja Treven her five-year term of office on 3 February 2011.

Members of the Management Board as at 31 December 2011:

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

Qualifications, brief presentation, beginning of term of office, area of responsibility and memberships of other management or supervisory bodies:

Zvonko Ivanušič, *Chairman of the Management Board,* (born 1959)
Qualifications: University graduated economist, Master of economics.
Brief presentation: He was appointed Chairman of the Management Board in 2008. Prior to that, he was Deputy Chairman to the Management Board. He joined the Company in 2002 as

consultant to the Management Board. Prior to joining Sava Reinsurance Company, he was Minister of Finance of the Republic of Slovenia in 2000. Before that held various top management positions, among others between 1997 and 2000 Chairman of the Management Board of Zavarovalnica Slovenica; from 1994 to 1997 Chairman of the Management Board of Kmečka družba and from 1993 to 1994, Managing Director of Belt-Livar Črnomelj.
Beginning of term of office: 31 December 2008.
Term of office: 5 years.
Area of responsibility: The Chairman of the Management Board is responsible for managing Sava Reinsurance Company, co-ordinating the activities of the Management Board, controlling, general affairs, personnel, organisational and legal affairs, and public relations.
Memberships of other management or supervisory bodies:

- Zavarovalnica Tilia, d.d., Seidlova cesta 3, 8000 Novo mesto – Chairman of the Supervisory Board;
- Banka Celje, d.d., Vodnikova cesta 2, 3000 Celje – Deputy Chairman of the Supervisory Board.

Jošt Dolničar, ***Member of the Management Board*** (born 1972)
Qualifications: University graduated lawyer.
Brief presentation: He was appointed member of the Management Board in 2008. He joined Sava Reinsurance Company in 2006 as Senior Executive responsible for the management of subsidiaries. Before joining Sava Reinsurance Company, Jošt Dolničar worked for Zavarovalnica Triglav – in his last appointment as Executive Manager of Non-life Business. Through much of his life, he has been actively involved in sports, and is still a licensed rowing trainer, a member of the Legal Committee and an arbitrator with the arbitration court of the Slovenian Olympic Committee.
Beginning of term of office: 31 August 2008.
Term of office: 5 years.
Area of responsibility: He is responsible for managing strategic investments in direct insurance subsidiaries, risk management, actuarial affairs and process and information technology.
Memberships of other management or supervisory bodies**:**

- Zavarovalnica Tilia, d.d., Seidlova cesta 3, 8000 Novo mesto – Member of the Supervisory Board;
- Sava životno osiguranje, a.d., Bulevar vojvode Mišića 51, 11000 Belgrade, Serbia – Member of the Board of Directors.
- Sava Montenegro, a.d., P.C Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro – Member of the Board of Directors.

Srečko Čebron, ***Member of the Management Board*** (born 1954)
Qualifications: University graduated mining engineer.
Brief presentation: He was appointed member of the Management Board in 2008. Prior to that, he was member of the Management Board of Zavarovalnica Maribor since 2001. Srečko started his career with Generali in Trieste. He gained most of his predominantly international experience in insurance from Zavarovalnica Tilia (Slovenia), Unipol (Milano, Bologna and Moscow), ICMIF (Manchester) and Euresap (Lisbon). In his prolonged stays abroad, Srečko acquired extensive foreign language skills.
Beginning of term of office: 1 February 2009.
Term of office: 5 years.
Area of responsibility: Srečko Čebron is responsible for reinsurance operations.
Memberships of other management or supervisory bodies**: /**

Mateja Treven, *Member of the Management Board* (born 1972)
Qualifications: University graduated economist, Master of economics.
Brief presentation: Mateja Treven was appointed member of the Management Board in 2010. She joined Sava Reinsurance Company at the beginning of 2011, first as authorised representative of the Management Board. Prior to that Mateja served on the Supervisory Board of Sava Reinsurance Company and chaired its Audit Committee. Mateja Treven started her carrier at Ljubljanska banka. In 2000, she headed the Securities Department at Zavarovalnica Triglav and between 2004 and 2006 was consultant to the Chairman of the Management Board responsible for Finance and Accounting. In 2006, Mateja Treven accepted the position of Member of the Management Board at the brokerage firm Publikum, investicijske storitve d.d., and from March 2010, she was Consultant to its Management Board of Publikum, družba za investijcije d.d., responsible for Finance and Accounting. Mateja obtained a Master of Science in Investment Management Degree from the London City University Business School. In 2005, she was awarded a CFA charter.
Beginning of term of office: 3 Feburary 2011.
Term of office: 5 years.
Area of responsibility: Mateja Treven is responsible for finance, accounting, internal audit, investor relations and compliance.
Memberships of other management or supervisory bodies**:**

- Sava osiguranje, a.d., Bulevar vojvode Mišića 51, 11000 Belgrade, Serbia – Member of the Board of Directors.

Remunerations, compensations and other benefits:

Remuneration of Management Board members is discussed in detail in the section "Third-party disclosures" in the notes to the financial statements.

Shareholdings:

POSR shares held by Management Board members as at 30 December 2011

	No. of shares	Holding (%)
Members of the Management Board		
Zvonko Ivanušič	1,826	0.020%
Srečko Čebron	1,000	0.011%
Jošt Dolničar	857	0.009%
Mateja Treven	2,078	0.022%
Total	5,761	0.062%

Source: Central securities register KDD d.d.

8 FINANCIAL REPORTING: INTERNAL CONTROLS AND RISK MANAGEMENT

Internal controls in the area of financial reporting comprise a system of guidelines and processes designed and implemented by the Company at all levels to manage risks associated also 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.

In addition to the Companies Act (ZGD), Sava Reinsurance Company is governed by the Insurance Act (ZZavar), which provides that insurance companies must put in place and maintain an appropriate internal control and risk management system. Relevant implementing regulations, which the Company strictly follows, based on the Insurance Act are issued by the Insurance Supervision Agency.

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.

Internal controls applying to financial 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 International Financial Reporting Standards (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 constitutes an additional control measure. Data exchange between Group companies is becoming more efficient by unifying information systems in subsidiary companies and by further developing information technology. Whether necessary information system controls have been put in place and function adequately is verified by relevant experts as part of the regular annual auditing of financial statements.

In addition to the above mentioned, Sava Reinsurance Company has put in place an internal control system for all work processes. Internal controls include procedures and acts ensuring compliance with the law and internal rules. All major work processes in Sava Reinsurance Company have been specified including details on control points together with persons responsible for individual controls. Multi-phase work processes are controlled in between the phases. Employees who carry out a certain task, control the work of their predecessors. The work of predecessors is controlled by examining documents received or by an automatic or manual control of processed data.

Sava Reinsurance Company complies with all rules and regulations on handling confidential data and inside information, on allocation of investments and on the prohibition of trading based on inside information. In addition, it regularly controls employee dealings in financial instruments for own account.

Other persons who Sava Reinsurance Company tasked, by authorisation, with the provision of individual services must carry out their tasks in compliance with the law, implementing acts, contracts for service, internal rules and job instructions that are applicable at Sava Reinsurance Company.

Pursuant to the Insurance Act, Sava Reinsurance Company set up an Internal Group Audit Department (CNR) that is responsible to accesses the adequacy and effectiveness of internal controls used, and their reliability in the Company's pursuance of objectives and management of risks. Internal Group Audit reports on its findings to the Management Board, the Audit Committee and the Company's Supervisory Board.

9 EXTERNAL AUDIT

The financial statements of the Sava Re Group and of Sava Reinsurance Company are audited by KPMG Slovenija, podjetje za revidiranje, d.o.o., Železna cesta 8a, Ljubljana, who have been tasked therewith for the third consecutive year. In 2011 the subsidiaries were audited by the local auditing staff of the KPMG Group.

The Company is in compliance with the Insurance Act provision on rotation of auditors every five years.

In 2011, KPMG was also engaged by the Company for consulting services on risk management for Sava Reinsurance Company and its Group subsidiaries (preparing the Sava Re Group for operation in the Solvency II environment).

10 DETAILS PURSUANT TO ARTICLE 70 (6) OF THE COMPANIES ACT (ZGD-1)

Breakdown of share capital

Ten largest shareholders of Sava Reinsurance Company as at 31 December 2011

Shareholder	No. of shares	Holding (%)
Slovenska odškodninska družba, d.d.	2,340,631	25.00%
Abanka d.d.	655,000	7.00%
Poteza naložbe d.o.o. – in bankruptcy proceedings	468,125	5.00%
Pišljar Marjan	444,345	4.75%
Nova KBM d.d.	435,925	4.66%
Zavarovalnica Maribor d.d.	416,433	4.45%
NFD 1, share	406,221	4.34%
Modra zavarovalnica d.d. - zvps	320,346	3.42%
SOP Ljubljana	262,634	2.81%
KD Galileo, fleksibilna struktura naložb	250,754	2.68%
Total	6,000,414	64.09%

Source: Central securities register KDD d.d.

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 in 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.

Share transfer restrictions

All Sava Re shares are freely transferable.

Qualifying shareholders under the Takeover Act (ZPre-1)

As at year-end 2011, Sava Re's qualifying shareholders as defined in Article 77 of the Takeover Act were the following:
- Slovenska odškodninska družba, d.d.: 25.0% plus one share
- Abanka d.d.: 7.0%
- Poteza naložbe d.o.o. – in bankruptcy proceedings: 5.0%

Holders of securities carrying special control rights

Sava Reinsurance Company issued no securities carrying special control rights.

Employee share schemes

Sava Reinsurance Company has no employee share scheme.

Restrictions of voting rights

The Company adopted no restrictions on voting rights.

Shareholders' agreements restricting share or voting right transferability

The Company is not aware of such agreements between shareholders.

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

Company rules on appointment/removal of Management Board members

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

Company rules on appointment/removal of Supervisory Board members

Pursuant to the Company's Articles of Association, 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 is 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.

Company rules on 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.

Powers of the Management Board, especially relating to treasury shares

The Management Board has no powers for acquiring own shares.

The Management Board is authorised by the Articles of Association to increase share capital (authorised capital), which is described in detail under the section on the Management Board.

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.

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

Sava Re's Management Board members are not entitled to a severance benefit in case of resignation.

They are entitled to severance pay in case they are recalled or dismissed by the Supervisory Board without cause.

Ljubljana, 16 April 2012

The Management Board
of Sava Reinsurance Company d.d.

Zvonko Ivanušič, Chairman

Jošt Dolničar, Member

Srečko Čebron, Member

Mateja Treven, Member

The Supervisory Board
of Sava Reinsurance Company d.d.

Branko Tomažič, Chairman

11 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 2011. The actuarial investigation was performed pursuant to the Insurance Act (ZZavar) and relevant implementing regulations.

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 the 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, available solvency margin of Sava Reinsurance Company exceeds its required solvency margin.

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

Ljubljana, 9 March 2012

Katja Vavpetič
Appointed Actuary of Sava Reinsurance Company

Vavpetič

12 MISSION, VISION AND SOCIAL RESPONSIBILITY

12.1 Mission, vision and social responsibility

What we value
At Sava Reinsurance Company, we build relationships 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.

What we are here for
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 provide an adequate return on equity.

What we aspire to
We aspire to be an insurance group well known in emerging markets, 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.

12.2 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 2012–2016.

The Sava Re Group will be recognisable in its target markets as a provider of comprehensive insurance and reinsurance services (products), and as the most professional and flexible insurance group.

The long-term plan of the Sava Re 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% or less for each Group company as well as on the Group level.

Sava Re Group companies seek to optimise assets so as to ensure stable investment portfolios with only minor exposure to the volatility of capital markets. Another focus is the lowering in the share of receivables in the asset structure.

Return on equity is projected at 11–13% for the end of the medium term on a consolidated basis.

At the end of the medium-term period, the realized return on investments of the Group will exceed 4%.

The Group will promote activities for better recognition of individual Group companies within the Group, and of the Group within target regions. Unifying the brand is one of our medium-term goals.

An important step is the planned converging of IT systems towards chosen solutions to improve responsiveness to clients and to be able to direct 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.

12.3 Strategic annual targets achieved by the Sava Re Group in 2011

The Sava Re Group achieved the goal of balancing the share of reinsurance and insurance business. In the future insurance business will continue to grow compared to the share of reinsurance business, thereby mitigating exposure of reinsurance business to volatility, which is by nature more volatile than insurance business.

The Group's strategic focus is on profitable premium growth. The region in which the Group offers insurance services has a large growth potential. Six out of nine Group insurers exceeded the market premium growth rate in their respective markets. The three companies whose premium volume shrank had to limit growth in order to restrict unprofitable premium growth.

In the asset structure, the Group succeeded for the second consecutive year to increase the share of financial investments and decrease the share of receivables arising out of primary insurance business.

An important goal that is part of our strategy is the unification of product IT solutions (including sales and claims modules) in Group companies, and the unification of accounting systems. Group companies also introduced a tool for consolidating, planning and Group reporting.

All Group companies were directed towards stronger growth of their agency networks, which will support future premium growth. In all markets a regional approach to building sales networks was set up to sustain premium growth in target classes of insurance.

Compared to its targets, the Group achieved the following in 2011:

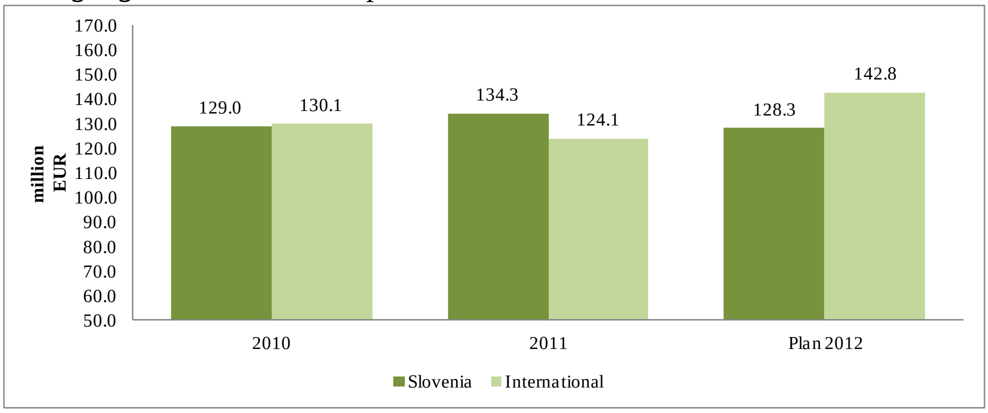
- Net profit on the Group level did not reach the target amount and was EUR 4m. The lion's share of profit was contributed by the controlling company, Zavarovalnica Tilia and Sava Montenegro, who performed better than projected, while the associate Zavarovalnica Maribor also had a positive effect on the result. The Group realised a 2.7% return on equity, missing the target by just 0.3 percentage points. The overall consolidated profit is below the budgeted amount due to the poorer performance of the Macedonian and Kosovan companies, who both underwent major restructuring in 2011.
- Gross premiums written did not reach targets as a result of systematic avoidance of premium growth in unprofitable classes of insurance as well as underperformance in the life segment. Selling life business is closely related to purchasing power and employment rate. Both indicators have been declining in the Western Balkans in recent years. Nevertheless, in 2011 we have succeeded in launching an adapted life insurance product on the Croatian and Serbian market that is interesting specifically in difficult economic circumstances. We believe this will reflect on 2012 premium trends. In Slovenia we exceeded our premium target due to the premium growth generated by Zavarovalnica Tilia, whose non-life premium grew faster than average premium growth in the market.
- Seven out of the nine Group companies reported lower administrative expenses than in 2010.
- The Group recorded a combined ratio of 98.3% in 2011, which is better than planned, mostly as a result of an improved expense ratio, and this has been achieved by implementing IT supported claims handing.

12.4 Plans of the Sava Re Group for 2012:

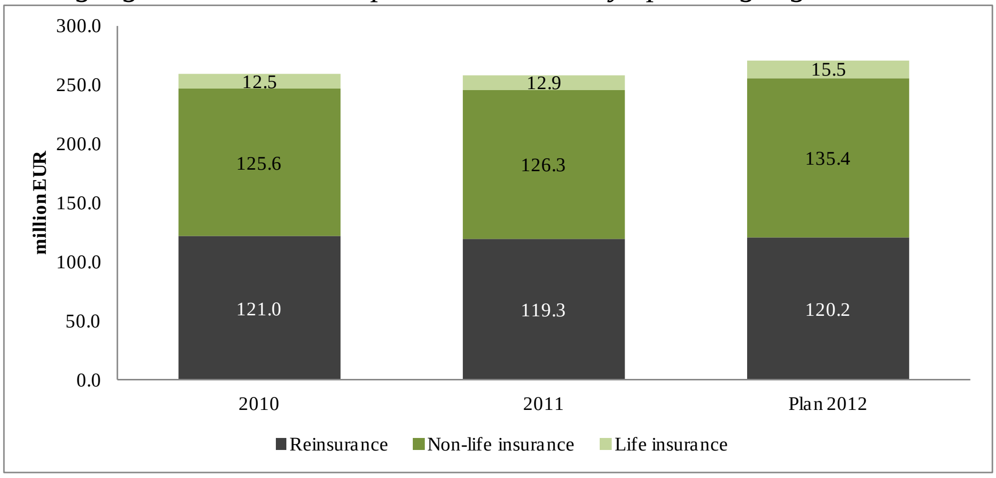
- strengthening the position of Group insurers in their local markets and growth of consolidated gross premiums written by 4.6%;
- growth in unconsolidated premiums from the reinsurance segment by 2.0%;
- growth in unconsolidated premiums from the non-life insurance segment by 6.2%;
- growth in unconsolidated premiums from the life insurance segment by 16%;
- lowering operating expenses with a decrease in the consolidated expense ratio by two percentage points;

- generating a 6% return on equity on the Group level.

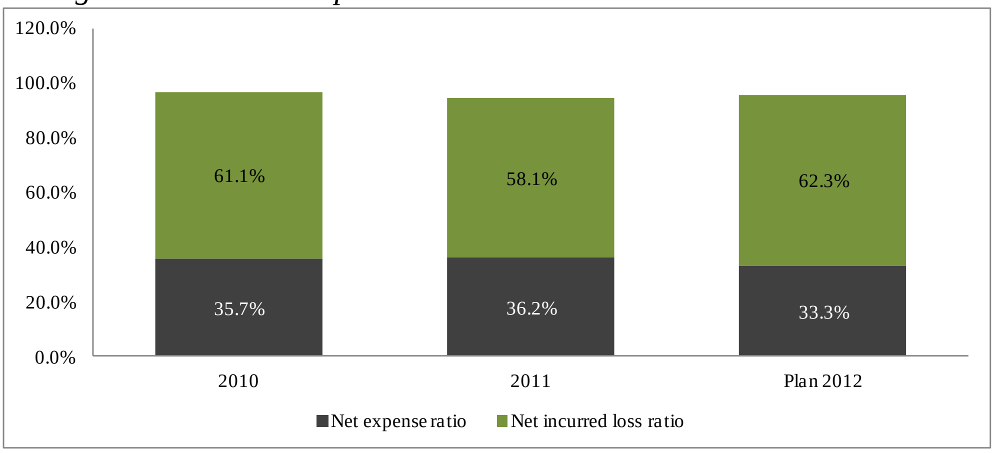
Actual and target gross consolidated premium income – Slovenian/International



Actual and target gross consolidated premium income by operating segment



Actual and target loss ratio and expense ratio



12.5 Sava Reinsurance Company strategic focus

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 for the years 2012 and 2013.

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 seeks to offer its shareholders a stable dividend yield. In 2012 the Company will be paying out dividends for the first time provided that Solvency II parameters are defined and capital adequacy calculations permit so. An important strategic goal of the company is to generate a dividend yield of at least 2%, provided that the solvency ratio does not drop below 200%.

12.6 Strategic annual targets achieved by the Sava Re Group in 2011

The Company recorded a drop in gross premiums written in 2011, which reflects its strategy of lowering its double exposure in Slovenia (to the reinsurance portfolio and through its investments in Zavarovalnica Tilia and Zavarovalnica Maribor).
In 2011, we produced growth on international markets, which was mainly derived from Asian emerging markets, in line with our strategic focus.

Sava Reinsurance Company achieved the following targets set for 2011:

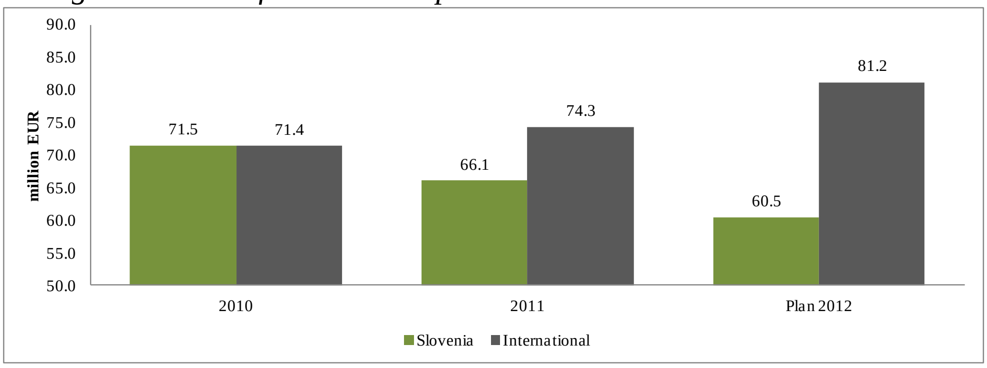
- The net profit of Sava Reinsurance Company was higher than budgeted and totalled EUR 8.6m. The Company realised a 5.5% return on equity, surpassing its target by 2.4 percentage points.
- Premium income was higher than planned; the Company achieved a 4.0% premium growth with foreign-sourced business, while Slovenian premium dropped by 7.5%, in line with plans. The share of international premium of total premium grew to 52,9%, which is slightly better than planned.
- The net incurred loss ratio, the relationship between incurred claims and earned premiums, was 61.5% in 2011, an improvement by 4.6 percentage points over the prior year and better than planned. 2011 like 2010 was a benign loss year. The underwriting result of Slovenian business was better than the long-year average, while international business yielded a positive result despite large international losses (Thailand floods and Japanese earthquake).
- The net expense ratio was 30.2% in 2011, about the same as in the prior year, however, it was slightly higher than planned since as a result of a favourable loss year, commission payments to cedants were higher than in poor years.

- In 2011 the net combined ratio, a measure of profitability (calculated as the sum of the incurred loss ratio and the expense ratio including administrative expenses and other income and expenses except from investments), was 92.2%. This is an improvement of 2.9 percentage points over the prior year and 6.8 percentage points better than budgeted.
- The return on the investment portfolio was 0.4% in 2011, which is below the planned figure. In 2011 the Company recognised impairment losses of EUR 3.5m on securities (Greek government bonds, quoted shares of Telekom, unquoted shares, mutual funds) and impairment losses of EUR 5.1m on investments in subsidiaries (Macedonia and Croatia).

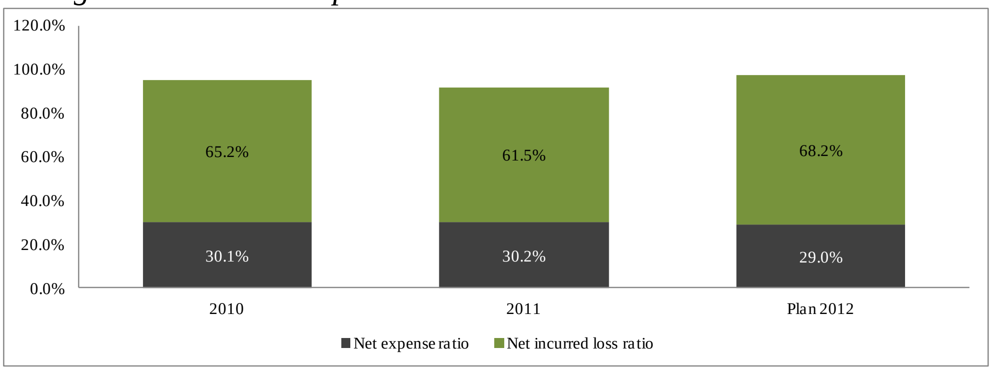
12.7 Plans of Sava Reinsurance Company for 2012

- A 2.0% growth in total gross premiums written;
- Growth in foreign-sourced premium over 9%; growth potential especially in Asian markets;
- Mitigation of double exposure to subsidiary and associated companies (decline in premiums from Slovenia of 8%);
- Investment return of 2.5% (including strategic investments and cost of subordinated debt);
- Combined ratio of 97.3%; this increase has been planned based on a multi-year average loss ratios to arrive at future loss ratios.
- Return on equity of 5.4%.

Actual and target structure of reinsurance premium



Actual and target loss ratio and expense ratio



13 BUSINESS ENVIRONMENT

Slovenia[4]

Major economic indicators for Slovenia

	2011	2010
Real change in GDP (percent)	-0.2	1.4
GDP (million EUR)	35,639	35,416
Registered unemployment rate (percent)	11.8	10.7
Average inflation (percent)	1.8	1.8
Population (million)	2.0	2.0
GDP per capita (EUR)	17,820	17,708
Insurance premiums (million EUR)	2,092	2,094
Insurance premiums – non-life (million EUR)	*1,454*	*1,438*
Insurance premiums – life (million EUR)	*638*	*656*
Insurance premium per capita (EUR)	1,046	1,047
Premium/GDP (percent)	5.9	5.9
Average monthly net salary (EUR)	999	989

- After a weak rebound in economic growth in the first half of 2011, in the last two quarters economic activity shrank, pushing Slovenia back into recession. Slovenia lagged behind average trends in the euro area.
- The number of first time registered vehicles of private individuals in 2011 was more than 10% lower than in the prior year.
- More Slovenian business entities became insolvent than in the year before. In 2011, nearly one fifth of natural and legal entities carrying on business activities more than in 2010 had there liabilities overdue on average more than five days a month[5]. There was, however, an even greater increase in the average monthly amount overdue than in the number of overdue entities: amounts overdue increased by more than half for legal entities and by over two fifths for sole traders and other natural persons carrying on business activities.
- The construction industry remained in the doldrums in 2011 with a further decrease in housing but a slight 1.2% increase in other engineering works.
- Employment rates are not improving. In 2011 a further 11,000 or 1.3% of people became unemployed. In December 2011, the number of unemployed reached nearly 113,000. The unemployment rate increased by 1.1 percentage points to 11.8%.
- Consumer prices in the euro area increased by more than in 2010 and more than in Slovenia. An important reason for the increased inflation rate were increased energy prices due to higher oil prices at the beginning of 2011 and higher food prices in global markets at the end of 2010. In Slovenia, inflation was 1.8%, unchanged from the previous three years. While facing the same key inflation agents as the remaining euro

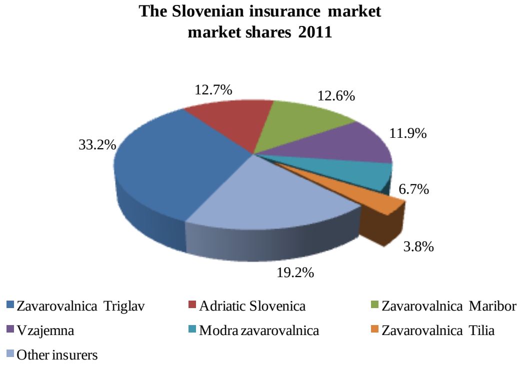
[4] Source: UMAR, Pomladanska napoved gospodarskih gibanj 2012, March 2012
SKEP Analitska skupina GZS, Konjunkturna gibanja, January 2012 and March 2012

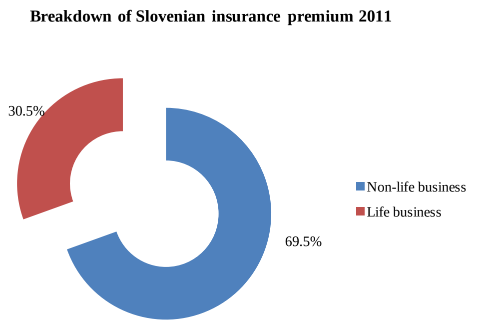
[5] AJPES records only include outstanding balances from either writs of execution or tax debts; records do not include other outstanding balances from unpaid invoices between creditors and debtors.

area, inflation was estimated at a lower level especially due to the impact of weaker domestic economic activity. This showed in a lower domestic basic inflation, especially in the part that is a result of movements in the prices of services, durables and semi-durables.

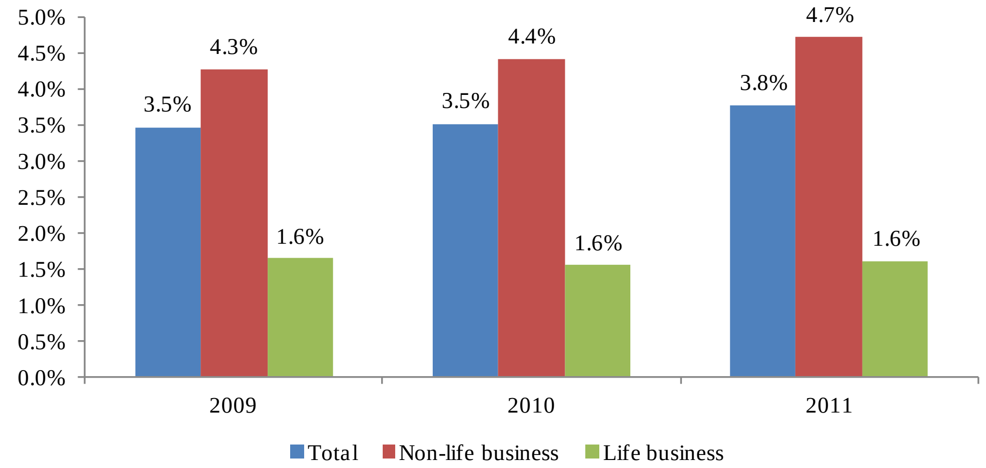
- In 2011 wages and salaries were on average higher by 0.2%. In addition to lower increases in private sector salary rises, an important contribution to restraining growing salaries also came from the public sector.

The Slovenian insurance market[6]





Market shares of Zavarovalnica Tilia in the Slovenian insurance market



[6] Modra zavarovalnica was founded in October 2011 (compulsory supplementary pension insurance funds were administered previously by Kapitalska družba).

Premiums and market shares in the Slovenian reinsurance market

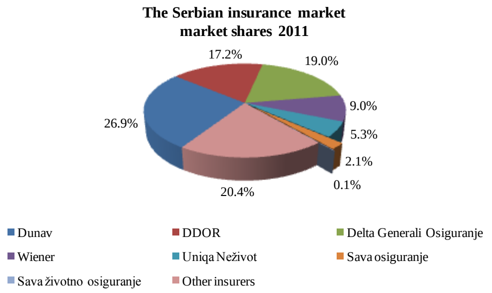
(EUR)	2011		2010	
	Gross premiums written	Market share	Gross premiums written	Market share
Sava Reinsurance Company	140,350,370	53.5%	142,861,784	54.3%
Triglav Re	121,931,838	46.5%	120,167,238	45.7%
Total	262,282,209	100.0%	263,029,022	100.0%

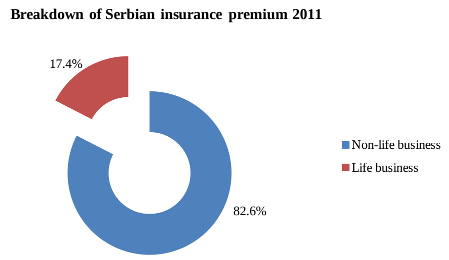
Serbia[7]

Major economic indicators for Serbia

	2011	2010
Real change in GDP (percent)	2.0	1.0
GDP (million RSD)	3,358,800	2,898,400
GDP (million EUR)	32,993	29,525
Registered unemployment rate – ILO (percent)	24.4	19.6
Average inflation (percent)	7	6.2
Population (million)	7.1	7.3
GDP per capita (EUR)	4,633	4,045
Insurance premiums (million EUR)	562	550
Insurance premiums – non-life (million EUR)	*464*	*459*
Insurance premiums – life (million EUR)	*98*	*91*
Insurance premium per capita (EUR)	79	75
Premium/GDP (percent)	1.7	1.9
Average monthly net salary (EUR)	389	330

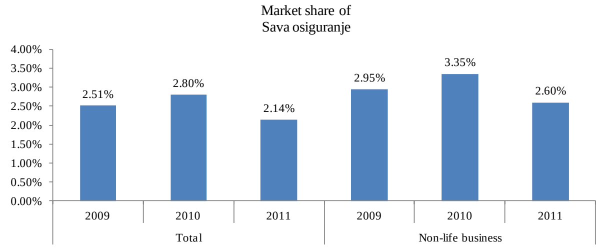
The Serbian insurance market

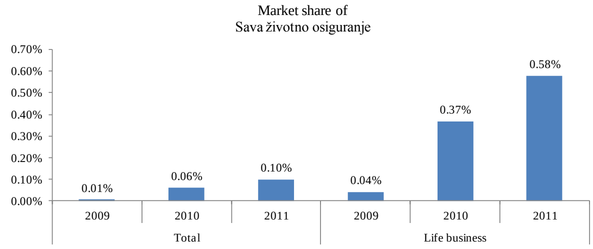




[7] Source: Serbian National Bank.

Tržni deleži Save osiguranje in Save životno osiguranje na srbskem zavarovalnem trgu





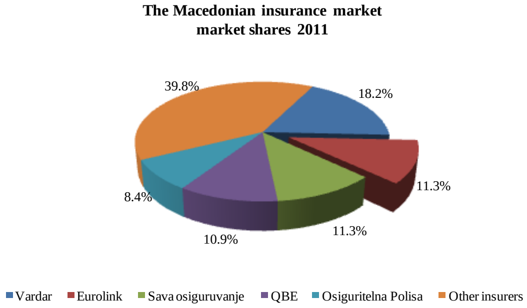
Macedonia[8]

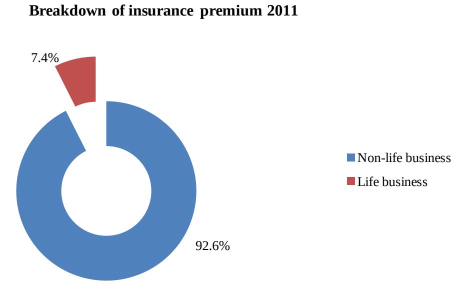
Major economic indicators for Macedonia

	2011	2010
Real change in GDP (percent)	2.3	1.8
GDP (million MKD)	449,623	424,762
GDP (million EUR)	7,310	6,905
Registered unemployment rate – ILO (percent)	31.2	32.0
Average inflation (percent)	3.9	1.6
Population (million)	2.0	2.0
GDP per capita (EUR)	3,655	3,453
Insurance premiums (million EUR)	110	105
Insurance premiums – non-life (million EUR)	*102*	*100*
Insurance premiums – life (million EUR)	*8*	*6*
Insurance premium per capita (EUR)	55	53
Premium/GDP (percent)	2%	1.5
Average monthly net salary (EUR)	348	334

Data on insurance premiums for 2011 are for the period January–September.

The Macedonian insurance market





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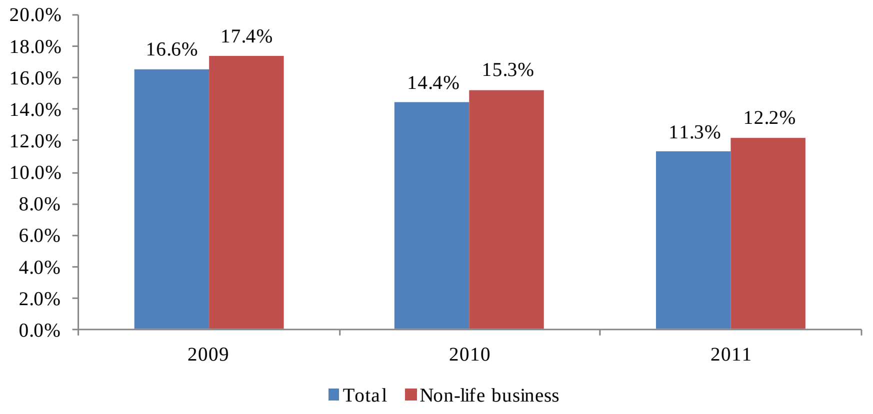
[8] Source: Zavod za statistiku Republike Makedonije, Ministarstvo finansija Republike Makedonije, Nacionalni bureau za osiguranje Republike Makedonije.

Market share of Sava osiguruvanje (Skopje) on the Macedonian insurance market

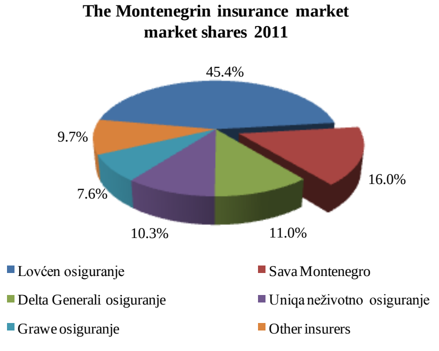


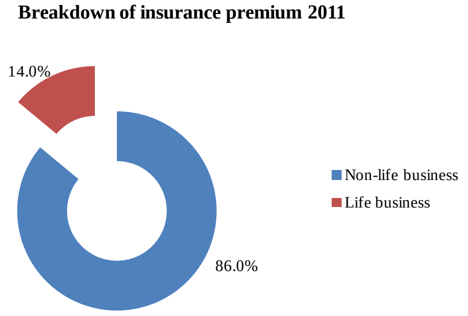
Montenegro[9]

Major economic indicators for Montenegro

	2011	2010
Real change in GDP (percent)	2.5	2.5
GDP (million EUR)	3,273	3,104
Registered unemployment rate – ILO (percent)	18.9	19.7
Average inflation (percent)	3.1	0.7
Population (million)	0.6	0.6
GDP per capita (EUR)	5,455	5,173
Insurance premiums (million EUR)	65	62
Insurance premiums – non-life (million EUR)	*56*	*54*
Insurance premiums – life (million EUR)	*9*	*8*
Insurance premium per capita (EUR)	108	104
Premium/GDP (percent)	2.0	2.0
Average monthly net salary (EUR)	484	479

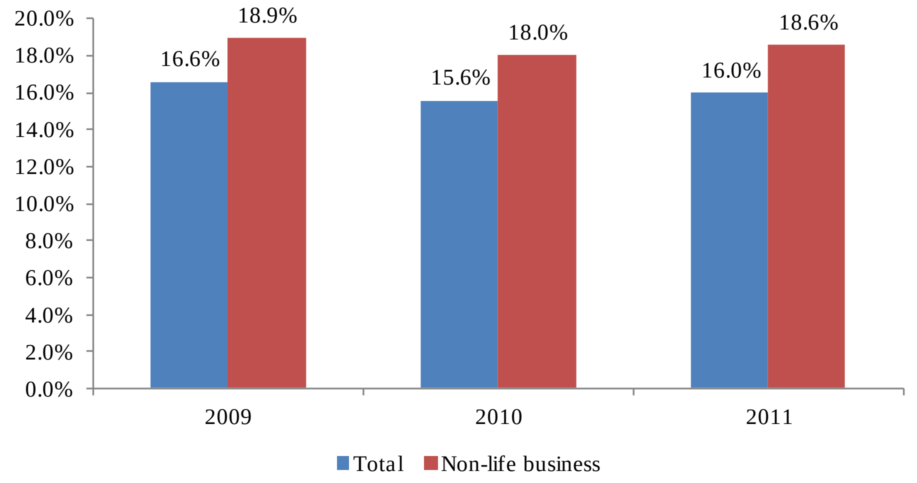
The Montenegrin insurance market





[9] Source: EMIS database, Montenegrin statistical office.

Market share of Sava Montenegro on the Montenegrin insurance market

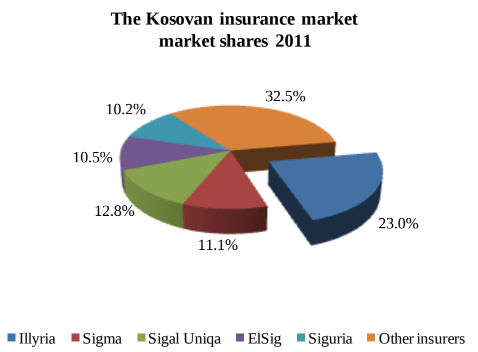


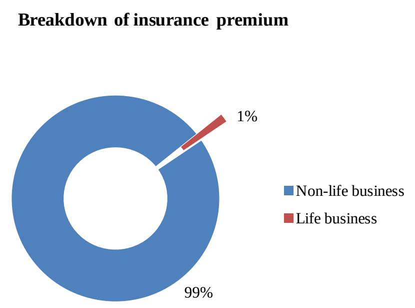
Kosovo[10]

Major economic indicators for Kosovo.

	2011	2010
Real change in GDP (percent)	5.3	4.6
GDP (million EUR)	4,486	4,113
Registered unemployment rate – ILO (percent)	45.0	45.0
Average inflation (percent)	7.3	3.5
Population (million)	2.2	2.2
GDP per capita (EUR)	2,039	1,870
Insurance premiums (million EUR)	79	72
Insurance premiums – non-life (million EUR)	*78*	*71*
Insurance premiums – life (million EUR)	*1*	*1*
Insurance premium per capita (EUR)	36	33
Premium/GDP (percent)	1.8	1.8
Average monthly net salary (EUR)	342	286

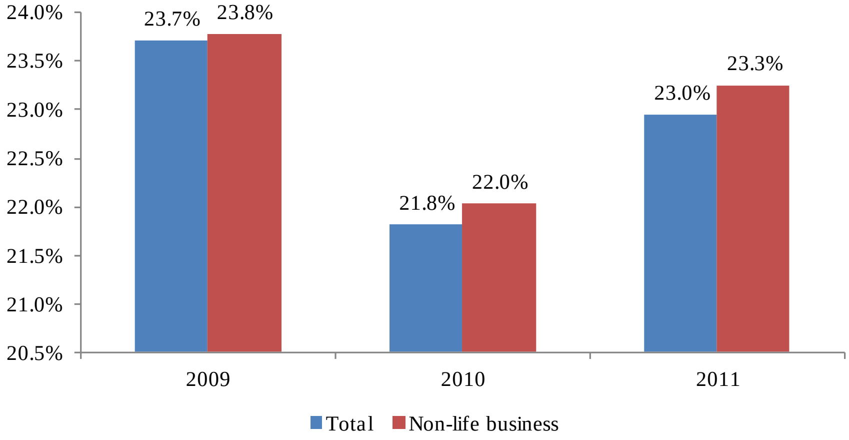
The Kosovan insurance market





[10] Source: Central Bank of the Republic of Kosovo, Statistical Agency of Kosovo.

Market shares of Illyria in the Kosovan insurance market

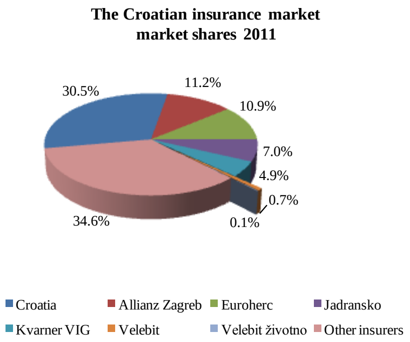


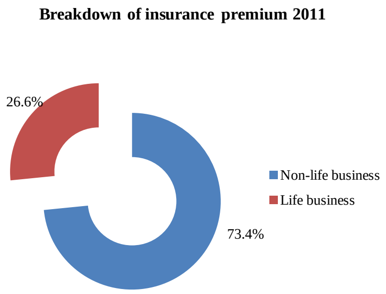
Croatia[11]

Major economic indicators for Croatia.

	2011	2010
Real change in GDP (percent)	0.3	-1.2
GDP (million EUR)	46,101	45,917
Registered unemployment rate – ILO (percent)	17.9	17.4
Average inflation (percent)	2.3	1.1
Population (million)	4.4	4.4
GDP per capita (EUR)	10,477	10,436
Insurance premiums (million EUR)	1,229	1,268
Insurance premiums – non-life (million EUR)	*921*	*931*
Insurance premiums – life (million EUR)	*334*	*337*
Insurance premium per capita (EUR)	279	288
Premium/GDP (percent)	2.7	2.8
Average monthly net salary (EUR)	747	733

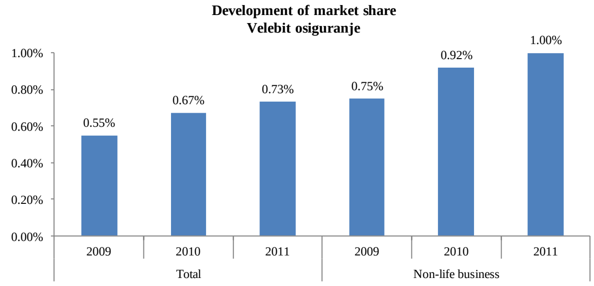
The Croatian insurance market

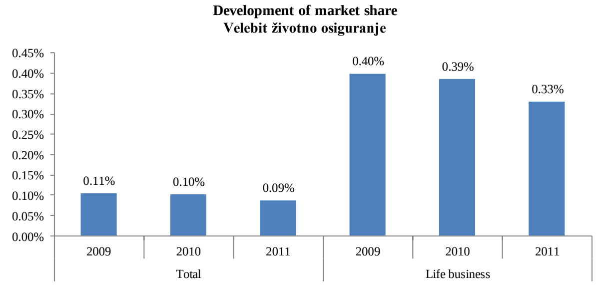




[11] Source: Hrvatska gospodarska komora, EMIS database, Hrvatski ured za osiguranje.

Market shares of Velebit osiguranje and Velebit životno osiguranje in the Croatian insurance market





Global re/insurance markets[12]

Non-life re/insurance markets

Capitalisation of the industry in 2011 was excellent, having returned to its 2007, pre-crisis level. However, profitability was impacted by record catastrophe and large investment losses. Reinsurer combined ratios were on average over 105% (2010: 96%) and ROE below 5% (2010: 11%). The industry has moved into a typical mature soft market cycle phase. [13]

Real growth of non-life primary insurance premiums

	2009	2010	2011 (estimate)
Industrialised countries	-0.5%	0.6%	0.6%
Emerging markets	3.9%	9.6%	8.9%
Global	0.1%	1.8%	1.8%

Life re/insurance markets

Capitalisation was better than before the crisis in 2007. However, profitability levels were subdued by low investment returns, increased hedging costs and burdensome capital requirements.

Real growth of life primary insurance premiums

	2009	2010	2011 (estimate)
Industrialised countries	-1.1%	2.6%	-1.8%
Emerging markets	6.5%	10.5%	0.6%
Global	-0.2%	3.7%	-1.4%

[12] Based on Swiss Re: Global Insurance Review 2011 and Outlook 2012/13.
13 A "soft market" is one where there is ready supply of capacity and prices are falling.

14 PERFORMANCE AND BUSINESS RESULTS

A glossary of selected insurance terms and calculation methodologies for ratios in 2011 is given in the appendix to this annual report.

Key financial data by operating segment

(EUR)	Reinsurance			Non-life business		
	2011	2010	2011/2010	2011	2010	2011/2010
Net earned premiums	**122,486,683**	**123,497,230**	**99.2**	**100,070,517**	**96,085,241**	**104.1**
Gross premiums written	140,350,370	142,861,784	98.2	126,411,157	125,757,228	100.5
Net claims incurred	**-75,377,584**	**-81,740,116**	**92.2**	**-56,354,647**	**-55,739,316**	**101.1**
Operating expenses	**-39,288,833**	**-39,329,664**	**99.9**	**-46,408,509**	**-43,870,376**	**105.8**
Underwriting result	**10,165,939**	**5,797,425**	**175.4**	**2,561,100**	**-410,264**	**-624.3**
Investment income	**12,978,166**	**9,831,163**	**132.0**	**5,893,117**	**5,425,104**	**108.6**
Investment expenses	**-11,549,154**	**-7,282,878**	**158.6**	**-1,919,255**	**-1,154,265**	**166.3**
Net investment income	**1,429,012**	**2,548,285**	**56.1**	**3,973,862**	**4,270,839**	**93.0**
Result of other items	**-312,628**	**500,839**	**-62.4**	**-8,774,197**	**-7,140,050**	**122.9**
Profit/loss before tax	**11,282,322**	**8,846,549**	**127.5**	**-2,239,234**	**-3,279,475**	**68.3**
Net profit for the period	**8,637,292**	**7,193,724**	**120.1**	**-3,185,549**	**-4,831,789**	**65.9**

(EUR)	Life ins. business			Total		
	2011	2010	2011/2010	2011	2010	2011/2010
Net earned premiums	**12,690,308**	**12,394,003**	**102.4**	**235,139,209**	**231,874,029**	**101.4**
Gross premiums written	12,882,226	12,532,979	102.8	258,415,194	259,103,050	99.7
Net claims incurred	**-4,421,221**	**-2,540,031**	**174.1**	**-136,168,165**	**-140,009,961**	**97.3**
Operating expenses	**-6,571,380**	**-6,793,923**	**96.7**	**-87,921,117**	**-85,287,685**	**103.1**
Underwriting result	**390,918**	**-4,564,951**	**-8.6**	**13,147,607**	**913,120**	**1,439.9**
Investment income	**3,733,425**	**5,110,395**	**73.1**	**23,022,287**	**24,950,660**	**92.3**
Investment expenses	**-6,216,614**	**-2,023,090**	**307.3**	**-19,321,195**	**-10,235,493**	**188.8**
Net investment income	**-2,483,189**	**3,087,305**	**-80.4**	**3,701,092**	**14,715,167**	**25.2**
Result of other items	**-101,256**	**-14,996**	**675.2**	**-9,123,453**	**-6,787,941**	**134.4**
Profit/loss before tax	**-2,193,527**	**-1,492,642**	**147.0**	**7,725,246**	**8,840,346**	**87.4**
Net profit for the period	**-2,261,027**	**-1,607,179**	**140.7**	**4,066,401**	**5,520,670**	**73.7**

The underwriting result includes net premiums earned, commission income, net claims incurred, the change in net technical provisions, the change in net technical provisions of policyholders who bear the investment risk, expenses for bonuses and rebates, and operating expenses.

14.1 Net premiums earned

Net premiums earned

(EUR)	Sava Re Group			Sava Reinsurance Company		
	2011	2010	Index	2011	2010	Index
Gross premiums written	258,415,195	259,103,050	99.7	140,350,370	142,861,784	98.2
Net premiums written	234,009,062	233,801,898	100.1	120,319,919	121,250,679	99.2
Change in net unearned premiums	1,130,148	-1,927,869	141.4	2,166,764	2,246,551	96.4
Net premiums earned	235,139,210	231,874,029	101.4	122,486,683	123,497,230	99.2

Sava Re Group

Gross premiums written of Sava Re Group members

(EUR)	2011	2010	Index 2011/2010 (EUR)
Sava Reinsurance Company	**140,350,370**	**142,861,784**	**98.2**
Zavarovalnica Tilia	**79,158,775**	**73,849,903**	**107.2**
-Non-life business	68,880,032	63,650,510	108.2
-Life business	10,278,743	10,199,393	100.8
Sava osiguranje	**11,645,335**	**15,612,047**	**74.6**
Illyria	**14,006,737**	**13,127,297**	**106.7**
Sava osiguruvanje, Skopje	**12,544,624**	**15,195,818**	**82.6**
Sava Montenegro	**10,340,373**	**9,687,203**	**106.7**
Illyria Life	**984,056**	**704,885**	**139.6**
Sava Life	**546,050**	**339,862**	**160.7**
Velebit osiguranje	**8,994,055**	**8,484,353**	**106.0**
Velebit životno	**1,073,377**	**1,288,839**	**83.3**

The Sava Re Group recorded a slight drop in gross premiums written in 2011. This drop was a result of less premium written by the controlling company and two non-life insurers as well as one life insurer in the Group. The largest decline in absolute terms were recorded (i) by Sava osiguranje (EUR 4.0m) due to limiting the growth in motor TPL since policy acquisition costs in the market kept rising and (ii) by Sava osiguruvanje (Skopje) (EUR 2.6m) as a result of the loss of a large client. In addition, the consolidated gross reinsurance premium of the controlling company was lower by EUR 1.7m compared to the prior year. The largest growth in gross premiums written in absolute terms was recorded by Zavarovalnica Tilia (EUR 5.3m); five other Group companies also recorded growth.

Consolidated gross premiums written by region

(EUR)	2011	2010	Index	Structure 2011
Slovenia	129,086,873	129,022,307	100.1	50.0%
International	129,328,322	130,080,742	99.4	50.0%
Total	258,415,195	259,103,050	99.7	100.0%

The consolidated gross premiums written in Slovenia grew due to the increase in the premiums of Zavarovalnica Tilia, whereas foreign-sourced premium dropped as a result of the above mentioned companies. In 2011, the share of the consolidated foreign-sourced premiums decreased to 50.0% (2010: 50.2%).

Consolidated gross premiums written by Group operating segment

(EUR)	2011	2010	Index	Structure 2011
Reinsurance business	119,261,854	120,989,323	98.6	46.2%
Non-life business	126,271,115	125,580,748	100.5	48.9%
Life business	12,882,226	12,532,979	102.8	5.0%
Total	258,415,195	259,103,050	99.7	100.0%

The above figures broken down by operating segment do not include intra-group transactions.

The consolidated gross reinsurance premiums written in Slovenia fell by 9.5% due to reduced quota-share reinsurance business, while consolidated foreign-sourced reinsurance premiums grew by 5.6%.

Non-life gross premiums written grew in 2011 compared to the prior year; however, premium growth was modest due to premium decline in Serbia and Macedonia. Non-life business includes health business, which in 2011 was only provided by the Kosovan insurer Illyria. This business generated premiums of EUR 6.0m in 2011.

Consolidated life gross premiums written increased compared to the prior year, which is the joint contribution of all Group life insurers except the Croatian life insurer. The Croatian life insurance company recorded a 16.7-percent drop (EUR 0.3m) due to the impact of single premium policies, of which many were written in 2010 and very few in 2011.

The consolidated net premiums written grew only slightly; net premiums written decreased in the reinsurance segment, while they increased in the other segments.

The change in net unearned premiums increases earned premiums as net unearned premiums at 31 December 2011 were lower than at 31 December 2010. This drop is a result of the decline in gross premiums written.

Sava Reinsurance Company

In 2011, Sava Reinsurance Company wrote gross premiums of EUR 140.3m, which is 1.8% less than in 2010 (2010: –2.9%).

Premiums assumed from domestic cedants decreased 7.5% compared to one year earlier (2010: –16.4), which is in line with the Company's strategy of lowering its exposure to the

Slovenian insurance market. In the domestic premium structure, the major share of reinsurance premium again relates to the cedants Zavarovalnica Maribor and Zavarovalnica Tilia.

Foreign-sourced reinsurance premiums increased 4.0% compared to 2010 (2010: 15.9%). In 2011, the largest share of foreign-sourced premium was written in South Korea (4.8%), followed by Italy (4.2%), China (4.1%), and Austria (3.5%). In 2011, the largest premium increases on 2010 were recorded by China (growth of EUR 1.7m), Italy (growth of EUR 1.6m), while declines occurred in premiums from Austria (drop of EUR 3.6m), Croatia (drop of EUR 1.5m), and Malaysia (drop of EUR 1.4m).

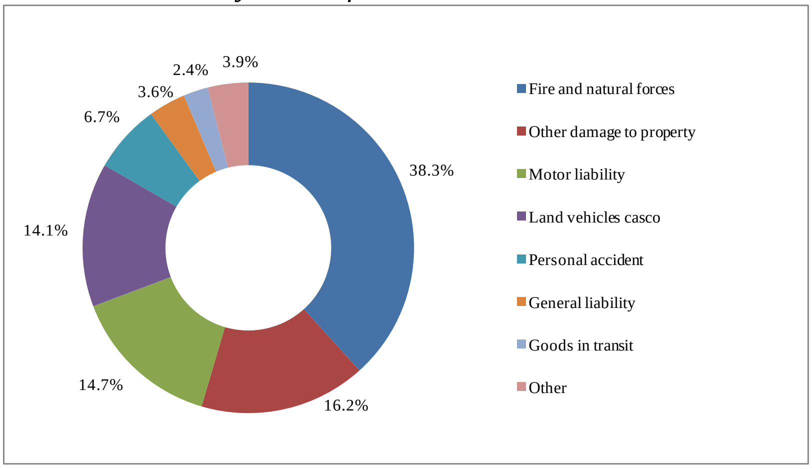
Gross premiums written include premiums from subsidiaries in the markets of the former Yugoslavia. In 2011, premiums of the mentioned companies accounted for 6.7% (2010: 7.8%) of the total foreign-sourced premiums written.

Compared to 2010, there was an increase in the percentage share of foreign-sourced premiums, which accounted for 52.9% of total premiums written (2010: 50.0%).

Net premiums written recorded a smaller drop than gross premiums written, while compared to 2010, the share of retained premiums increased by 0.8 percentage points to 85.7%.

The change in net unearned premiums (1 January 2011–31 December 2011), which is used in the calculation of net premiums earned, was a decrease of EUR 2.2m. The drop in net unearned premiums follows the decline in gross premiums written and decreases the share of proportional and motor business (change in portfolio structure).

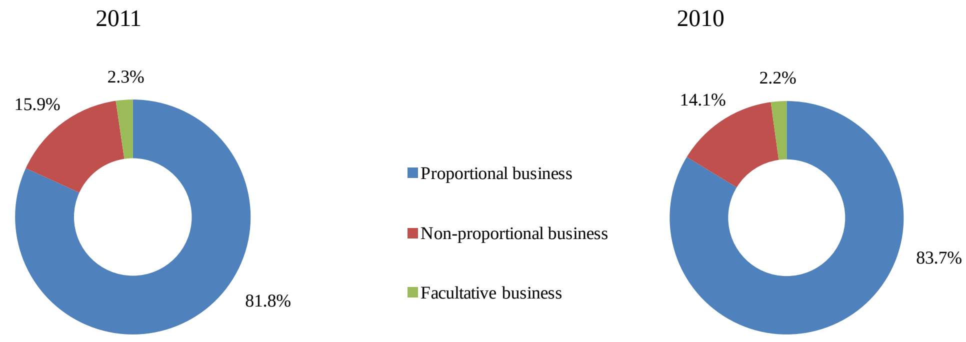
Gross premiums written in 2011 by class of business



The above chart demonstrates that in 2011, fire and natural forces accounted for the largest share of gross premiums written, and increased by 5.0%. This increase is mainly attributable to the growth in premiums written abroad, where fire business dominates. The share of motor business decreased by 1.9 percentage points compared to the prior year as a result of smaller volumes of proportional reinsurance business in Slovenia.

Absolute amounts of gross premiums written by class of business are shown in the section 21 "Performance indicators", together with their growth/contraction as compared to 2010.

Gross premiums written by form of reinsurance



In 2011 the structure of gross premiums by form of reinsurance has changed somewhat, similar to the change in 2010: proportional reinsurance continues to dominate, while the relating gross premiums written decreased by 4.0% compared to the prior year. The reduced premiums in proportionate reinsurance is a result of a continuous lowering in quota-share reinsurance business ceded by two Slovenian insurers (gross premiums from proportional reinsurance business from abroad increased by 1.5%). Non-proportional reinsurance business recorded a 10.4% growth (growth in foreign-sourced non-proportional business), while facultative business generated growth of 5.1%.

Net earned premiums by class of business

(EUR)	Sava Re Group		Sava Reinsurance Company	
	2011	2010	2011	2010
Personal accident	18,380,908	17,947,325	9,602,610	10,089,870
Health	6,352,631	6,129,473	48,533	-
Land vehicles casco	37,806,403	35,967,346	17,226,197	18,580,387
Aircraft hull	434,783	360,157	427,545	355,548
Ships hull	2,242,431	1,829,222	2,199,973	1,782,591
Goods in transit	3,225,924	3,732,793	2,814,762	3,231,443
Fire and natural forces	48,388,700	43,597,786	45,621,771	40,263,302
Other damage to property	24,312,021	26,938,995	17,618,942	20,673,637
Motor liability	69,835,958	72,947,931	20,649,386	23,272,022
Aircraft liability	-6,349	154,849	-5,502	143,616
Liability for ships	342,054	323,485	303,133	284,878
General liability	6,114,159	5,028,266	3,865,721	3,070,233
Credit	1,810,672	1,664,255	1,049,124	915,362
Suretyship	414,964	272,829	350,534	182,640
Miscellaneous financial loss	723,131	404,114	444,638	314,331
Legal expenses	155,535	56,460	57,151	12,991
Assistance	1,718,690	1,781,816	49,198	18,516
Life business	4,894,838	4,540,391	101,198	213,459
Unit-linked life	7,991,751	8,196,539	61,770	92,404
Total non-life	222,252,615	219,137,102	122,323,716	123,191,367
Total life	12,886,589	12,736,930	162,968	305,863
Total	235,139,204	231,874,032	122,486,684	123,497,230

14.2 Net claims incurred

Net claims incurred

(EUR)	Sava Re Group			Sava Reinsurance Company		
	2011	2010	Index	2011	2010	Index
Gross claims paid	128,376,839	131,269,604	97.8	70,685,269	78,092,872	90.5
Net claims paid	119,807,466	118,003,570	101.5	63,363,158	66,448,306	95.4
Change in the net provision for outstanding claims	16,360,699	22,006,391	74.3	12,014,426	15,291,810	78.6
Net claims incurred	136,168,165	140,009,961	97.3	75,377,584	81,740,116	92.2

Sava Re Group

Gross claims paid of Sava Re Group members

(EUR)	2011	2010	Index 2011/2010 (EUR)
Sava Reinsurance Company	**70,685,269**	**78,092,872**	**90.5**
Zavarovalnica Tilia	**40,878,315**	**39,943,011**	**102.3**
-Non-life business	36,707,578	37,572,466	97.7
-Life business	4,170,737	2,370,545	175.9
Sava osiguranje	**6,039,945**	**6,469,991**	**93.4**
Illyria	**7,076,706**	**6,257,680**	**113.1**
Sava Tabak	**7,232,311**	**7,105,568**	**101.8**
Sava Montenegro	**3,880,747**	**4,216,575**	**92.0**
Illyria Life	**30,666**	**4,391**	**698.4**
Sava Life	**11,677**	**949**	**1,230.5**
Velebit osiguranje	**3,358,494**	**2,820,493**	**119.1**
Velebit životno	**114,251**	**237,635**	**48.1**

The years 2010 and 2011 were benign regarding major natural catastrophe events in Slovenia; however, results improved also because all Group companies (i) were more selective in writing business, (ii) took actions to improve profitability of certain products and (iii) restricted premium growth in classes of business and products that did not yield adequate results. The decrease in gross claims paid is mostly due to the controlling company, whose claims dropped by EUR 7.4m, while the largest increase in gross claims paid was recorded by Zavarovalnica Tilia (EUR 0.9m), Kosovan Illyria (EUR 0.8m) and the Croatian insurer Velebit osiguranje (EUR 0.5m). All these companies also recorded growth in gross premiums written.

Gross claims paid by region

(EUR)	2011	2010	Index	Structure 2011
Slovenia	68,710,751	74,652,098	92.0	53.5%
International	59,666,089	56,617,506	105.4	46.5%
Total	128,376,839	131,269,604	97.8	100.0%

Consolidated gross claims paid in Slovenia fell 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 56.9% in 2010 to 53.5% in 2011. 2011 was in Slovenia a year without major losses and a benign loss year in general, also if compared to multi-year average loss figures. Claims from abroad recorded growth, which is a result of the increase in consolidated reinsurance claims from abroad (8.4%). The share of foreign-sourced claims increased to 46.5% (2010: 43.1%) of the total consolidated claims paid.

Consolidated gross claims paid by Group operating segment

(EUR)	2011	2010	Index	Structure 2011
Reinsurance business	59,831,945	64,213,311	93.2	46.6%
Non-life business	64,217,563	64,442,773	99.7	50.0%
Life business	4,327,331	2,613,520	165.6	3.4%
Total	128,376,839	131,269,604	97.8	100.0%

The above figures broken down by operating segment do not include intra-group transactions.

The drop in consolidated gross claims paid in the reinsurance segment is a result of the decline in the claims of the controlling company, as mentioned above. These claims as a percentage of total consolidated gross claims paid decreased by 2.3 percentage points in 2011.

In 2011 consolidated gross claims paid from the non-life segment decreased by 0.2% (gross premiums written grew by 0.5%).

Gross claims paid on life insurance business increased in 2011 due to the increase in Zavarovalnica Tilia. There has been an increase in the number of policy surrenders, which is typical for the current economic situation.

Gross paid loss ratios

(EUR)	2011	2010
Reinsurance business	50.2%	53.1%
Non-life business	50.9%	51.3%
Life business	33.6%	20.9%
Total	49.7%	50.7%

Paid loss ratios for 2011 indicate improved results in the reinsurance and non-life segments.

Consolidated net claims paid increased by 1.5% in 2011 (gross claims paid down 2.2%). 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 4.3m).

The change in the consolidated net claims provision, which is used to calculate net claims incurred, was an increase of EUR 16.4m. This large increase in net claims provisions was mostly due to Sava Reinsurance Company (EUR 12.0m). Other companies who recorded a significantly larger net claims provision are: Zavarovalnica Tilia (EUR 2.2m), Velebit osiguranje (EUR 1.9m) and Illyria (EUR 0,6m). The increase in the controlling company is a result of the growth in international business and catastrophe claims in Asia.

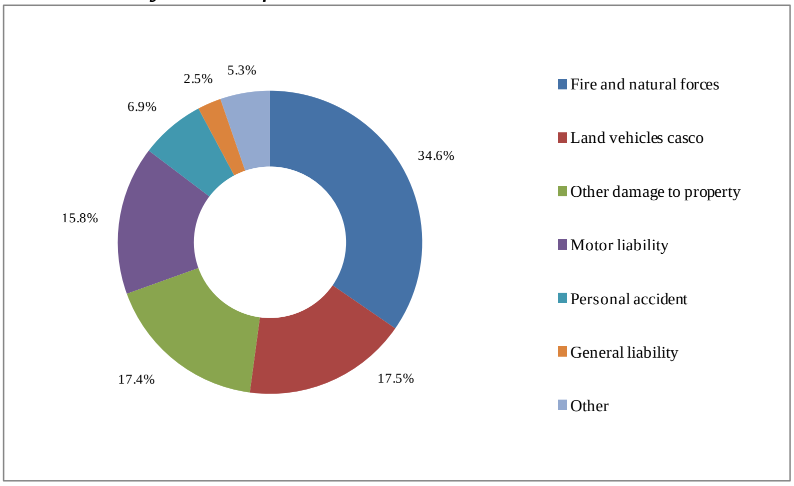
Sava Reinsurance Company

Gross reinsurance claims from Slovenia dropped by 20.9% compared to 2010. Gross reinsurance claims associated with the foreign-sourced portfolio increased by 8.0% over 2010. 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 4.0%).

Net claims recorded a smaller decline than gross claims, which is due to retroceded claims. These were lower by 37.1% in 2011 compared to the prior year. This drop is due to the fact that there were no major claim payments in excess of Sava Reinsurance Company's capacities in the years 2010 and 2011.

The change in the net claims provision relates to the increase in international business where in 2011, we incurred catastrophic losses (floods in Thailand, earthquake in Japan).

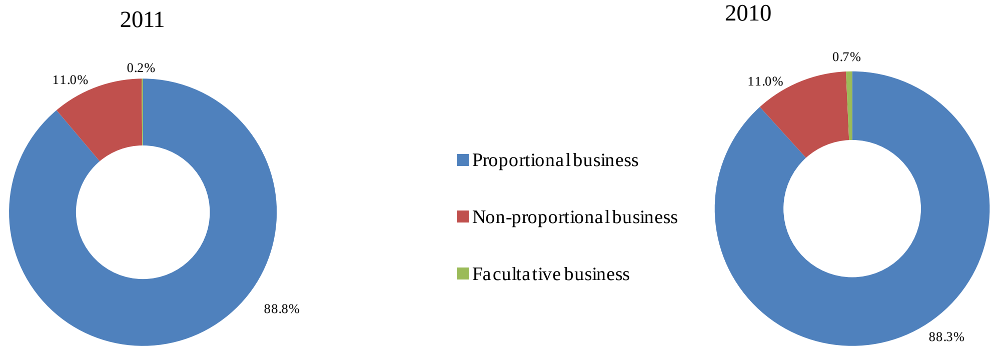
Gross claims paid in 2011 by class of business



In 2011 gross claims paid were dominated by fire and land vehicles casco (and reflect premium structure). The share of motor business dropped from 39.1% in 2010 to 33.3% in 2011 as a result of the decrease in quota share reinsurance business in Slovenia.

Absolute amounts of gross claims paid by class of business are shown in the section "Performance indicators", together with their movements as compared to 2010.

Gross claims paid by form of reinsurance



The structure of gross claims by form of reinsurance did not change significantly in 2011 compared to the prior year. Claims on proportional reinsurance business decreased by 8.9% compared to the prior year, non-proportional claims by 9.4% and facultative claims by 80.0%. The decline in claims is a result of the decrease in claims by Slovenian cedants.

Net claims incurred by class of business

(EUR)	Sava Re Group		Sava Reinsurance Company	
	2011	2010	2011	2010
Personal accident	8,841,811	7,195,849	5,272,600	3,830,913
Health	4,558,657	3,033,034	51,182	-
Land vehicles casco	26,815,542	28,269,332	11,350,792	14,117,278
Aircraft hull	469,969	221,076	469,969	221,076
Ships hull	1,763,924	1,392,312	1,667,783	1,369,081
Goods in transit	2,107,949	2,258,269	1,994,440	2,167,864
Fire and natural forces	30,502,625	30,511,770	28,876,475	28,714,951
Other damage to property	13,080,173	15,435,075	9,741,220	11,556,760
Motor liability	36,270,915	41,266,562	10,820,813	13,779,438
Aircraft liability	25,659	-25,837	25,744	-24,484
Liability for ships	81,011	197,446	80,272	195,227
General liability	5,232,931	4,453,256	3,682,053	3,194,476
Credit	1,013,754	1,052,537	1,028,227	642,963
Suretyship	308,596	154,006	108,714	182,759
Miscellaneous financial loss	155,796	1,765,963	94,999	1,757,056
Legal expenses	245	179	-3	179
Assistance	413,127	262,336	45,607	8,391
Life business	1,923,987	1,007,790	56,450	-2,207
Unit-linked life	2,601,492	1,559,004	10,249	28,392
Total non-life	131,642,684	137,443,165	75,310,887	81,713,928
Total life	4,525,479	2,566,794	66,699	26,185
Total	136,168,163	140,009,959	75,377,586	81,740,113

14.3 Movements in technical provisions

Movements in gross and net technical provisions

(EUR)	Sava Re Group		Sava Reinsurance Company	
	31. 12. 2011	1. 1. 2011	31. 12. 2011	1. 1. 2011
Gross unearned premiums	87,330,269	87,101,437	40,897,411	41,861,443
Gross mathematical provisions	16,503,688	15,228,730	0	0
Gross provision for claims	213,830,875	197,489,173	142,394,053	131,492,898
Provision for bonuses, rebates and cancellations	610,616	544,113	215,221	203,540
Other gross technical provisions	2,599,694	2,923,797	384,357	384,094
Technical provisions for the benefit of policyholders who bear the investment risk	23,673,423	23,626,363	0	0
Total gross technical provisions	344,548,565	326,913,613	183,891,042	173,941,975
Net unearned premiums	82,742,134	83,855,444	37,430,056	39,596,820
Net mathematical provisions	16,503,451	15,228,424	0	0
Net provision for outstanding claims	197,417,473	180,986,270	128,245,647	116,231,221
Net provision for bonuses, rebates and cancellations	610,616	544,113	215,221	203,540
Other net technical provisions	1,993,087	2,938,460	384,357	384,094
Technical provisions for the benefit of policyholders who bear the investment risk	23,673,423	23,626,363	0	0
Total net technical provisions	322,940,184	307,179,074	166,275,281	156,415,675

Movements in gross technical provisions by operating segment

(EUR)	Reinsurance business		Non-life ins. business		Life ins. business	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Unearned premiums	33,290,100	34,259,849	53,660,457	52,522,521	379,712	319,067
Mathematical provisions	0	0	0	0	16,503,688	15,228,730
Provision for outstanding claims	128,442,010	116,091,138	85,190,619	81,279,621	198,246	118,413
Other technical provisions	452,888	446,652	2,757,422	3,021,257	0	0
Gross technical provisions	162,184,998	150,797,639	141,608,498	136,823,399	17,081,646	15,666,210
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	0	0	23,673,423	23,626,363

The above figures broken down by operating segment do not include intra-group transactions.

Sava Re Group

The total consolidated gross technical provisions increased by 5.8% in 2011. The largest nominal increase was recorded by Sava Reinsurance Company (EUR 9.9m), Zavarovalnica Tilia (EUR 3.9m) and Velebit osiguranje (EUR 2.3m).

Gross unearned premiums grew by 0.3%: Sava Reinsurance Company recorded a rise in unearned premiums at the end of 2011 compared to the beginning of the year by EUR 1.0m, Sava osiguranje by EUR 1.2m and Sava osiguruvanje by EUR 0.3m. All mentioned companies also recorded a drop in gross premiums written. In view of the increase in premium volume, Zavarovalnica Tilia also recorded an increase in unearned premiums, that is by EUR 2m.

Gross claims provisions grew by 8.3%. All Group members increased their claims provisions in the course of 2011: Sava Reinsurance Company recorded the largest increase – by EUR 10.9m, Velebit osiguranje by EUR 2.1m.

The gross mathematical provision grew by 8.4%, each of the four Group companies who carry out life business increasing this provision by about EUR 0.25m.

In 2011, other gross technical provisions (comprising the provision for bonuses, rebates and cancellations and the provision for unexpired risks) decreased by EUR 0.2m.

The technical provision for the benefit of life insurance policyholders who bear the investment risk was established only by Zavarovalnica Tilia, the other ones are on the 2010 level.

The total consolidated net technical provisions increased by 5.1% in 2011.

Sava Reinsurance Company

The drop in gross unearned premium (2.3%) in 2012 is in line with the drop in gross premiums written (1.8%), which is a result of decreasing the dependence on the Slovenian market. Gross unearned premiums of the Slovenian portfolio dropped by 6.6% in 2011 (gross premiums fell by 7.5%), but there was an increase on the international portfolio by 3.4% (gross premiums grew by 4.0%).

The gross provision for outstanding claims increased by 8.3% in 2011. The gross provision for outstanding claims relating to domestic business decreased by 7.2%, while the claims provision for foreign-sourced business increased by 29.1%. With Slovenian cedants, the decrease in the claims provision is a result of the above mentioned shrinkage of this part of the portfolio and a favourable loss year without major loss events. A relatively larger increase in the claims provision on the international portfolio compared to a 4.0% premium is a result of larger claims in 2011 (the estimated claim amount for the Japanese earthquake is EUR 2.3m, and for the floods in Thailand EUR 7.0m).

Provisions for bonuses, rebates and cancellation remained relatively low in 2011; Sava Reinsurance Company participates through the quota share treaty of Slovenian cedants.

Other technical provisions comprise only the provision for unexpired risks.

Net unearned premiums and the net claims provision move very close to gross figures.

14.4 Operating expenses

Operating expenses

(EUR)	Sava Re Group			Sava Reinsurance Company		
	2011	2010	Index	2011	2010	Index
Acquisition costs including DAC	53,482,014	53,520,216	99.9	32,568,744	32,909,058	99.0
Other operating expenses	34,439,104	31,767,470	108.4	6,720,089	6,420,605	104.7
Gross operating expenses	**87,921,118**	**85,287,686**	**103.1**	**39,288,833**	**39,329,663**	**99.9**
Income from reinsurance commission	-2,743,893	-2,479,762	110.7	-2,357,617	-2,161,895	109.1
Net operating expenses	**85,177,225**	**82,807,924**	**102.9**	**36,931,216**	**37,167,768**	**99.4**

Operating expenses by operating segment

(EUR)	Reinsurance business			Non-life ins. business			Life ins. business		
	2011	2010	Index	2011	2010	Index	2011	2010	Index
Acquisition costs including DAC	28,160,435	28,234,482	99.7	22,004,740	21,824,346	100.8	3,316,839	3,461,389	95.8
Other operating expenses	6,720,088	6,420,606	104.7	24,464,475	22,014,329	111.1	3,254,541	3,332,534	97.7
Gross operating expenses	**34,880,523**	**34,655,088**	**100.7**	**46,469,215**	**43,838,675**	**106.0**	**6,571,380**	**6,793,923**	**96.7**
Income from reinsurance commission	-2,357,617	-2,161,895	109.1	-370,207	-304,375	121.6	-16,069	-13,492	119.1
Other operating expenses	**32,522,906**	**32,493,193**	**100.1**	**46,099,008**	**43,534,300**	**105.9**	**6,555,311**	**6,780,431**	**96.7**

Notes: DAC – deferred acquisition costs.
The above figures broken down by operating segment do not include intra-group transactions.

Sava Re Group

Acquisition costs are lower on the consolidated level as premium volume shrank in some of the subsidiaries (as detailed under the section on premiums). Deferred acquisition costs decreased as a result of lower acquisition costs, which increases total operating expenses.

In 2010, other operating expenses increased in Zavarovalnica Tilia and Illyria, who both expanded their sales network, which entails expenses, albeit expenses supporting progress. This effect is visible in the growth index for the non-life insurance segment. Six Group companies recorded a drop in other operating expenses, which is specifically important in the life insurance segment where sales conditions are difficult so that targets can only be met through cost optimisation.

Sava Reinsurance Company

In 2011 acquisition costs increased; however, if the movement in deferred acquisition costs is included, acquisition costs show a 1.0% drop. This drop is due to gross premiums written, which decreased by 1.8% compared to the prior year.

Administrative expenses increased compared to 2010, mainly as a result of increased labour costs (years of service bonus and new appointments).

Reinsurance commission income, which is charged against gross operating expenses, grew by 9.1% compared to 2010; this is because in 2010 Sava Reinsurance Company received less commission for its retroceded business due to poor results in 2008 and 2009.

14.5 Financial investments

Sava Re Group

The Sava Re Group pursued a conservative investment policy in 2011. The Group focused on reducing market risk and volatility of the investment portfolio. For companies that operate in or have access to developed capital markets, the investment policy was oriented towards expanding the bond portfolio; with other companies the focus was on high-quality issuers.

At the end of 2011, the investment portfolio[14] of the Sava Re Group totalled EUR 371.8m, an increase by EUR 7.7m over 2010. The main impact on the investment portfolio was positive cash flow from insurance business.

In 2011, the investment structure changed in favour of debt securities. Thus the amount of bond investments increased by EUR 40.1m compared to the prior year. The Group reorganised the portfolio to ensure a stable return and good liquidity. On the other hand, the Group continued decreasing equity investments, especially its exposure to mutual funds. Thus the amount invested in mutual funds fell by EUR 13.7m compared to the prior year. In this way, the Group aims at mitigating exposure to capital market volatility. Another large change in the structure was with deposits, which decreased by EUR 25.3m compared to the prior year. The Group decided on this in response to the poor business results of banks in Slovenia.

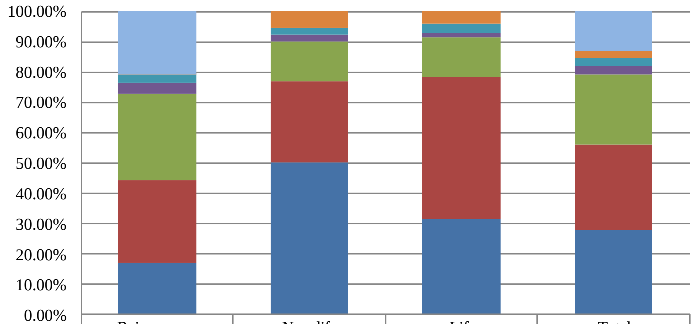
The increase in strategic investments relates to the increase in the holding in Zavarovalnica Maribor and to the good results of Maribor and Moja Naložba, which are reported in the consolidated accounts as an increase in these investments, while on 31 December 2011, this item was reduced by the amount of the dividend payment received from Zavarovalnica Maribor.

The table below shows the investment structure by Group business segments.

[14] Investments do not include deposits with cedants totalling EUR 8.6m (2010: EUR 7.4m) and investments for the benefit of life insurance policyholders who bear the investment risk of EUR 24.1m (2010: EUR 23.7m).

Structure of the investment portfolio by business segment

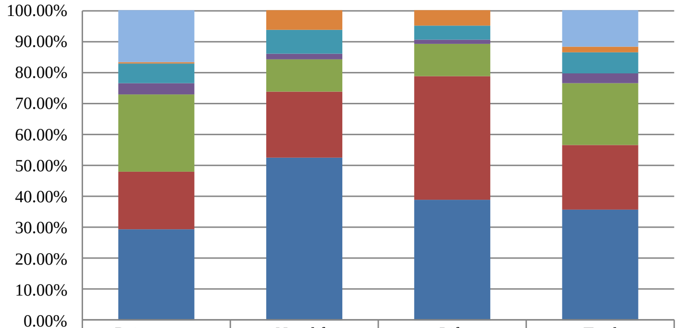
31. 12. 2011



	Reinsurance	Non-life	Life	Total
Strategic shares and participating interests	20.58%	0.00%	0.00%	13.20%
Other	0.07%	5.56%	4.20%	1.96%
Mutual funds	3.08%	2.26%	2.83%	2.82%
Shares (excluding strategic shares)	3.56%	1.99%	1.37%	2.96%
Corporate bonds	28.44%	13.44%	13.47%	23.06%
Government bonds	26.92%	26.55%	46.38%	27.96%
Deposits and money market instruments	17.35%	50.19%	31.76%	28.03%

*The other item comprises loans, land and buildings, and other types of investment.

31. 12. 2010



	Reinsurance	Non-life	Life	Total
Strategic shares and participating interests	16.94%	0.00%	0.00%	11.63%
Other	0.07%	6.13%	5.13%	1.90%
Mutual funds	6.47%	7.76%	4.16%	6.64%
Shares (excluding strategic shares)	3.74%	1.98%	1.46%	3.15%
Corporate bonds	24.91%	10.16%	10.47%	20.31%
Government bonds	18.66%	21.56%	39.86%	20.79%
Deposits and money market instruments	29.21%	52.42%	38.92%	35.59%

*The other item comprises loans, land and buildings, and other types of investment.

Net income on the investment portfolio [15]

(EUR) 31. 12. 2011	Reinsurance business	Non-life ins. business	Life ins. business	Total
Deposits and money market instruments	1,857,032	2,352,100	25,216	4,234,348
Government bonds	1,010,363	1,301,907	482,779	2,795,049
Corporate bonds	3,155,594	663,115	175,575	3,994,284
Shares (excluding strategic shares)	-1,951,643	468,043	-32,417	-1,516,018
Mutual funds	-711,444	-377,552	30,616	-1,058,380
Loans granted	0	-106,373	59,132	-47,241
Land and buildings	14,473	10,187	0	24,660
Strategic shares and participating interests	62,639	0	0	62,639
Total excl. financing costs	3,437,013	4,311,427	740,901	8,489,341
Total incl. financing costs	1,674,820	4,268,977	708,388	6,652,185

(EUR) 31.12.2010	Reinsurance business	Non-life ins. business	Life ins. business	Total
Deposits and money market instruments	1,384,368	2,474,704	590,648	4,449,721
Government bonds	2,222,046	1,317,833	471,444	4,011,323
Corporate bonds	1,695,259	387,366	130,906	2,213,531
Shares (excluding strategic shares)	-1,886,389	148,735	34,634	-1,703,019
Mutual funds	768,095	-159,532	-74,847	533,716
Loans granted	0	53,859	97,292	151,151
Land and buildings	44,389	92,235	-10,810	125,815
Strategic shares and participating interests	4,667,605	0	16,486	4,684,091
Total excl. financing costs	8,895,373	4,315,202	1,255,753	14,466,327
Total incl. financing costs	7,351,505	4,276,355	1,115,394	12,743,253

The net investment income on the investment portfolio including financing costs decreased by EUR 6.0m. Investment income excluding financing costs was lower by EUR 5.9m.

The income from deposits, government bonds, mutual funds and strategic shares is lower due to impairment losses. In 2011, the Group had to recognise impairment losses on Greek government bonds because of the economic position of Greece, impairment losses on deposits with a Croatian bank after it went bankrupt, and in response to goodwill testing, the Group had to recognise impairment losses on investments in Sava osiguruvanje and Velebit osiguranje.

The Group only generated more investment income with corporate bonds, which, however, is a result of the increased amount of invested assets.

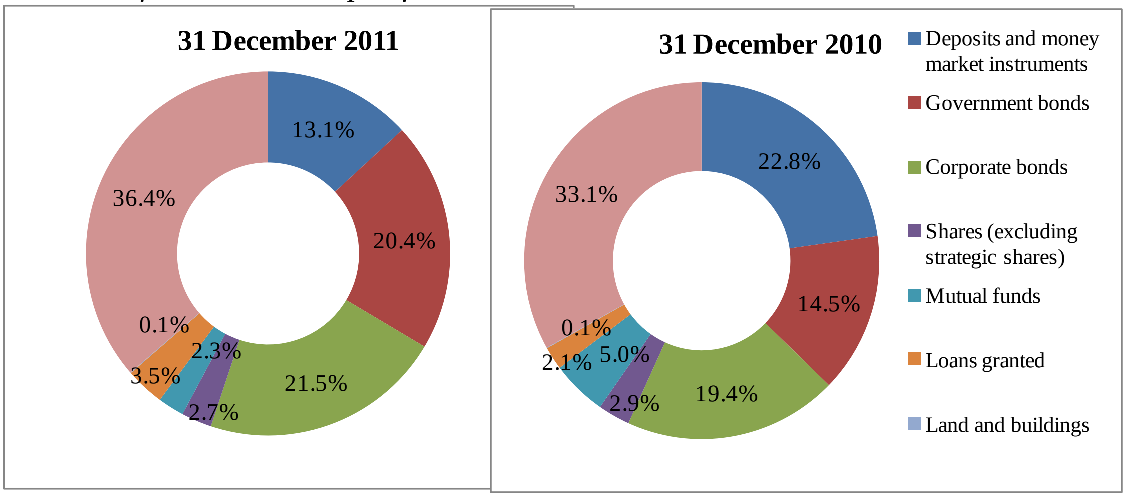
[15] The return on investments item does not include income in respect of reinsurance contracts with cedants of EUR 112,000 (2010: EUR 120,000) nor the investment return for the benefit of life insurance policyholders who bear the investment risk of EUR –3.1m (2010: EUR 2.0m).

Sava Reinsurance Company

In 2011 Sava Reinsurance Company pursued a conservative investment policy. The Company aimed at minimising the volatility of return on the investment portfolio. In addition, the Company sought to mitigate certain market and credit risks, which is why in 2011 investments in bank deposits and mutual funds were reduced.

In 2011, the investment portfolio of Sava Reinsurance Company decreased by EUR 5.7m to EUR 314.7m[16]. The investment portfolio was impacted by impairment losses of EUR 8.7m, the payment of the consideration for part of Zavarovalnica Illyria of EUR 8.5m and by fair value revaluations made. On the other hand, the investment portfolio received funds from positive cash flow from reinsurance business of EUR 15.4m.

Structure of the investment portfolio



In 2011, the investment structure changed in favour of debt securities. By increasing investments in government and corporate bonds, the Company sought to build up an investment portfolio with a return that is as stable as possible. On the other hand, the share of government bonds at the end of 2011 increased especially in order to take advantage of circumstances in capital markets where return to maturity of Slovenian government bonds reached very high levels.

The change in the structure is also related to mitigating market risk. Thus we decreased the share of mutual funds that in recent years were under the pressure of volatile market conditions. The share of deposits decreased due to the need to mitigate exposure to the banking system as currently the results of Slovenian banks are uncertain.

The share of strategic shares increased in line with the planned scope of recapitalisations of companies that Sava Reinsurance Company acquired prior to 2011.

Investments do not include deposits with cedants totalling EUR 8.6m (2010: EUR 7.4m).

Net income on the investment portfolio [17]

(EUR)	31. 12. 2011	31. 12. 2010
Deposits and money market instruments	1,857,032	1,263,925
Government bonds	1,010,363	2,222,046
Corporate bonds	3,155,594	1,695,258
Shares (excluding strategic shares)	-1,951,643	-1,886,389
Mutual funds	-711,444	768,095
Loans granted	322,155	118,079
Land and buildings	14,473	73,414
Strategic shares and participating interests	-617,693	-387,696
Total excl. financing costs	3,078,836	3,866,732
Total incl. financing costs	1,316,643	2,427,842

The net investment income on the investment portfolio including financing costs decreased by EUR 1.1m. Investment income excluding financing costs was lower by EUR 0.8m. The lower net investment income is primarily a result of impairment losses.

The Company generated a higher investment income than in 2010 with deposits, corporate bonds and loans. The investment income with deposits and corporate bonds showed an improvement because the 2010 investment income was impacted by impairment losses on Poteza Naložbe commercial notes of EUR 0.4m and on Poteza Group bonds of EUR 1.5m. The increase in investment income on loans granted is a result of more assets invested in this type.

The investment income on government bonds was lower than in 2010 due to impairment losses on Greek government bonds of EUR 1.2m. Investment income also decreased with mutual funds. This is a result of a decision to reduce such invested assets because of the high volatility of market prices. Therefore, the lower investment income is related to realised losses on disposal and impairment losses.

The investment income on strategic investments was negative in spite of dividend payments received from Zavarovalnica Tilia and Zavarovalnica Maribor for a total of EUR 4.5m as a result of impairment losses on goodwill of Sava osiguranje of EUR 2.5m and Velebit of EUR 2.6m.

[17] The return on investments item does not include interest income in respect of reinsurance contracts with cedants of EUR 112,000 (2010: 120,000).

14.6 Other investments of Sava Reinsurance Company in the insurance industry

In addition to its investments in subsidiaries and associates, at 31 December 2011, Sava Reinsurance Company held investments in other companies in the insurance industry.

Other investments of Sava Reinsurance Company in the insurance industry

	Holding (%) as at 31 Dec 2011
Slovenia	
Skupina prva, zavarovalniški holding, d.d.	4.04%
Zavarovalnica Triglav d.d.	0.11%
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%

15 FINANCIAL POSITION OF THE GROUP AND THE COMPANY

15.1 Composition of assets and liabilities

Sava Re Group

At 31 December 2011, total assets of the Sava Re Group stood at EUR 582.1m, an increase of 0.6% over 2010.

Consolidated total assets by type

(EUR)	31. 12. 2011	Structure 2011	31. 12. 2010	Structure 2010
ASSETS	**582,037,026**	**100.0%**	**578,385,408**	**100.0%**
Intangible assets	18,274,819	3.1%	23,289,847	4.0%
Property and equipment	24,503,335	4.2%	26,711,597	4.6%
Deferred tax assets	4,527,413	0.8%	2,236,081	0.4%
Investment property	6,071,447	1.0%	4,906,918	0.8%
Financial investments in associate companies	49,085,007	8.4%	42,322,366	7.3%
Financial investments	325,188,363	55.9%	324,225,440	56.1%
Funds for the benefit of policyholders who bear the investment risk	24,138,957	4.1%	23,716,699	4.1%
Reinsurers' share of technical provisions	21,608,381	3.7%	19,734,539	3.4%
Assets from investment contracts	0	0.0%	0	0.0%
Receivables	86,266,849	14.8%	88,067,303	15.2%
Deferred acquisition costs	15,938,449	2.7%	17,318,841	3.0%
Other assets	1,338,989	0.2%	753,985	0.1%
Cash and cash equivalents	4,710,455	0.8%	4,026,603	0.7%
Non-current assets held for sale	384,562	0.1%	1,075,190	0.2%

The largest part of assets are financial investments, which increased by 0.3% compared to end-of 2010. The largest impact on this small increase came from the controlling company. While operating cash flow of Sava Reinsurance Company was positive and totalled EUR 15.4m, the investment portfolio was impacted by impairment losses of EUR 8,7m, the payment of the consideration for part of Zavarovalnica Illyria of EUR 8.5m and by fair value revaluations made, recapitalisations of subsidiaries and associates of EUR 11.1m and the payment of financial liabilities of EUR 2.9m.

The second largest asset item are receivables, which decreased in absolute terms by 2% compared to 31 December 2010 and also as an asset type. This movement reflects a number of measures that the Group took during 2010 and 2011 to reduce receivables, especially those arising out of insurance business, and the fact that all Group companies carefully examined receivables and entities owing money and recognised relevant impairment losses.

Financial investments in associates account for 8.4% of assets, up by 16%. The growth is a result of the acquisition of an additional 2.8% share of Zavarovalnica Maribor and EUR 8.2m for its recapitalisation. Added to this item was the profit of associates Zavarovalnica Maribor and Moja naložba, which was very small in 2011 because the dividend payment of Zavarovalnica Maribor was subtracted.

Among the items that changed by more than EUR 5m, we would also mention intangible assets, which decreased as a result of impairment losses on goodwill of EUR 5.2m.

Consolidated liabilities by type

(EUR)	31. 12. 2011	Structure 2011	31. 12. 2010	Structure 2010
EQUITY AND LIABILITIES	**582,037,026**	**100.0%**	**578,385,408**	**100.0%**
Equity	148,080,050	25.4%	154,684,609	26.7%
Share capital	39,069,098	6.7%	39,069,099	6.8%
Capital reserves	25,417,397	4.4%	25,417,396	4.4%
Profit reserves	90,243,081	15.5%	85,362,019	14.8%
Treasury shares	-1,774	0.0%	-1,774	0.0%
Fair value reserve	-10,809,738	-1.9%	-121,460	0.0%
Retained earnings	2,878,547	0.7%	557,800	0.1%
Net profit/loss for the period	1,147,011	-0.1%	2,370,698	0.4%
Translation reserve	-2,338,002	-0.4%	-2,412,020	-0.4%
Subordinated liabilities	31,220,817	5.4%	31,177,758	5.4%
Technical provisions	320,875,142	55.1%	303,287,248	52.4%
Technical provision for the benefit of life insurance policyholders who bear the investment risk	23,673,423	4.1%	23,626,363	4.1%
Other provisions	795,606	0.1%	768,854	0.1%
Deferred tax liabilities	0	0.0%	186,610	0.0%
Other financial liabilities	5,782,075	1.0%	2,667,101	0.5%
Liabilities from operating activities	41,486,025	7.1%	46,055,013	8.0%
Other liabilities	10,123,890	1.7%	15,931,854	2.8%

The technical provisions item is the largest item of equity and liabilities; in 2011 the share of technical provisions grew by 2.7 percentage point to account for 55.1% of equity and liabilities. The amount of gross technical provisions was higher by 5.8% at the end of 2011. The increase originates from the increase in the technical provisions of the controlling company and from the growth in insurance portfolios of subsidiaries. The increase was mostly due to the provision for claims outstanding and to a minor degree the increase in mathematical provisions.

The next largest item is equity, which accounted for 25.4%. The reduction in the amount of equity by 4.3% is a result of movements in its components as follows:

- there was a decrease in the fair value reserve (by EUR 10.7m), which has a major impact on the movement of equity and is a result of negative trends in capital markets; the lion's share originates from the controlling company;
- net profit reported under equity is lower than in 2010 (by EUR 1.2m) since part of the 2011 profit had already been allocated to profit reserves; other items that have effect on this item are movements in credit risk equalisation and other catastrophe equalisation reserves.

Liabilities from operating activities, representing 7.1% of the liabilities side, dropped by 9.9%, with decreases in all subitems (from primary insurance as well as reinsurance business).

Among the items that have changed by more than EUR 5m, we need to mention "other liabilities", which decreased because of a decrease in the controlling company (payment of consideration for 49% of Illyria).

Sava Reinsurance Company

At 31 December 2011, total assets of Sava Reinsurance Company were EUR 417.1m, an increase of 0.3% over 2010.

Total assets by type

(EUR)	31. 12. 2011	Structure 2011	31. 12. 2010	Structure 2010
ASSETS	**417,051,465**	**100.0%**	**418,350,613**	**100.0%**
Intangible assets	175,779	**0.0%**	178,615	**0.0%**
Property and equipment	2,367,170	**0.6%**	2,451,169	**0.6%**
Non-current assets held for sale	0	**0.0%**	0	**0.0%**
Deferred tax assets	4,064,272	**1.0%**	2,073,687	**0.5%**
Investment property	158,587	**0.0%**	160,920	**0.0%**
Financial investments in Group companies and in associates	114,423,243	**27.4%**	106,236,355	**25.4%**
Financial investments	208,748,194	**50.1%**	221,513,409	**52.9%**
Reinsurers' share of technical provisions	17,615,761	**4.2%**	17,526,300	**4.2%**
Receivables	59,848,463	**14.4%**	58,673,865	**14.0%**
Deferred acquisition costs	9,305,676	**2.2%**	9,191,801	**2.2%**
Other assets	190,409	**0.0%**	175,299	**0.0%**
Cash and cash equivalents	153,913	**0.0%**	169,193	**0.0%**

At the end of 2011, the largest part of assets remained financial investments, which decreased by 5.8% compared to 2010. These decreased due to impairment losses, fair value revaluation and increase of investment in Group companies as well as due to the payment of the consideration for 49% of Illyria.

The next largest item are investments in affiliates, which increased by 7.7% as a result of recapitalisations and the acquisition of an additional 2.9% interest in Zavarovalnica Maribor.

Equity and liabilities by type

(EUR)	31. 12. 2011	Structure 2011	31. 12. 2010	Structure 2010
EQUITY AND LIABILITIES	417,051,465	100.0%	418,350,613	100.0%
Equity	158,454,528	38.0%	156,138,328	37.3%
Share capital	39,069,099	9.4%	39,069,099	9.3%
Capital reserves	33,003,752	7.9%	33,003,752	7.9%
Profit reserves	87,556,850	21.0%	83,238,204	19.9%
Treasury shares	-1,774	0.0%	-1,774	0.0%
Fair value reserve	-9,088,908	-2.2%	-2,767,816	-0.7%
Retained earnings	3,596,862	0.9%	0	0.0%
Net profit/loss for the period	4,318,646	1.0%	3,596,862	0.9%
Subordinated liabilities	31,220,817	7.5%	31,177,758	7.5%
Technical provisions	183,891,042	44.1%	173,941,974	41.6%
Other provisions	143,730	0.0%	112,165	0.0%
Deferred tax liabilities	0	0.0%	86,161	0.0%
Other financial liabilities	729	0.0%	2,901,061	0.7%
Liabilities from operating activities	42,059,351	10.1%	44,336,405	10.6%
Other liabilities	1,281,268	0.3%	9,656,761	2.3%

At the end of 2011, the technical provisions item was the largest item of equity and liabilities. At 31 December 2011, technical provisions accounted for 44.1% of equity and liabilities, an increase of 5.7% in the amount of technical provisions.

The second largest item is equity with a 38.0% share in the structure. Equity grew by 1.5% compared to 31 December 2010 due to the following movements:

- there was a decrease in the fair value reserve (by EUR 6.3m), which has a major impact on the movement of equity and is a result of negative trends in capital markets;
- net profit for 2011 reported under equity was larger than in the prior year.

15.2 Capital adequacy

At 31 December 2011, the Sava Re Group recorded a EUR 56.8m surplus of available solvency margin over minimum capital, with the solvency ratio at 235.7%. The surplus increased by EUR 2.7m compared to 31 December 2010.

At 31 December 2011, the Sava Reinsurance Company recorded a EUR 19.6m surplus of available solvency margin over minimum capital, with the solvency ratio at 190%. The ratio compares favourably with the ratios of other European reinsurers and ensures stable operations. Compared to year-end 2010, the surplus shrank slightly because of increased investments in Group companies (drop by EUR 2m), but remains on a high level.

Sava Reinsurance Company regularly tests the adequacy of the amount of capital, also using the Standard & Poor's model as part of the annual rating review. The model is more complex than under Solvency I and considers various risks (not only premium volume) when calculating required capital. Also under this model, capital adequacy of Sava Reinsurance Company did not change in 2011 and remains on the A level.

15.3 Sources of finance and maturities

At 31 December 2011, the Sava Re Group had EUR 148m of equity, EUR 31.2m subordinated liabilities and EUR 5.8 of other financial liabilities. From the above, it is evident that debt accounts for 20% of equity. Sava Reinsurance Company and Group companies will be reducing the share of debt as equity should suffice for day-to-day operations of the Group.

Subordinate debt of EUR 31.2m taken out by Sava Reinsurance Company is scheduled to mature in 2026 and was intended to finance the Groups expansion to the Western Balkans.

Financial liabilities to banks were EUR 5.8m and are all due in 2012.

The controlling company is expanding loans to its subsidiaries totalling EUR 10.9m at year-end 2011.

15.4 Cash flow

Sava Reinsurance Company recorded a positive cash flow of EUR 15.4m, which was sufficient to cover short-term and long-term liabilities arising out of financing of EUR 9.9m (of this EUR 5.1 relates to recapitalisation of subsidiaries included in this items), leaving EUR 5.6m for investing activities.

Zavarovalnica Tilia generated a positive cash-flow from operating activities of EUR 11.7m. By taking out a loan in the amount of EUR 8.5m, Tilia recorded a positive cash flow from financing activities of EUR 8.1m and together with a positive cash flow from operating activities of EUR 11.7m, there was EUR 19.8m available for investing activities.

The large positive cash flow ensures sufficient funds for the development of key Group functions – the development of an own sales network, i.e., a network of sales points, and the implementation of a uniform Group information system.

On the Group level, the cash flow from operating activities was positive and amounted to EUR 21m (Tilia took out a loan in the amount of EUR 5m; Sava Reinsurance Company repaid a loan in the amount of EUR 2.9m and paid EUR 2m in interest on loans taken up); cash flow from financing activities was positive, while there was EUR 20.3m available for investing activities.

15.5 Receivables management

At the end of 2011, the total amount of receivables of the Sava Re Group was lower by 2% compared to the prior year, of which the largest drop was recorded in receivables due from policyholders, a decrease of 17.8%. This item decreased already in 2010 compared to the prior year (by 2%), which proves that the measures taken in Group companies to manage receivables are effective, while the decrease also reflects impairment losses recognised on receivables. Group companies have mainly unified their policies regarding receivables accounting with those of the Group, thereby improving operating cash flow and reducing other technical expenses due to future value adjustments on receivables.

Receivables have been improving in terms of age: at the end of 2010, 13.5% of receivables were overdue more than 180 days, while at year-end 2011, there were only 8.8%.

15.6 Credit rating

Sava Reinsurance Company is rated "A–" with a negative outlook by rating agency Standard & Poor's. The January 2012 downgrade from a stable to a negative outlook is a result of the downgrade in the sovereign rating of Slovenia by Standard & Poor's from AA– to A+ with a negative outlook.

Thus the reason that the outlook was changed to negative is neither to be found in capital adequacy nor in the performance of Sava Reinsurance Company as the Company shows continued growth and generates profit.

A summary of the Standard & Poor's report is available on our website: www.sava-re.si.

16 RISK MANAGEMENT

16.1 Risk management policies and goals

The basic activity of every insurance company is to take on risks from policyholders (individuals and legal entities) against payment of insurance premiums. In this way, a known loss is incurred in order to avoid the uncertain financial consequences of a potential loss event, especially uncertainty regarding the amount of the financial loss. The same reasoning underlies the dealings between insurance companies who reinsure with reinsurers and reinsurers who reinsure with other reinsurers, so-called retrocessionaires. Each participant in this chain only retains as much risk as they are capable of bearing and the end result of these prudent dealings is a wide diversification of insured risks.

Insurance companies have always been strongly involved in risk management due to the very nature of their business, albeit under different labels, while the insurance premium is practically a verified risk measure since times when neither the notion of "risk measure" nor relevant theories existed.

Because it is very important for the economy and private individuals that insurance companies operate safely, developed countries have had for a very long time in place regulations ensuring the solvency of insurance companies, mainly by stipulating the calculation of the insurer's minimum capital. However, under the current Solvency I regime for insurance companies, the minimum capital of non-life insurers is related practically only to underwriting risks that insurers are exposed to, while the minimum capital of life insurers is also related to market risks. Yet there are a number of other risks besides underwriting and market risks, as a result of which insurers may get into trouble or even become insolvent. This shortcoming will be remedied with the introduction of the Solvency II regime scheduled for 1 January 2014.

While there is an important external motivation to improve risk management and integrate current risk management principles into the corporate reasoning of the Sava Re Group, the Group's management is well aware that apart from regulations, these changes are mainly dictated by the Group's internal requirements if it wants to achieve its strategic goal to ensure secure and successful operations in the long term.

The primary goal of risk management is to increase the probability of secure operations aligned with regulations, allowing the Group and each of its members to attain its business goals.

The secondary goals of risk management are:

- setting up a Group-wide risk management system;
- gradually preparing to meet future requirements brought on by the new insurance Solvency II regime and relevant implementing regulations;
- establishing conditions for optimal capital allocation with regard to the risks that the Group is exposed to;
- integrating risk management into all Group business processes.

In order to attain the above goals, it is necessary to continuously develop a risk management culture so that it becomes an integral part of all Group business processes.

The building of a risk management culture is actually part of a larger context of establishing an internal environment, which requires a very wide horizon. It relates to the development of an appropriate risk management philosophy and policy, governance philosophy and management style, human resources policy and practices, attitude towards risks, organisational structure, system of authorisations and responsibilities and much more, while not forgetting integrity and ethical values.

16.2 Organisational structure of risk management

Sava Re Group

To date Sava Re Group members (except Sava Reinsurance Company) have not set up units primarily responsible for comprehensive risk management. There are a number of reasons:

- low awareness of the importance of comprehensive risk management in the countries of former Yugoslavia, except in Slovenia and Croatia;
- shortage of staff with relevant expertise: actuaries, financial professionals, risk management specialists, etc.;
- small size of insurers, which entails excessive administrative expenses compared to insurance premiums; in environments that do not requires comprehensive risk management, additional hires would lead to higher expenses and reduced competitiveness.

Sava Re Group members are monitored through business functions such as actuarial affairs and risk management. In most Group companies, the actuarial function is adequately implemented regarding organisational matters and staffing if compared to competitors and in the context of the under/development of the environment and possibilities for hiring, but it does not meet Slovenian standards. Regarding risk management, we have appointed one person in each subsidiary to co-ordinate and implement risk management activities.

Sava Reinsurance Company

Risk management is a process that is present in all organisational units of Sava Reinsurance Company as well as in all business processes and is supported by employees on all levels. The basic organisational unit of the company responsible for risk management is the risk management department, comprising the actuarial function, risk management and business processes and information technology.

The primary medium-term goal of the risk management department is the continuous improving and enhancing of business processes to achieve a level where risk management is fully integrated into business processes.

The main duties of the department directly or indirectly related to risk management are:

- performing the duties of certified actuary and other actuarial duties;
- identifying the risks that the Company is exposed to;
- assessing and measuring risks;
- maintaining a risk register;
- determining, carrying out and monitoring measures for risk mitigation;

- developing a risk management culture;
- development and optimisation of business processes.

The actuarial function and the risk management are staffed by five certified actuaries (including the Executive Director), who co-ordinate and carry out activities on a Group level, while the four employees in the business processes and information technology department mainly service the needs of the Company.

In order to involve all departments of the Company in risk management activities as early and as actively as possible, the Management Board appointed a working group for risk management composed of one member from each department.

The tasks of the risk management working group are:
- to systematically spread a risk management culture to each group member's organisational unit of the Company;
- to establish conditions for integrating risk management into all Group business processes.
- to introduce the selected risk management methodology into daily company practice;
- to systematically spread risk management culture to the Company's subsidiaries;
- to report to the Management Board;

while specific tasks are mainly related to specific risks or the risk register.

Risk management is of such importance to the Company that the primary responsibility lies with the Management Board, who upon recommendation by the risk management working group adopt risk mitigation measures, appoint risk administrators and determine priorities for major risks from its risk register.

The Executive Director of the risk management department is responsible, among others, for strategic, tactic and operational planning of risk management, whereas executive directors of other departments and units at various levels are responsible for operating performance of processes for which they are responsible in a manner so as to either eliminate or reduce risks.

All Company employees are responsible for operational performance of the duties they have been tasked with in a manner so as to either eliminate or reduce risks. Risk administrators are given special responsibilities for specific risks from the risk register.

16.3 Risk management process

Risk management is a process that allows for the identification of events that may potentially impact the goals of the Company, assists in keeping risks within certain limits and provides assurance that reasonable Company objectives can be achieved.

For risks that Sava Re Group members, due to the nature of their business, knowingly assume from others or are inseparably tied to, the goal of risk management is adequate risk selection. Adequate risk selection is deemed to be a process that is to keep risks within certain limits:
- allowing to achieve strategic, tactic and operational objectives of the Company or Group;

- while not jeopardising strategic, tactic and operational goals of the Company or Group with a probability that is below the probability limit that is still acceptable.
- while meeting all statutory and other external requirements.

Examples of such risks are especially underwriting risks, which are related to risk assumption by either insurers or reinsurers, market risks, relating to investments supporting the liability fund, and credit risk because of default of retrocessionaires.

With risks that Sava Re Group members do not assume knowingly due to the nature of the activity nor are they inseparably tied to deliberately assumed risks, the goal of risk management is to eliminate or reduce risks that may impact the achievement of strategic, tactic or operational goals of the Company or Group.

When managing risks, especially those mentioned in the preceding paragraph, the economic aspect needs to be considered. The elimination or reduction of individual risks must be more cost-effective than the reduction of expected consequences in case the risk materialises, taking into account loss probability and consequences.

The risk management process, inter alia, requires:

- risk identification;
- risk assessment;
- nomination and adoption of risk administrators;
- proposing and setting priorities;
- proposing and determining measures;

and especially, carrying out and monitoring measures for risk elimination and mitigation;

For risks that Sava Reinsurance Company, due to the nature of its business, knowingly assumes from others or for risks inseparably tied to the former, the main goal of risk management is adequate risk selection and:

- assumption and maintenance of risks within acceptable limits;
- transfer of risk portions to other financially capable and independent counterparties, e.g., reinsurance companies;
- risk diversification.

To risks that do not meet the conditions from the preceding paragraph, the following measures are mainly applied:

- risk avoidance or risk removal in order to prevent exposure to potential future adverse events;
- risk reduction based on risk control and other procedures.

Which of the measures are to be applied to specific risks is set out in the risk register together with detailed descriptions of measures.

16.4 Risks

In the Sava Re Group and at Sava Reinsurance Company we classify risks into roughly the following groups:

- underwriting risks, arising out of re/insurance contracts. They are related to both risks covered under re/insurance contracts and accompanying procedures.
- market risks related to volatile prices of financial instruments and market prices of other assets;
- credit risks related to non-performance and change in the credit rating of securities issuers related to the investment portfolio of the re/insurer, of reinsurers, intermediaries and other business partners who have outstanding liabilities with the re/insurance company.
- operating risk comprising inappropriate and failed internal procedures, personnel, information systems and external events;
- liquidity risks relating to loss resulting in insufficient liquid assets when liabilities become due or in increased costs on the realisation of less liquid assets.

Below we describe individual risk groups in greater detail. Characteristics shared between the Sava Re Group and Sava Reinsurance Company are set out in the introductory part, while specific ones are described for each separately. More details can be found in the notes to the financial statements of the Sava Re Group and to those of Sava Reinsurance Company.

16.4.1 Underwriting risk

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.

Sava Reinsurance Company as 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 indirectly assumes risks from cedants outside the Group, if viewed as a Group member and from cedants inside and outside the Group, if viewed independently. 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.

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

16.4.1.1 Underwriting process risk – non-life business

Sava Re Group

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 terms and conditions relating to entire classes of business and for major policyholders to take into account deterioration in the loss ratios 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 in a timely manner.

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

Sava Reinsurance Company

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 level 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.

The underwriting process risk did not change substantially from 2010 to 2011, which is true both for the Sava Re Group as well as for Sava Reinsurance Company.

16.4.1.2 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 Sava Re Group and at Sava Reinsurance Company is mainly monitored by conducting actuarial analyses of loss ratios, 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 Sava Re Group and Sava Reinsurance Company manage this risk by having an appropriate underwriting process in place and by adjusting applicable commission rates. 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.

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 relatively high pricing risk due to both competition (affecting mainly acquisition costs) and state-regulated premiums for compulsory motor third party liability insurance.

Pricing risk in both 2011 and 2010 is deemed moderate for both the Sava Re Group as well as for Sava Reinsurance Company.

16.4.1.3 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. With proportional reinsurance business, this risk is closely connected to the same risk with cedants.

With non-proportional reinsurance contracts, especially in higher layers, a major excess over the expected small number of losses is less likely, but still possible.

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 in both 2011 and 2010.

16.4.1.4 Net retention risk – non-life business

Net retention risk is the risk that higher retention of insurance loss exposures results 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).

The Sava Re Group and Sava Reinsurance Company manage this risk by way of adequate professional underwriting of the risks to be re/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 in 2011 essentially the same as in 2010 in terms of retention limits and the expected number of catastrophic losses. However, the number of natural catastrophe events in 2011 was larger than in 2010. Yet Sava Reinsurance Company was not seriously impacted due to its adequate retention limits and adequate retrocession programme, which is also shown in the section on estimated exposure to underwriting risks – non-life business.

16.4.1.5 Reserving risk – non-life business

Reserving risk is the risk that technical provisions are inadequate. This may occur because of deficient actuarial estimates or an unexpected unfavourable loss development. This may be a result of the occurrence of new types of losses, which are not excluded in ceding companies' insurance conditions and for which claims provisions have not yet been established, which could occur mainly in respect of liability insurance contracts, but also due to changed court practices.

The adequacy of technical provisions can be judged based on the amount of technical provisions in previous years, for instance, for a five-year period preceding the accounting year. Given actuarial methods are used consistently to calculate technical provisions 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, we can make a conclusion on the in/adequacy of the provisions as at 31 December 2011.

Sava Re Group

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, the Group took into account the subsidiaries' underreserved technical provisions at the consolidated 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). The "chain ladder" method was introduced for certain classes of insurance, especially motor liability, only later. Therefore, the majority of subsidiaries do not keep reliable multi-year 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 be meaningful. For this reason, at the end of 2011, Group year-end data on previous years' claims provisions were collected (partly estimated) as established at the of individual years 2006–2010, with subsequent estimates of the amount of claims provisions for the same (current) liabilities at the end of 2011.

An analysis of the amount of gross and net liabilities at the end of 2006–2010 revealed that at the end of 2011, the reestimated (current) liabilities were lower than the actually established provisions. The originally established gross provisions in the years 2006–2010 exceeded gross liabilities estimated at year-end 2011 by 0.7%, 3.2%, 4.6%, 11.9% and 9.1%, respectively, while the surplus/deficit of originally established provisions for these years was -5.0%, -2.0%, 1.7%, 11.1% and 9.3%, respectively.

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.

Sava Reinsurance Company

Sava Reinsurance Company manages reserving risk by strict adherence to the law and regulations on technical provisions, by applying recognized 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 reserves, which is further described in the notes to the financial statements of Sava Reinsurance Company (technical provisions).

An analysis of the amount of gross and net liabilities at the end of 2006–2010 revealed that at the end of 2011, the reestimated (current) liabilities were lower than the actually established provisions. The originally established gross provisions set aside in the years 2006–2010 exceeded gross liabilities estimated at year-end 2011 by 18.8%, 7.4%, 8.5%, 14.5% and 9.4%, respectively, while originally established net provisions exceeded net liabilities estimated at year-end 2011 by 26.8%, 7.6%, 9.0%, 13.4% and 8.6%, respectively.

We consider that reserving risk at the end of 2011 is similar to that at year-end 2010.

16.4.1.6 <u>Retrocession programme – non-life business</u>

An adequate retrocession programme is fundamental for managing the underwriting risks to which the Sava Re Group 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 retrocession programmes of the Sava Re Group and Sava Reinsurance Company in 2011 were similar to those in 2010.

16.4.1.7 <u>Estimated exposure to underwriting risks – non-life business</u>

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 Sava Re Group and Sava Reinsurance Company are not exposed to the risk of a sharp increase in net claims, even in the event of losses arising from catastrophes. A more likely scenario would be an increase in net claims as a result of many minor adverse movements (an increase in claims or expenses, or a decrease in premiums), which would impact the net combined ratio.

Retention limits and the retrocession programmes of the Sava Re Group and Sava Reinsurance Company are of key importance for estimating exposure to underwriting risks.

The net retention limit is set at EUR 1m for the majority of non-life classes of insurance, at EUR 2m for motor liability, and a combined limit of EUR 3m is used for the classes: fire and natural forces, other damage to property and miscellaneous financial loss. In principle, this limits net claims arising out of any single loss event to a maximum of EUR 3m. In case of any catastrophe event, e.g., flood, hail, storm or even earthquake, the maximum net claim payable is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is EUR 5m for Slovenia and other countries. These amounts represent the maximum net claim for a single catastrophe event based on reasonable actuarial expectations. While it is possible that several catastrophe events occur in the same year, the probability is negligible that so many events should occur as to trigger the insolvency of the Sava Re Group or 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 either the Sava Re Group or Sava Reinsurance Company.

Sava Re Group

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 2.4m (2010: EUR 2.3m). In 2011 an additional maximum net claim of EUR 5m would have deteriorated the combined ratio by 2.1% (2010: 2.2%).

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 (2010: EUR 1.2m). In 2011 an additional maximum net claim of EUR 5m would have deteriorated the combined ratio by 4.1% (2010: 4.0%).

The risk that the underwriting risk may seriously undermine the financial stability of the Sava Re Group or Sava Reinsurance Company is deemed, according to our assessment, low and there are no significant differences between 2011 and 2010.

16.4.1.8 Underwriting risks in life insurance

Sava Re Group

The subsidiaries are exposed to underwriting risk arising from a wide range of life products: traditional insurance products including annuity and investment-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 manages concentrated underwriting risks arising out of life policies through diversification, reinsurance and through underwriting and risk assessment procedures.

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 surplus reinsurance covers, 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 insured risks). 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 2011 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 2011, 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.

Sava Reinsurance Company

Sava Reinsurance Company is not exposed to risk.

16.4.2 Market risks

In their investment activities, insurers and reinsurers are subject to legal requirements relating to diversification, restrictions and valuation of investments as well as their matching with liabilities. 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.

A detailed discussion of assets exposed to market risk is given in the respective "Market risks" section in the notes to the financial statements of the Sava Re Group and in those of Sava Reinsurance Company.

16.4.2.1 Interest rate risk

Interest rate risk is the risk of exposure to losses resulting from fluctuations in interest rates. Interest rate risk is comprised of two elements:
- the change in the general level of interest rates in the market and
- the change in the risk-free interest rate spread.

Both elements of interest rate risk if decreasing, result in an increase in the value of assets, an increase in the amount of life insurance liabilities and a decrease in the amount of liabilities from non-life policies; while if these elements increase, they result in a decrease in the value of assets, a decrease in the amount of life insurance liabilities and an increase in the amount of liabilities from non-life policies.

In non-life insurance, currently only assets are exposed to interest rate risk since as yet the Company is not required to discount[18] liabilities. The effects of interest rate risk are measured through sensitivity analysis by moving the yield curve for all maturities by two percentage points upwards or downwards. The results of the analysis show by how much assets that are sensitive to interest rate risk would change. On the asset side, the sensitivity analysis monitors debt securities (irrespective of accounting classification), bond mutual funds and half of the assets in mixed mutual funds.

In life insurance, interest rate risk affects mathematical provisions and assets supporting mathematical provisions. The impact of a change in interest rates needs thus to be viewed as a net position since the effect on the asset side would offset the effect on the liabilities side, if maturities and amounts of liabilities and investments were matched. The effects of interest rate risk are also here measured through a sensitivity analysis by moving the yield curve for all maturities by two percentage points upwards or downwards.

Sava Re Group

On the asset side of the Sava Re Group, interest rate risk affects bonds and part of mutual funds. At 31 December 2011, the value of assets was EUR 195.2m (31 December 2010:

[18] Discounting is obligatory under Solvency II.

162.5m)[19]. Of this EUR 181.6m (31 December 2010: EUR 149.6m) related to assets of non-life insurance companies[20] and EUR 13.6m (31 December 2010: 12.9m) to assets of life insurance companies. More details on exposure to interest rate risk is given in the table "Details on financial investments" in the "Market risk" section of the notes to the financial statements of the Sava Re Group.

On the liabilities side, mathematical provisions are the item exposed to interest rate risk. As 31 December 2011, they totalled only EUR 16.5m (31 December 2010: EUR 15.2m). More details on exposure to interest rate risk is given in the table "Exposure to interest rate risk – liabilities" in the "Interest rate risk" section of the notes to the financial statements of the Sava Re Group.

A sensitivity analysis on the asset side was made separately for the non-life and the life insurance segment. The analysis showed for non-life business that if at 31 December 2011 the interest rate had been increased by two percentage points, the value of debt securities and mutual funds sensitive to interest rate risk would have decreased by EUR 10.3m (31 December 2010: EUR 9.7m). Of this, EUR 9.5m (31 December 2010: EUR 9.3m) would have related to a change in equity, the remaining to investments classified as assets held to maturity, a class where changes in market price do not affect financial statements.

The analysis showed for life business that if at 31 December 2011, the interest rate had been increased by two percentage points, the value of debt securities and mutual funds sensitive to interest rate risk, would have decreased by EUR 0.8m (31 December 2010: EUR 0.7m). Of this, EUR 0.6m (31 December 2010: EUR 0.7m) would have related to a change in equity, the remaining to investments classified as assets held to maturity, a class where changes in market price do not affect financial statements.

A sensitivity analysis on the liabilities side (traditional life where the insurer assumes the investment risk) showed that if at 31 December 2011 interest rates had been increased by two percentage points, the value of mathematical provisions would have decreased by EUR 2.0m (31 December 2010: EUR 2.1m).

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 2011 compared to 2010.

[19] Included are amounts in debt securities, bond mutual funds and half of mixed mutual funds.
[20] Included are the portfolio of the controlling company carrying out reinsurance business and portfolios of subsidiaries carrying out non-life business.

Sava Reinsurance Company

On Sava Reinsurance Company's asset side, interest rate risk affects bonds and part of mutual funds. At 31 December 2011, the total amount of assets was EUR 135.3m[21] (31 December 2010: 116.1m). More details on exposure to interest rate risk is given in table the "Details on financial investments" in the "Market risk" section of the notes to the financial statements of Sava Reinsurance Company.

A sensitivity analysis for the asset side showed that if at 31 December 2011, the interest rate had been increased by two percentage points, the value of debt securities and mutual funds, which are sensitive to interest rate risk", would have decreased by EUR 8.2m (31 December 2010: EUR 8.2m). Of this, EUR 7.6m (31 December 2010: EUR 7.8m) would have related to a change in equity, the remaining to investments classified as assets held to maturity, a class where changes in market price do not affect financial statements. More details on the sensitivity analysis are given in the table "Results of the sensitivity analysis" in the "Interest rate risk" section of the notes to the financial statements of Sava Reinsurance Company.

We estimate that in 2011 the Company was less exposed to interest rate risk than in 2010.

16.4.2.2 Equity securities risk

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

This risk is mitigated 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. When investing in equities, priority is given to adequately liquid equities with high market capitalisation. Currently, this investment policy is not fully applicable to subsidiaries in the area of former Yugoslavia because under their local regulatory requirements, their equity investments are restricted to the local financial markets, which are not fully developed.

Sava Re Group

At 31 December 2011, the total value of assets exposed to equity securities risk on the Group level was EUR 16.0m (31 December 2010: EUR 22.7m). More details on assets exposed to equity securities risk is given in the table "Details on financial investments of the Sava Re Group" in the "Market risk" section of the notes to the financial statements of the Sava Re Group.

In assessing the sensitivity of investments to equity securities risk, we assumed a 10% decrease in the value of all equity securities. This would decrease the value of investments by EUR 1.6m (2010: EUR 2.3m). Of this, EUR 1.5m (31 December 2010: EUR 2.2m) relate to the change in equity and EUR 0.1m (31 December 2010: EUR 0.1m) to the change in the income statement.

[21] Included are amounts in debt securities, bond mutual funds and half of mixed mutual funds.

We consider that the Group was less exposed to equity securities risk in 2011 than in 2010. It needs however to be noted that these estimates relate strictly to year-end figures for 2011 and 2010.

Sava Reinsurance Company

At 31 December 2011, the total value of assets of Sava Reinsurance Company exposed to equity securities risk[22] was EUR 12.5m (31 December 2010: EUR 18.3m). More details on assets exposed to equity securities risk is given in table "Details on financial investments" in the "Market risk" section of the notes to the financial statements of the Sava Reinsurance Company.

In assessing the sensitivity of investments to equity securities risk, we assumed a 10% decrease in the value of all equity securities. This would decrease the value of investments by EUR 1.2m (31 December 2010: EUR 1.8m). The entire decrease in value would be reflected through impact on equity. More details on the sensitivity of investments to equity securities risk are given in the table "Assessed sensitivity of investments to equity securities risk" in the "Equity securities risk" section of the notes to the financial statements of Sava Reinsurance Company.

We consider that Sava Reinsurance Company was less exposed to equity securities risk in 2011 than in 2010.

16.4.2.3 Currency risk

Currency risk is the risk that changes in exchange rates will decrease foreign investments or increase liabilities denominated in foreign currencies. Currency risk is being mitigated through asset-liability matching.

Sava Re Group

The currency risk of the Sava Re Group is comprised of exposures to foreign currencies by individual Group companies. Currency risk is limited by each individual Group company. The largest share of currency risk is experienced by the controlling company.

The currency risk of the controlling company is related to the expansion to markets that have a currency other than the euro. This is discussed in greater detail in the section on Sava Reinsurance Company.

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. In these cases, investments are matched to the currency of the liabilities. The assets and liabilities of subsidiaries in Slovenia, Montenegro and Kosovo are denominated in euro.

More details on currency matching is given in the table "Currency (mis)match as at 31 December 2011" in the "Currency risk" section of the notes to the financial statements of the Sava Re Group.

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[22] Excluded are investments in subsidiaries and associates of EUR 114.4m. Sava Reinsurance Company estimates the value of subsidiaries and associate companies through goodwill testing.

We estimate that the exposure of the Sava Re Group to currency risk was larger in 2011 than in 2010.

Sava Reinsurance Company

Sava Reinsurance Company must comply with Article 124 of the Insurance Act, which stipulates that investments supporting technical provisions nominated in foreign currencies cannot exceed 30% of technical provisions, except investments supporting liabilities denominated in foreign currencies.

Sava Reinsurance Company has been expanding its foreign-sourced business, which changed the structure of its liabilities by currency. Nevertheless, at 31 December 2011 euro-denominated liabilities still represented 78.7% (31 December 2010: 84.9%). In response to the increase in foreign-currency denominated liabilities, the Company adjusted its investment policy and invested part of its assets in US dollars. Asset-liability matching in other currencies would result in more costs than benefits.

At 31 December 2011 the currency mismatch between gross technical provisions plus reserves and investments supporting these provisions (liability fund) was EUR 36.5m (31 December 2010: EUR 16.2m), accounting for 16.9% of gross technical provisions plus reserves (31 December 2010: 7.8%). More details on currency matching is given in the table "Currency (mis)match as at 31 December 2011" in the "Currency risk" section of the notes to the financial statements of the Sava Reinsurance Company.

Investments of the capital fund are not exposed to currency risk.

We estimate that currency risk increased in 2011 compared to 2010.

16.4.2.4 Concentration risk

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

Concentration risk is mitigated through diversification of investments by issuer, sector and geography in strict compliance with statutory restrictions relating to investments of the liability fund.

Sava Re Group

The Sava Re Group operates over a wide geographical region, which entails a geographic diversification of investments. As the investments of the controlling company and subsidiary companies in Slovenia comprise the lion's share of the Group's investments, most investments are placed in Slovenia (31 December 2011: EUR 210.5m, 31 December 2010: EUR 214.4). The strongest sector is the banking sector where EUR 158.2m of Group investments have been placed (31 December 2010: EUR 172.5m). Sector concentration arises because financial markets in the countries of former Yugoslavia are underdeveloped leaving subsidiary companies with little choice for diversification of investments. More details on diversification by geography and sector is given in the tables "Diversification of portfolio by geography" and

"Diversification of portfolio by sector" in the "Concentration risk" section of the notes to the financial statements of the Sava Re Group.

At 31 December 2011, the largest single issuer of debt or equity securities that the Group was exposed to is the Republic of Slovenia, in an amount of EUR 73.6m (31 December 2010: EUR 42.3m). Exposure to the 10 largest issuers accounted for 47.3% of the investment portfolio exposed to market risk at 31 December 2011.

We consider concentration risk to be 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.

Sava Reinsurance Company

The lion's share of Sava Reinsurance Company's investments is placed in Slovenia (31 December 2011: 72.7%, 31 December 2010: 73.3). The majority of investments are with the banking sector (31 December 2011: 41.8%, 31 December 2010: 50.0). More details on diversification by geography and sector is given in the tables "Diversification of portfolio by geography" and "Diversification of portfolio by sector" in the "Concentration risk" section of the notes to the financial statements of Sava Reinsurance Company.

At 31 December 2011, the largest single issuer (excluding exposure to subsidiary companies) was the Republic of Slovenia with an amount of EUR 45.5m (31 December 2010: EUR 22.2m). Exposure to the 10 largest issuers of the investment portfolio accounted for 53.4% at 31 December 2011 (31 December 2010: 37.3%). The increase in exposure to the 10 largest issuers is a result of an increased exposure to the Republic of Slovenia. At the end of the year, the Company decided to take advantage of current trends on capital markets due to increased yields on Slovenian government bonds. So government bonds were added to the investment portfolio that will yield high interest income for the Company in the future.

16.4.2.5 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 obligations. This risk is being assessed through matching the maturity of assets and liabilities.

Sava Re Group

Non-life assets are adequately matched with corresponding liabilities in terms of duration. At 31 December 2011, the average duration of bond investments was 3.42 years (31 December 2010: 3.83 years), while the average duration of the majority of liabilities (gross claims provision and unearned premiums) was 3.33 years (31 December 2010: 3.80 years).

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.

Sava Reinsurance Company

Sava Reinsurance Company has assets adequately matched with liabilities in terms of duration taking into consideration the large amount by which the liability fund exceeded gross technical provisions and reserves, whereby any deficit arising out of any mismatch could be offset. The average duration of bond investments of the liability fund was 2.94 years (31 December 2010: 2.55 years), while the average duration of the majority of liabilities (gross claims provision and unearned premiums) was 4.51years (31 December 2010: 5.36).

16.4.3 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. Liquidity risk is mitigated through investing a large proportion of its funds in highly liquid marketable securities which can be converted to cash at any time.

Sava Re Group

The Group had no major liquidity problems throughout 2011. The lion's share of the investment portfolio is invested in bank deposits maturity-matched to liabilities and in highly liquid listed securities. 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. All Group companies prepare daily and weekly cash-flow plans, which assist in anticipating future liquidity requirements.

An overview of the maturity of assets and liabilities by years, which shows the discrepancy between the maturity of assets and liabilities, is given in a table in the "Liquidity risk" section in the notes to the financial statements of the Sava Re Group.

Sava Reinsurance Company

Sava Reinsurance Company mitigates liquidity risk by preparing cash-flow projections on a daily basis (one-year projections). Cash-flow projections show future liquidity needs, based on which the Company can react in a timely manner and provide funds for the settlement of current liabilities.

In the event of large losses, so-called cash call provisions in reinsurance contracts are triggered and provide for immediate payments in the chain controlling company–retrocessionaire. For extraordinary liquidity situations, the controlling company has arranged a credit line with a commercial bank in the total amount of EUR 5m and with several commercial banks it has call deposit contracts.

An overview of the maturity of assets and liabilities by years, which shows the discrepancy between the maturity of assets and liabilities, is given in a table in the "Maturity of financial assets and liabilities" section in the notes to the financial statements of Sava Reinsurance Company.

We consider the liquidity risk to be minor and similar in both in 2011 and 2010.

16.4.4 Credit risk

Credit risk constitutes the risk of partial or complete default of counterparty and the resulting failure of the counterparty to meet its liabilities. Credit risk also includes deterioration in the financial position of the counter party as this results in a change in the fair value of relevant securities. Receivables are discussed in greater detail in the notes to the financial statements in sections 24.8 and 28.6, under notes 9 and 8, respectively. Credit risk thus relates to both issuers and retrocessionaires, who have amounts due to the Group. Credit risk is mostly measured through counter party credit rating.

Sava Re Group

On the investment side, Group companies must operate in compliance with local statutory regulations, implementing regulations and own internal acts. Hence Group members may invest their cash surpluses only in (i) deposits with banks with adequate performance indicators (as per local 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.

On the investment side, credit risk is assessed for debt securities and deposits. With regard to equity securities, the Group seeks to achieve a large diversification by issuer and to select equity securities with sufficient market capitalisation.

At 31 December 2011, debt securities and deposits rated A or better account for 41.2% of the Group portfolio (31 December 2010: 36.1%). At 31 December 2011, investments in debt securities and deposits accounted for 92.8% of the entire investment portfolio exposed to credit risk (31 December 2010: 88.1).

As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company, unless they are subject to localisation requirements. Even in such cases, at least part of the risk is transferred to the controlling company. 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 2011 and 2010, reinsurers rated A– or better accounted for over 80% of the credit risk exposure relating to reinsurers.

More details on credit risks are given in tables in the "Credit risk" section of the notes to the financial statements of the Sava Re Group.

Sava Reinsurance Company

Also Sava Reinsurance Company assesses credit risk on the investment side through monitoring the credit rating of debt securities and deposits. With regard to equity securities, the Company seeks to achieve a large diversification by issuer and to select equity securities with sufficient market capitalisation.

At 31 December 2011, Sava Reinsurance Company's debt securities and deposits rated A or better account for 51.3% of the portfolio (31 December 2010: 38.6%). The increase is a result of the changed investment policy as in 2011 the Company kept decreasing the share of deposits (consisting mostly of investments with unrated issuers) and increasing the share of bonds (the Company pursues a policy of investing in bonds rated BBB or better by S&P). In the bond portfolio, the share of Slovenian government bonds increased considerably as they were rated AA by S&P in 2011.

At 31 December 2011, investments in debt securities and deposits accounted for 44.4% of the investment portfolio exposed to credit risk (31 December 2010: 32.8). The rest of the portfolio are mostly investments in affiliated companies that the Company controls via business processes, thus mitigating credit risk.

For the reinsurance side, 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 2011, reinsurers rated A– or better accounted for over 83.5% of the credit risk exposure relating to reinsurers (2010: 80.3).

In 2011 the company established a rating committee tasked with defining the criteria for selecting reinsurers for the retrocession programme. The task of the rating committee is to verify the credit standing of reinsurers prior to the signing of contracts so as to provide assurance that the retrocession programme includes only first class reinsurers.

More details on credit risk are given in tables in the "Credit risk" section of the notes to the financial statements of Sava Reinsurance Company.

16.4.5 Operational risk

Operational risk includes human capital risk, management control risk, system risk, process risk, legal risk and such like. The Sava Re Group and Sava Reinsurance Company are 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 Sava Re Group and Sava Reinsurance Company have put in place adequate IT-supported procedures and controls in the most important areas of 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 the Sava Re Group and Sava Reinsurance Company to this type of risk to be medium. However, due to the increasing desire of former Yugoslav countries to join the EU, we consider that the exposure to this risk, associated mainly with investments in subsidiaries, is decreasing.

We consider that the Sava Re Group was less exposed to operational risk in 2011 than in 2010 thanks to the development of IT support, while Sava Reinsurance Company's exposure remained the same as in 2010.

16.5 Capital adequacy

Sava Re Group

The Sava Re Group must have, in accordance with the law, adequate capital in view of the amount and type of re/insurance businesses carried out. The capital of each Group member must at all times at least equal 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 2011, as it maintained a surplus of available solvency margin over required solvency margin.

As at 31 December 2011, its available solvency margin was EUR 136.2m (31 December 2010: EUR 122.0m). The Group’s available solvency margin highly exceeds the required solvency margin of EUR 56.8m (31 December 2010: EUR 54.1m), 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).

Sava Reinsurance Company

By law Sava Reinsurance 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 two results arrived at by applying the premium basis calculation or the claims basis calculation. As at 31 December 2011, its required solvency margin was EUR 21.6m (31 December 2010: EUR 20.2m), while its available solvency margin was EUR 41.2m (31 December 2010: EUR 43.3m).

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 2011, as it maintained a surplus of available solvency margin over required solvency margin. As 31 December 2011, the surplus totalled EUR 19.6m (31 December 2010: EUR 23.1m).

The insolvency risk that Sava Reinsurance Company is exposed to 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 2014, will fundamentally change the calculation of solvency capital as well as the measurement of assets and liabilities. Based on qualitative impact studies, we estimate that under the new regime Sava Reinsurance Company will require a much larger solvency margin than the present minimum capital. The difference will be at least partially offset by decreased liabilities, for which the Directive provides less stringent reserving rules. No calculation has been made for the Sava Re Group, but we are anticipating similar changes. While the Solvency II Directive has already been adopted, relevant implementing regulations are yet to be issued to define the parameters for the calculation of solvency capital requirement.

17 INTERNAL AUDIT FUNCTION

Internal auditing in Sava Reinsurance Company ("the Company") is carried out by the Group Internal Audit ("GIA") based on the instrument on setting up the GIA. 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 2011, 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.

In 2011 the GIA carried out audits and other activities in line with the GIA annual plan 2011. All planned audits have been realised in full. There were 14 internal audit reviews carried out; of these, eight were carried out at Sava Reinsurance Company and six in subsidiary companies in co-operation with each company's internal audit function.

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.

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. In addition, the GIA prepared an annual report on its activities in 2011, which is part of the materials for the General Meeting of Shareholders.

As part of developing the internal audit function, the GIA has started transferring internal auditing methodologies to internal audit services of other Sava Re Group members. A workshop was organised to unify practices relating to preparing annual plans and annual reports. There were also activities relating to the review of internal rules of the GIA, which will be finalised in 2012.

In 2011, the GIA carried out an external quality assessment of the internal audit function at Sava Reinsurance Company. Based on external assessment procedures carried out on the activities of the GIA, the external assessor is of the opinion that the activities of the GIA comply with the International Standards for the Professional Practice of Internal Auditing. On the basis of recommendations made, the GIA has prepared an action plan for their implementation. Most recommendations were implemented by enhancing the methodology applied in auditing for 2011 and later.

18 SOCIAL RESPONSIBILITY

"The operations of the Sava Re Group are based on the trust that its employees, shareholders, clients and other stakeholders have in the values we are committed to. The basis for this trust is provided by the conduct and abilities of our employees including the Senior Management and their efforts in creating value for our clients, shareholders and other stakeholders."This is written in the Code of Ethics adopted by the Group in this year.

In line with our strategy, mission, values and core business activities as our foundation, it is our responsibility to make an active contribution to our social environment. All Group companies in their respective environments support various activities that are drivers of contemporary society, especially education, prevention and welfare. In 2011 the Management Board adopted a resolution providing that every Group employee should participate in a community service at least once a year. Sava Re Day is celebrated by all employees in the Sava Re Group.

With regard to sustainable development, we keep following our strategy and values of commitment and continuous improvements to ensure security and quality of life to all our stakeholders, we build fair and responsible relationships, exceeding client expectations and play an active role in our environment.

Communication between the Management Board and employees
The Management Board builds partnership-based relations with employees also regarding communication. The Management Board meets with employees in regular all-staff meetings, presenting financial results and informing staff of major business events, plans and decisions. Employees have the opportunity to raise questions, give initiatives and make proposals in relation to both work and relationships in the Company. All Company employees have the opportunity to socialise in a number of ways.

Public relations
We develop relationships in the environment where we work in compliance with our values. A key principle of our activities is to identify all stakeholders and develop transparent dialogue.

For Sava Reinsurance Company the media represent an important bridge to the broader public. We maintain regular contacts. We respond to questions within agreed timeframes and we communicate in a transparent manner, giving particular regard to the principles of information symmetry. At major events, we send out press reports and/or organise press conferences.

Investor and analyst relations
Since its listing at the Ljubljana Stock Exchange, Sava Reinsurance Company has been developing and implementing advanced approaches to relationships with existing shareholders, potential investors and financial analysts. Our basic principle in communicating is transparency so that we give a true and fair view of the operations of the company and hence a true and fair estimate of the share price.

When preparing announcements, we follow the standards of the prime market, also to arouse the interest of foreign investors. More details on investor relations can be found in the share trading section.

Family friendly
Our responsibility for our employees is also reflected in our efforts to build a work environment that respects the dignity and integrity of each employee. As Sava Reinsurance Company is a young team, we strive to develop such internal rules and procedures that will allow young parents to better balance their professional and family life.

For this reason, we work under a flexitime schedule and parents receive an additional day annual leave for each first-graders' first school day. We always take care to invite staff members on parental leave to annual social events so that they stay in touch with their co-workers. We seek to ensure that meetings and similar work-related activities are not scheduled in the late afternoon and end before 15:00 hrs.

Employee training
At Sava Reinsurance Company, we encourages all employees to join education/training programs both to improve qualifications and skills required for positions held or to improve general competencies. Education and training programs are designed so as to provide opportunities for employee's career and personal development. Employees are involved in developing their expertise both through specialised professional training programs as well is through programs promoting general skills.

In the Sava Re Group, we encourage sharing of knowledge and good practice. Thus in 2011 we organised a number of internal training events covering the following areas: reinsurance business, accounting, controlling, finance, actuarial affairs, internal audit, underwriting and claims handling, product development and marketing. Representatives of subsidiary companies meet in regular annual strategic conferences. In addition to reviewing financial results, conferences provide an opportunity for exchanging experience and opinion and for additional professional training.

Employee satisfaction
The Company conducts regular annual interviews and the questionnaire includes questions on employee satisfaction. Satisfaction is measured for the following: nature of work, work opportunities, training and remuneration, management, work conditions and staff relationships. The information obtained suggests that employees are satisfied especially with staff relationships, work conditions and the nature of work.

Relations with business partners
We maintain regular contacts with our existing business partners. Meetings are arranged during international conferences and individual meetings. We wish to give our partners a close took at our operations and familiarise them with the nature of our business through our regular annual Sava Summer Seminar, a seminar on reinsurance business.

Safety at work and healthcare
Regarding safety at work, the Company complies with all relevant legislation. All employees regularly take required training courses regarding safety at work and fire safety. Furthermore, the Company regularly refers employees to preliminary health checks upon entering employment and periodic health checks in line with internal rules. In 2012 the Company is planning to carry out activities that have been defined as promotion of health in compliance with amended legislation.

Social responsibility
Sava Reinsurance Company is committed to providing security, quality of life and a profitable future to its clients, employees and other stakeholders. Our mission includes fostering respect and responsibility for the environment in which we live and work. Here we communicate through actions: once a year on the Sava Re Day, all Sava Re Group employees participate in local community services. In addition, we make donations to causes that foster knowledge, sports and culture. In 2011 we celebrated Sava Re Day by co-operating with social welfare centres, residences for the elderly, Red Cross units, Karitas, occupational activity centres and many other organisations across Slovenia. Volunteers were active in 32 locations all over the country, altogether 237 employees from Sava Reinsurance Company and Zavarovalnica Tilia. Other Sava Re Group companies organised various humanitarian events in their local environment.

Waste management
We demonstrate our commitment to a healthy and clean environment by separating waste. Different waste binds are available for organic waste, plastic, glass, paper and other waste.

Economic impact
As a major insurance group in the Western Balkans, we have an important economic role in every country where we operate. Our operations generate value in local economic systems and offer employment to over 1,500 people in six countries.

We will continue the activities we started. The Group will develop a modern Group-specific corporate culture through high-quality corporate governance, continuous internal and external training, and implementation of the Group code of ethics. In the next year, we will be focused on developing an environmentally-friendly attitude, supported by Group-wide information and process technology.

19 PERSONNEL

Employment figures for Group members

	31 Dec 2011	31 Dec 2010	Change
Zavarovalnica Tilia, Slovenia	378	383	-5
Sava osiguranje, Serbia	266	277	-11
Velebit osiguranje, Croatia	147	154	-7
Illyria, Kosovo	141	154	-13
Sava osiguruvanje, Macedonia	120	124	-4
Sava Montenegro, Montenegro	140	114	26
Illyria Life, Kosovo	98	81	17
Sava životno osiguranje, Serbia	84	147	-63
Velebit životno osiguranje, Croatia	79	76	3
Sava Reinsurance Company, Slovenia	66	65	1
Sava Car, Montenegro	9	1	8
Bro-Dil, Macedonia	2	4	-2
Total	1,530	1,580	-50

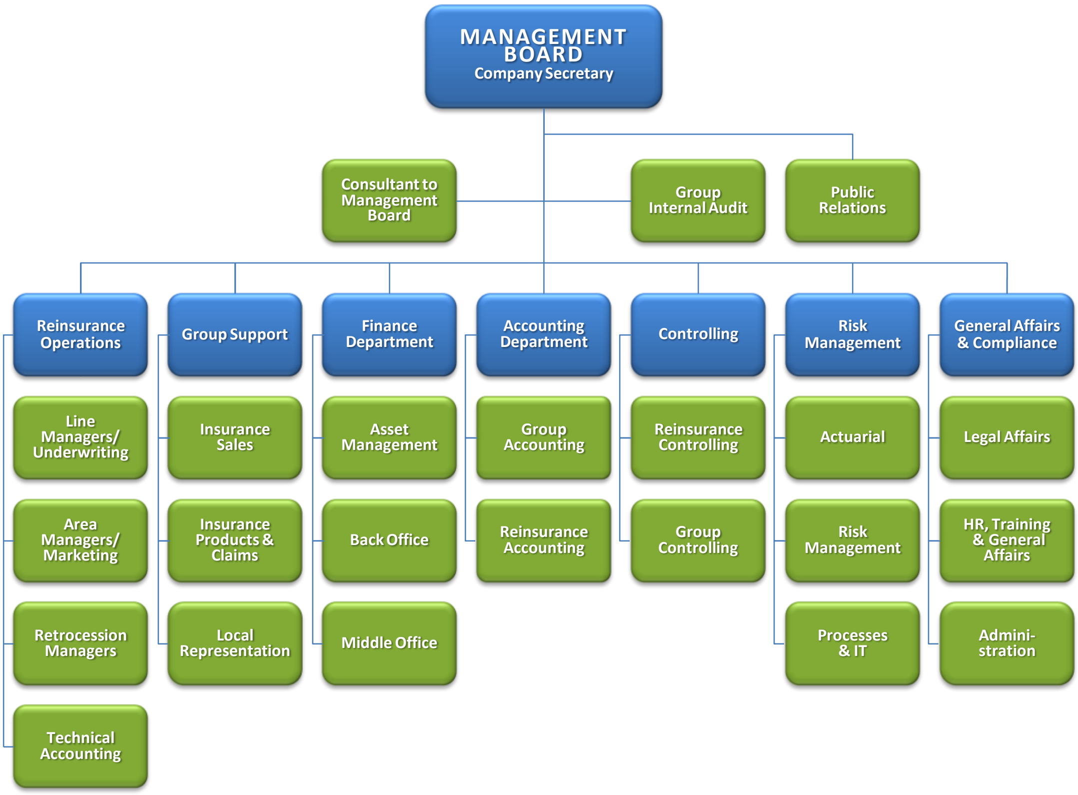
Sava Re Group

The number of employees in the Sava Re Group decreased by 50 in 2011. In the course of reorganising almost all Group companies, we streamlined the number of employees, cutting back-office staff but hiring additional sales agents in order to develop own sales networks.

Sava Reinsurance Company

In 2011, Sava Reinsurance Company employed six new staff members: Mateja Treven, member of the Management Board, started her employment relationship on 1 January; two new staff members were employed in the underwriting department. The risk management department hired one person for the position of senior risk manager. Two temporary employment contracts were concluded, one in the finance and one in the accounting department. In 2011 the employment relationship of three staff members terminated.

Organisational chart of Sava Reinsurance Company at 31 December 2011


MANAGEMENT BOARD
Company Secretary
Consultant to Management Board
Group Internal Audit
Public Relations
Reinsurance Operations
Line Managers/ Underwriting
Area Managers/ Marketing
Retrocession Managers
Technical Accounting
Group Support
Insurance Sales
Insurance Products & Claims
Local Representation
Finance Department
Asset Management
Back Office
Middle Office
Accounting Department
Group Accounting
Reinsurance Accounting
Controlling
Reinsurance Controlling
Group Controlling
Risk Management
Actuarial
Risk Management
Processes & IT
General Affairs & Compliance
Legal Affairs
HR, Training & General Affairs
Admini- stration

20 BUSINESS PROCESSES AND IT SUPPORT

Sava Re Group

In 2011 the Company, supported by external contractors, successfully implemented the Tagetik application for consolidation, annual and strategic budgeting, and monthly reporting on a Group level. A major part of requested input can be automatically obtained from the Navision subsystem, a business and financial operations management software application, which has also been implemented in the subsidiaries Sava osiguranje (Serbia) and Sava osiguruvanje (Macedonia).

In order to unify communication links in the Group, Sava Reinsurance Company signed a long-term contract with Telekom Slovenija, which provides a framework for establishing high-capacity, reliable and secure data exchange, voice services and video conferencing. Sava Reinsurance Company and Zavarovalnica Tilia joined the system already in 2011.

In the middle of the year, Sava Reinsurance Company and Zavarovalnica Tilia started developing a business continuity plan to ensure that both companies recover quickly in case of a catastrophe event. There has been an assessment of risks and potential impacts, and a timetable was drawn up for preparing a business plan as well as an information system recovery plan for both companies.

An IT solution for key business processes, which the Company developed jointly with Belgrade contractual partners, has been gradually implemented in the Macedonian insurer Sava osiguruvanje and started operating in early 2012. Furthermore, a sales module has been developed, allowing for on-line policy underwriting. The module was implemented in Sava osiguranje in April 2011 and throughout the year, activities have been underway for the transfer of the entire sales module to other companies using this solution.

Sava Reinsurance Company

In 2011, the development of processes and information technology was focused on modernising hardware and software infrastructure in order to improve operations through reducing operating risks and unnecessary expenses.

Early in the year, we installed a security system protecting e-mail against malicious computer code. The server room was additionally equipped with detectors/sensors for fire, water, elevated levels of carbon dioxide and unexpected temperature change. In case of any deviations, the monitoring system sends SMS messages to system administrators around the clock.

To reduce printing expenses, the Company hired two multi-functional printing machines to replace a number of local printers, while appealing to all organisational units to prepare proposals for a gradual transition to a paperless office.

Regarding IT support, the program package "Pozavarovalna pogodba" was supplemented with an automatic calculation of unearned premiums and commissions and with a separate module for a register of major losses. Another important acquisition was a subsystem for comparing technical accounts with the main ledger.

In 2011 a program was developed for a risk register in anticipation of the approaching Solvency II regime. It will be used to assess potential risks, monitor them and prepare measures for their mitigation or elimination.

The security of documents at work stations was enhanced through implementing a system under which all documents are daily copied to the server and daily backups are made on external magnetic tapes.

21 PERFORMANCE INDICATORS FOR SAVA REINSURANCE COMPANY[23]

Development of gross premiums written

(v EUR)	2011	2010	Indeks
	1	2	1/2
Personal accident	9,391,375	9,612,536	97.7
Health	52,605		0.0
Land vehicles casco	19,719,827	21,109,828	93.4
Aircraft hull	351,469	348,786	100.8
Ships hull	2,379,682	2,104,229	113.1
Goods in transit	3,379,699	3,473,123	97.3
Fire and natural forces	53,731,017	51,179,725	105.0
Motor liability	20,631,083	22,719,116	90.8
Other damage to property	22,805,981	26,085,753	87.4
Aircraft liability	44,632	185,675	24.0
Liability for ships	314,592	283,207	111.1
General liability	5,103,364	3,538,608	144.2
Credit	833,733	702,388	118.7
Suretyship	360,278	199,354	180.7
Miscellaneous financial loss	672,757	729,700	92.2
Legal expenses	7,515	7,379	101.8
Assistance	29,081	27,992	103.9
Life business	328,867	366,204	89.8
Unit-linked life	212,815	188,181	113.1
Total non-life	139,808,690	142,307,399	98.2
Total life	541,682	554,385	97.7
Total	140,350,372	142,861,784	98.2

[23] 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, no. 47/2009).

Net premiums written as a percentage of gross premiums written

(EUR, except percentages)	Gross premiums written	Net premiums written	2011	2010
	1	2	2/1	
Personal accident	9,391,375	9,275,698	98.8%	98.8%
Health	52,605	52,605	100.0%	0.0%
Land vehicles casco	19,719,827	16,756,670	85.0%	83.3%
Aircraft hull	351,469	351,558	100.0%	100.0%
Ships hull	2,379,682	2,258,764	94.9%	92.4%
Goods in transit	3,379,699	3,161,181	93.5%	94.6%
Fire and natural forces	53,731,017	44,547,158	82.9%	81.4%
Other damage to property	22,805,981	17,736,825	77.8%	79.3%
Motor liability	20,631,083	19,743,112	95.7%	93.7%
Aircraft liability	44,632	-5,891	-13.2%	76.4%
Liability for ships	314,592	308,843	98.2%	98.2%
General liability	5,103,364	4,388,916	86.0%	84.0%
Credit	833,733	833,722	100.0%	100.0%
Suretyship	360,278	359,845	99.9%	100.0%
Miscellaneous financial loss	672,757	281,499	41.8%	52.1%
Legal expenses	7,515	7,515	100.0%	100.0%
Assistance	29,081	29,081	100.0%	100.0%
Total non-life	139,808,690	120,087,101	85.9%	85.0%
Life business	328,867	139,793	42.5%	50.8%
Unit-linked life	212,815	93,028	43.7%	49.1%
Total life	541,682	232,821	43.0%	50.3%
Total	140,350,372	120,319,922	85.7%	84.9%

Development of gross claims paid

(EUR)	2011	2010	Index
	1	2	1/2
Personal accident	4,857,957	4,156,705	116.9
Health	676		0.0
Land vehicles casco	12,372,646	16,160,267	76.6
Aircraft hull	94,596	43,579	217.1
Ships hull	869,885	1,737,237	50.1
Goods in transit	1,237,890	1,999,171	61.9
Fire and natural forces	24,466,344	21,345,840	114.6
Motor liability	11,200,539	14,408,335	77.7
Other damage to property	12,281,515	14,938,552	82.2
Aircraft liability	47,638	27,903	170.7
Liability for ships	36,208	49,200	73.6
General liability	1,773,979	1,801,370	98.5
Credit	774,457	1,017,063	76.1
Suretyship	104,665	117,254	89.3
Miscellaneous financial loss	294,565	171,849	171.4
Legal expenses		179	0.0
Assistance	23,027	20,375	113.0
Life business	189,365	55,925	338.6
Unit-linked life	59,318	42,067	141.0
Total non-life	70,436,587	77,994,879	90.3
Total life	248,683	97,992	253.8
Total	70,685,270	78,092,871	90.5

Loss ratios

(EUR, except percentages)	Gross premiums written	Gross claims paid	2011	2010
	1	2	2/1	
Personal accident	9,391,375	4,857,957	51.7%	43.2%
Health	52,605	676	1.3%	0.0%
Land vehicles casco	19,719,827	12,372,646	62.7%	76.6%
Aircraft hull	351,469	94,596	26.9%	12.5%
Ships hull	2,379,682	869,885	36.6%	82.6%
Goods in transit	3,379,699	1,237,890	36.6%	57.6%
Fire and natural forces	53,731,017	24,466,344	45.5%	41.7%
Other damage to property	22,805,981	12,281,515	53.9%	57.3%
Motor liability	20,631,083	11,200,539	54.3%	63.4%
Aircraft liability	44,632	47,638	106.7%	15.0%
Liability for ships	314,592	36,208	11.5%	17.4%
General liability	5,103,364	1,773,979	34.8%	50.9%
Credit	833,733	774,457	92.9%	144.8%
Suretyship	360,278	104,665	29.1%	58.8%
Miscellaneous financial loss	672,757	294,565	43.8%	23.6%
Legal expenses	7,515		0.0%	2.4%
Assistance	29,081	23,027	79.2%	72.8%
Total non-life	139,808,690	70,436,587	50.4%	54.8%
Life business	328,867	189,365	57.6%	15.3%
Unit-linked life	212,815	59,318	27.9%	22.4%
Total life	541,682	248,683	45.9%	17.7%
Total	140,350,372	70,685,270	50.4%	54.7%

Administrative expenses as percentage of gross premiums written (EUR)

Gross premiums written	Administrative expenses	2011	2010
1	2	2/1	
140,350,372	6,720,089	4.8%	4.5%

Acquisition costs as percentage of gross premiums written (EUR)

Gross premiums written	Acquisition costs	2011	2010
1	2	2/1	
140,350,372	32,568,746	23.2%	23.0%

Net investment income as percentage of average investments

(EUR)	Average investments	Investment income	Investment expenses	Net investment income 1–12 2011	Net investment income 1–12 2010
Liability fund	139,896,290	5,613,251	1,898,717	2.7%	2.7%
Capital fund	174,873,438	7,252,547	9,650,437	-1.4%	-0.5%
Total	314,769,728	12,865,798	11,549,155	0.4%	0.8%

Net provisions for outstanding claims as percentage of net earned premiums

(EUR, except percentages)	Net provision for outstanding claims	Net premiums earned	2011	2010
	1	2	1/2	
Personal accident	7,934,426	9,602,610	82.6%	74.4%
Health	50,506	48,533	104.1%	-
Land vehicles casco	6,932,446	17,226,198	40.2%	38.9%
Aircraft hull	644,930	427,544	150.8%	75.8%
Ships hull	2,758,282	2,199,973	125.4%	110.0%
Goods in transit	2,867,155	2,814,762	101.9%	65.3%
Fire and natural forces	37,923,923	45,621,770	83.1%	74.1%
Other damage to property	17,426,205	17,618,941	98.9%	87.3%
Motor liability	36,716,484	20,649,386	177.8%	155.8%
Aircraft liability	291,808	-5,501	-5304.4%	208.4%
Liability for ships	477,221	303,134	157.4%	152.1%
General liability	12,808,924	3,865,721	331.3%	354.2%
Credit	981,738	1,049,123	93.6%	79.5%
Suretyship	121,272	350,534	34.6%	64.2%
Miscellaneous financial loss	237,259	444,637	53.4%	140.5%
Legal expenses	0	57,152	0.0%	0.0%
Assistance	27,984	49,198	56.9%	29.2%
Life business	39,085	101,198	38.6%	51.8%
Unit-linked life	5,999	61,770	9.7%	14.7%
Total non-life	128,200,562	122,323,715	104.8%	94.2%
Total life	45,085	162,968	27.7%	40.5%
Total	128,245,647	122,486,683	104.7%	94.1%

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

Gross profit/loss	Net premiums written	2011	2010
1	2	1/2	
11,282,323	120,319,919	9.4%	7.3%

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

Gross profit/loss	Average equity	2011	2010
1	2	1/2	
11,282,323	157,296,429	7.2%	5.8%

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

Gross profit/loss	Average assets	2011	2010
1	2	1/2	
11,282,323	417,701,038	2.7%	2.2%

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

Gross profit/loss	No, of shares	2011	2010
1	2	1/2	
11,282,323	9,362,519	1.21	0.94

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

Net profit/loss	Average equity	2011	2010
1	2	1/2	
8,637,293	157,296,429	5.5%	4.7%

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

Available solvency margin	Net premiums written	2011	2010
1	2	1/2	
41,239,846	120,319,919	34.3%	34.5%

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

Available solvency margin	Required solvency margin	2011	2010
1	2	1/2	
41,239,846	21,602,732	190.9%	207.2%

Available solvency margin as percentage of technical provisions (EUR)

Available solvency margin	Technical provisions	2011	2010
1	2	1/2	
41,239,846	183,891,042	22.4%	24.0%

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	2011	2010
1	2	1/2	
41,239,846	76,564,700	53.9%	55.7%

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

Net premiums written	Average equity	Average technical provisions	2011	2010
1	2	3	1/(2+3)	
120,319,919	157,296,429	178,916,509	35.8%	37.3%

Net premiums written as percentage of average equity (EUR)

Net premiums written	Average equity	2011	2010
1	2	1/2	
120,319,919	157,296,429	76.5%	79.2%

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

Average net technical provisions	Net premiums earned	2011	2010
1	2	1/2	
161,345,478	122,486,683	131.7%	121.9%

Equity as percentage of net unearned premiums (EUR)

Equity	Net unearned premiums	2011	2010
1	2	1/2	
158,454,529	37,430,056	423.3%	394.3%

Equity as percentage of liabilities and equity (EUR)

Equity	Liabilities and equity	2011	2010
1	2	1/2	
158,454,529	417,051,463	38.0%	37.3%

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

Net technical provisions	Liabilities and equity	2011	2010
1	2	1/2	
166,275,281	417,051,463	39.9%	37.4%

Gross premiums written per employee in regular employment (EUR)

Gross premiums written	Number of employees in regular employment	2011	2010
1	2	1/2	
140,350,370	66	2,126,521	2,214,911

Pozavarovalnica Sava, d. d.

CONSOLIDATED FINANCIAL STATEMENTS WITH NOTES

22 AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To The Shareholders of Pozavarovalnica Sava, d.d.

We have audited the accompanying consolidated financial statements of Pozavarovalnica Sava, d.d. and its subsidiaries (SAVA RE Group), which comprise the consolidated statement of financial position as at 31 December 2011, 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 2011, 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.
1

Ljubljana, 16 April 2012

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.

23 CONSOLIDATED FINANCIAL STATEMENTS

23.1 Consolidated statement of financial position as at 31 December 2011

(EUR)	Note	31. 12. 2011	31. 12. 2010
ASSETS		**582,037,026**	**578,385,408**
Intangible assets	1	**18,274,819**	**23,289,847**
Property and equipment	2	**24,503,335**	**26,711,597**
Deferred tax assets	3	**4,527,413**	**2,236,081**
Investment property	4	**6,071,447**	**4,906,918**
Financial investments in associate companies	5	**49,085,007**	**42,322,366**
Financial investments:	6	**325,188,363**	**324,225,440**
- Loans and deposits		107,037,143	130,751,104
- Held to maturity		15,420,514	17,972,005
- Available for sale		198,012,939	171,361,811
- At fair value through profit or loss		4,717,767	4,140,517
Funds for the benefit of policyholders who bear the investment risk	7	**24,138,957**	**23,716,699**
Reinsurers' share of technical provisions	8	**21,608,381**	**19,734,539**
Receivables	9	**86,266,849**	**88,067,303**
Receivables arising out of primary insurance business		26,342,606	32,052,974
Receivables arising out of reinsurance and co-insurance business		52,698,920	50,890,427
Tax receivables		295,638	222,510
Other receivables		6,929,685	4,901,392
Deferred acquisition costs	10	**15,938,449**	**17,318,841**
Other assets	11	**1,338,989**	**753,985**
Cash and cash equivalents	12	**4,710,455**	**4,026,603**
Non-current assets held for sale	13	**384,562**	**1,075,190**
EQUITY AND LIABILITIES		**582,037,026**	**578,385,408**
Equity		**148,080,050**	**154,684,609**
Share capital	14	39,069,098	39,069,099
Capital reserves	15	25,417,397	25,417,396
Profit reserves	16	90,243,081	85,362,019
Treasury shares	17	-1,774	-1,774
Fair value reserve	18	-10,809,738	-121,460
Retained earnings	19	2,878,547	557,800
Net profit/loss for the period	19	1,147,011	2,370,698
Translation reserve		-2,338,002	-2,412,020
Equity attributable to the equity holders of the controlling company		**145,605,620**	**150,241,758**
Non-controlling interest in equity	20	**2,474,430**	**4,442,851**
Subordinated liabilities	21	**31,220,817**	**31,177,758**
Technical provisions	22	**320,875,142**	**303,287,248**
Unearned premiums		87,330,269	87,101,437
Mathematical provisions		16,503,688	15,228,730
Provision for outstanding claims		213,830,875	197,489,172
Other technical provisions		3,210,310	3,467,909
Technical provision for the benefit of life insurance policyholders who bear the investment risk	22	**23,673,423**	**23,626,363**
Other provisions	23	**795,606**	**768,854**
Deferred tax liabilities	3	**0**	**186,610**
Other financial liabilities	24	**5,782,075**	**2,667,101**
Liabilities from operating activities	25	**41,486,025**	**46,055,013**
Liabilities from primary insurance business		1,397,404	4,456,727
Liabilities from reinsurance and co-insurance business		37,621,182	38,852,761
Current income tax liabilities		2,467,439	2,745,525
Other liabilities	26	**10,123,890**	**15,931,854**

The notes to the financial statements on pages 121–195 form an integral part of these financial statements.

23.2 Consolidated income statement for the year ended 31 December 2011

(EUR)	Note	2011	2010
Net earned premiums	27	**235,139,209**	**231,874,029**
Gross premiums written		258,415,194	259,103,050
Written premiums ceded to reinsurers and co-insurers		-24,406,133	-25,301,152
Change in net unearned premiums		1,130,148	-1,927,869
Income from investments in associates	28	**5,241,763**	**5,055,301**
- Profit from investments in equity-accounted associate companies		998,142	5,055,301
- Dividend income from associate companies		4,243,621	0
Investment income	29	**17,780,524**	**19,895,359**
- Interest income		12,712,017	11,547,097
- Other investment income		2,598,622	4,669,997
- Net unrealised gains on investments of life insurance policyholders who bear the investment risk		2,469,885	3,678,265
Other technical income	30	**6,425,806**	**6,631,556**
Commission income		2,743,893	2,479,762
Other technical income		3,681,913	4,151,794
Other income	34	**762,087**	**477,851**
Net claims incurred	31	**-136,168,165**	**-140,009,961**
Gross claims paid less income from recourse receivables		-128,376,839	-131,269,604
Reinsurers' and co-insurers' share of claims paid		8,569,373	13,266,034
Change in the provision for outstanding claims		-16,360,699	-22,006,391
Change in other technical provisions	32	**-354,630**	**-1,709,438**
Change in technical provisions for policyholders who bear the investment risk	32	**-23,713**	**-5,711,680**
Expenses for bonuses and rebates		**-267,870**	**-721,907**
Operating expenses	33	**-87,921,117**	**-85,287,686**
- Acquisition costs		-53,482,014	-53,520,216
- Other operating expenses		-34,439,103	-31,767,470
Expenses for investments in affiliates	29	**-5,156,439**	**0**
Expenses for financial assets and liabilities	29	**-14,164,756**	**-10,235,493**
- Impairment losses on financial assets not measured at fair value through profit or loss		-4,386,288	-4,976,267
- Interest expense		-2,069,373	-1,757,268
- Other investment expenses		-2,175,749	-1,795,605
- Net unrealised losses on investments of life insurance policyholders who bear the investment risk		-5,533,346	-1,706,353
Other technical expenses	34	**-10,941,003**	**-9,627,586**
Other expenses	34	**-2,626,450**	**-1,789,999**
Profit/loss before tax		7,725,247	8,840,346
Income tax expense	35	**-3,658,845**	**-3,319,676**
Profit for the period		4,066,402	5,520,670
Net profit/loss for the period attributable to equity holders of the controlling company		**5,994,002**	**7,452,974**
Net profit/loss for the period attributable to non-controlling interest		**-1,927,600**	**-1,932,304**

The notes to the financial statements on pages 121–195 form an integral part of these financial statements.

23.3 Statement of comprehensive income for the year ended 31 December 2011

(EUR)	2011	2010
PROFIT/LOSS FOR THE YEAR, NET OF TAX	**4,066,402**	**5,520,670**
OTHER COMPREHENSIVE INCOME, NET OF TAX	**-10,671,777**	**-1,406,358**
Net change in fair value of available-for-sale financial assets	**-10,334,410**	**-839,847**
Net change recognised in the fair value reserve	-13,863,582	1,761,117
Net change transferred from fair value reserve to profit or loss	3,529,173	-2,600,963
Net gains/losses attributable to the Group recognised in the fair value reserve and retained profit/loss relating to investments in equity-accounted associate companies	**-2,388,070**	**-14,112**
Income tax on other comprehensive income	**2,026,440**	**174,447**
Net gains/losses from translation of financial statements of non-domestic companies	**24,263**	**-726,846**
COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**-6,605,376**	**4,114,311**
Share attributable to controlling interest	**-4,619,823**	**6,060,729**
Share attributable to non-controlling interest	**-1,985,553**	**-1,946,418**

The notes to the financial statements on pages 121–195 form an integral part of these financial statements.

23.4 Consolidated cash flow statement for the year ended 31 December 2011

			(EUR)	Note	2011	2010
A.			**Cash flows from operating activities**			
	a.)		**Items of the income statement**	35	**15,311,332**	**22,963,636**
		1.	Net premiums written	27	234,009,061	233,801,898
		2.	Investment income (other than financial income), financed from:	29	4,842,732	8,057,167
			- technical provisions		4,178,466	6,343,443
			- other sources		664,266	1,713,724
		3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables		7,187,893	7,109,407
		4.	Net claims paid	31	-119,807,466	-118,003,570
		5.	Expenses for bonuses and rebates		-267,870	-721,907
		6.	Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	33	-85,717,624	-84,063,871
		7.	Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:		-7,709,096	-8,478,226
			- technical sources		-6,909,568	-5,276,582
			- other sources		-799,528	-3,201,644
		8.	Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	34	-13,567,453	-11,417,585
		9.	Tax on profit and other taxes not included in operating expenses	35	-3,658,845	-3,319,676
	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**		**5,640,449**	**12,789,170**
		1.	Change in receivables from primary insurance	9	5,710,368	1,664,438
		2.	Change in receivables from reinsurance	9	-1,808,493	3,441,700
		3.	Change in other receivables from re/insurance business	9	88,419	-170,729
		4.	Change in receivables and assets	9	9,526,127	3,590,525
		5.	Change in deferred tax assets	3	-2,291,332	132,764
		6.	Change in inventories		10,738	79,348
		7.	Change in liabilities arising out of primary insurance	25	-3,059,322	-665,437
		8.	Change in liabilities arising out of reinsurance business	25	11,107,062	-7,885,081
		9.	Change in other operating liabilities	26	-9,791,080	12,096,837
		10.	Change in other liabilities (except unearned premiums)	26	-3,665,428	703,855
		11.	Change in deferred tax liabilities	3	-186,610	-199,049
	c.)		**Net cash from/used in operating activities (a + b)**		**20,951,781**	**35,752,806**
B.			**Cash flows from investing activities**			
	a.)		**Cash receipts from investing activities**		**579,105,875**	**621,932,418**
		1.	Interest received from investing activities and from:		12,712,017	11,651,851
			- investments financed from technical provisions		10,670,904	9,460,939
			- other investments		2,041,113	2,190,912
		2.	Cash receipts from dividends and from participation in the profit of others, relating to:		5,467,538	5,241,642
			- investments financed from technical provisions		107,586	78,788
			- other investments		5,359,952	5,162,854
		4.	Proceeds from sale of property and equipment, financed from:		332,594	45,226
			- technical provisions		311,478	5,560
			- other sources		21,116	39,666
		5.	Proceeds from sale of long-term financial investments, financed from:		68,357,153	89,049,848
			- technical provisions		29,960,931	59,967,179
			- other sources		38,396,222	29,082,669
		6.	Proceeds from sale of short-term financial investments, financed from:		492,236,573	515,943,851
			- technical provisions		366,206,634	393,719,098
			- other sources		126,029,939	122,224,753
	b.)		**Cash disbursements in investing activities**		**-599,390,320**	**-647,370,078**
		1.	Purchase of intangible assets		-597,079	-523,601
		2.	Purchase of property and equipment, financed from:		-1,263,482	-2,997,104
			- technical provisions		-283,050	-1,532,856
			- other sources		-980,432	-1,464,248
		3.	Purchase of long-term financial investments, financed from:		-124,776,158	-83,801,683
			- technical provisions		-97,983,824	-73,772,589
			- other sources		-26,792,334	-10,029,093
		4.	Purchase of short-term financial investments, financed from:		-472,753,600	-560,047,690
			- technical provisions		-362,655,334	-411,367,741
			- other sources		-110,098,266	-148,679,949
	c.)		**Net cash from/used in investing activities (a + b)**		**-20,284,445**	**-25,437,660**
C.			**Cash flows from financing activities**			
	a.)		**Cash receipts from financing activities**		**5,000,000**	**0**
		3.	Proceeds from short-term borrowing		5,000,000	0
	b.)		**Cash disbursements in financing activities**		**-4,983,485**	**-11,905,999**
		1.	Interest paid		-2,069,373	-1,757,268
		4.	Repayment of short-term financial liabilities		-2,900,000	-10,148,731
		5.	Dividends and other profit participations paid		-14,112	0
	c.)		**Net cash from/used in financing activities (a + b)**		**16,515**	**-11,906,000**
C2.			**Closing balance of cash and cash equivalents**		**4,710,455**	**4,026,604**
	x.)		**Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)**		**683,852**	**-1,590,853**
D.			**Opening balance of cash and cash equivalents**		**4,026,604**	**5,617,457**

The notes to the financial statements on pages 121–195 form an integral part of these financial statements.

23.5 Consolidated statement of changes in equity for the year ended 31 December 2011

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares (contra account)	VIII. Consolidation equity adjustment	IX. Total Group equity	X. Non-controlling interest in equity	Total (13 + 14)
			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.	12.	13.	14.	15.
Opening balance in financial period	**39,069,099**	**25,417,396**	**16,660,613**	**1,774**	**1,261,187**	**6,576,060**	**60,862,385**	**-121,460**	**557,800**	**2,370,698**	**-1,774**	**-2,412,023**	**150,241,758**	**4,442,851**	**154,684,609**
Comprehensive income for the year, net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-10,689,775**	**0**	**5,994,005**	**0**	**75,952**	**-4,619,819**	**-1,985,553**	**-6,605,373**
Payout of (accounting for) dividends	0	0	0	0	0	0	0	0	0	0	0	0	**0**	**-863**	**-863**
Allocation of net profit to profit reserve	0	0	13,215	0	0	0	3,962,869	0	-13,215	-3,962,869	0	0	**0**	**0**	**0**
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-515,897	1,420,875	0	0	-20,849	-884,129	0		**0**		**0**
Increase in share	0	0	0	0	0	0		1,498	-17,826		0	0	**-16,328**	**17,998**	**1,672**
Transfer of profit/loss	0	0	0	0	0	0	0	0	2,372,634	-2,370,698	0	-1,936	**0**	**0**	**0**
Closing balance in financial period	**39,069,099**	**25,417,396**	**16,673,828**	**1,774**	**745,290**	**7,996,935**	**64,825,254**	**-10,809,738**	**2,878,547**	**1,147,009**	**-1,774**	**-2,338,007**	**145,605,616**	**2,474,433**	**148,080,052**

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

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the year	VII. Treasury shares	VIII. Translation reserve	IX. Total Group equity	X. Non-controlling interest in equity	Total (13 + 14)
			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.	12.	13.	14.	15.
Opening balance in financial period	**39,069,099**	**33,003,756**	**15,277,932**	**1,774**	**1,217,874**	**4,215,361**	**59,566,803**	**543,937**	**13,524,831**	**-12,341,747**	**-1,774**	**-1,685,177**	**152,392,669**	**9,284,738**	**161,677,407**
Comprehensive income for the year, net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-665,396**	**0**	**7,452,973**	**0**	**-726,846**	**6,060,730**	**-1,985,553**	**4,114,311**
Allocation of net profit to profit reserve	0	0	1,382,681	0	0	0	1,295,582	0	0	-2,678,263	0	0	**0**	0	**0**
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	43,313	2,360,699	0	0	0	-2,404,012	0	0	**0**	0	**0**
Increase in share	0	-7,586,360	0	0	0	0	0	0	-625,284		0	0	**-8,211,645**	**-2,895,469**	**-11,107,112**
Transfer of profit/loss	0	0	0	0	0	0	0	0	-12,341,747	12,341,747	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**	**-121,460**	**557,800**	**2,370,698**	**-1,774**	**-2,412,023**	**150,241,758**	**4,442,851**	**154,684,609**

The notes to the financial statements on pages 121–195 form an integral part of these financial statements.

24 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24.1 Basic details

Reporting company

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

In 2011 the Group employed on average 1,555 people. At 31 December 2011, the Group employed 1,530 people (31 December 2010: 1,580), determined on a full-time equivalent basis.

Number of employees by degree of formal education at 31 December

	31. 12. 2011	31. 12. 2010
Primary and lower secondary education	53	341
Secondary	795	649
Higher	213	152
University	434	406
Masters' degree and doctorates	36	31
Total	1,530	1,580

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 is Abanka with a 7% shareholding.

It is the responsibility of the controlling company 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.

24.2 Group companies

Sava Reinsurance Company is the controlling company of the Group.

Subsidiaries as at 31 December 2011

(EUR)	Activity	Registered office	Total assets	Total liabilities	Equity at 31 December 2011	Profit/loss for 2011	Total income	Share of voting rights (%)
Zavarovalnica Tilia	insurance	Slovenia	149,154,232	132,121,757	17,032,475	2,323,379	69,269,434	99.71%
Sava osiguranje	insurance	Serbia	24,165,464	19,011,954	5,153,510	86,626	13,894,974	99.99%
Illyria	insurance	Kosovo	12,975,992	12,062,966	913,026	-2,433,853	13,017,621	100.00%
Sava osiguruvanje	insurance	Macedonia	18,507,389	16,856,778	1,650,611	-2,687,431	11,637,186	81.84%
Bro-Dil	securities broker	Macedonia	286,809	4,742	282,067	-60,036	16,226	81.84%
Sava Montenegro	insurance	Montenegro	23,215,922	18,912,195	4,303,727	1,884,254	10,985,552	100.00%
Illyria Life	insurance	Kosovo	4,219,482	874,432	3,345,050	109,087	1,075,674	100.00%
Sava Life	insurance	Serbia	2,615,821	498,980	2,116,841	-919,968	703,843	99.99%
Velebit usluge	wholesaler, retailer	Croatia	11,681,966	493	11,681,473	1,965	6,014	100.00%
Velebit osiguranje	insurance	Croatia	18,056,703	15,477,580	2,579,123	-2,453,819	7,802,651	63.13%
Velebit životno osiguranje	insurance	Croatia	6,446,868	2,988,153	3,458,715	-1,293,569	1,336,396	53.41%
Illyria Hospital	hospital activities	Kosovo	1,810,025	13,700	1,796,325	-3,520	0	100.00%
Sava Car	research and analysis	Montenegro	328,763	271,684	57,079	307	129,460	100.00%

Associate companies at 31 December 2011

(EUR)	Activity	Registered office	Total assets	Total liabilities	Equity at 31 December 2011	Profit/loss for 2011	Total income	Share of voting rights (%)
Zavarovalnica Maribor	insurance	Slovenia	760,989,148	673,449,534	87,539,613	10,557,075	248,712,324	48.68%
Moja naložba	pension fund	Slovenia	125,484,976	119,225,805	6,259,172	410,318	2,818,149	25.00%

Subsidiaries as at 31 December 2010

(EUR)	Activity	Registered office	Total assets	Total liabilities	Equity at 31 December 2010	Profit/loss for 2010	Total income	Share of 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 osiguruvanje	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 Life	insurance	Serbia	2,480,457	205,300	2,275,157	-826,651	582,631	99.99%
Velebit usluge	wholesaler, 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%
Illyria 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	Total assets	Total liabilities	Equity at 31 December 2010	Profit/loss for 2010	Total income	Share of 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%

24.3 Consolidation principles

The controlling company prepared both separate and consolidated financial statements for the year ended 31 December 2011. 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 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. Subsidiaries are fully consolidated as from the date of obtaining control and they are deconsolidation as from the date such control ceases. 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. Upon acquisition of an additional ownership interest in a subsidiary while the Group already has a controlling financial interest, the excess of the purchase price over the non-controlling interest is accounted for in equity.

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 are not a subsidiaries. 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 are accounted for using the equity method. The corresponding share of the associate's profit/loss is recognised in the consolidated income statement; the corresponding share of the associate's comprehensive income is recognised in the consolidated statement of comprehensive income.

24.4 Significant accounting policies

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

24.4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee’s ("IFRIC"), as adopted by the

European Union. They were also prepared in accordance with applicable Slovenian legislation (the Companies Act ("ZGD-1")), 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 of the Sava Re Group by consulting the annual report. 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 financial statements have been prepared based on the going-concern assumption.

The Management Board of the controlling company approved the financial statements on 16 April 2012.

24.4.2 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.

Investments in associates are measured using the equity method.

24.4.3 Presentation currency, 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 2011 denominated in foreign currencies were translated into euro using mid-rates of the European Central Bank ("ECB") as at year-end 2011. Amounts in the income statements were translated using the average exchange rate. At 31 December 2010 and 31 December 2011, 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.

24.4.4 Use of major accounting estimates and sources of uncertainty

- Calculation of goodwill, its measurement and impairment is determined using the accounting policy under section 24.4.8 and note 1.
- Receivables are impaired based on an accounting policy set out under section 24.4.17.2.The impairment loss recognised is shown under note 9.
- Financial investments:
  Classification, recognition, measurement and derecognition, and impairment of investments, and determination of fair values are made based on accounting policies as

set out in section 24.4.1.Movements of investments and classification is shown in note 6; income and expenses, and impairments are set out in note 29;

- Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are described under 24.4.24, 24.4.25 and 24.4.26. The change of these provisions is shown under note 22.

24.4.5 Cash flow statement

The cash flow statement has been prepared using the indirect method. The Group cash flow statement has been prepared as the sum of all cash flows of all Group companies and by eliminating any inter-Group cash flows. Cash flows from operating activities have been prepared based on data from the statement of financial position and the income statement for 2011, 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.

24.4.6 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.

24.4.7 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 in the Group include computer software, licences pertaining to computer software (their useful life is assumed to be 5 years) and goodwill described in greater detail below.

24.4.8 Goodwill

Goodwill arises on the acquisition of subsidiaries. In acquisitions, goodwill relates to the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company. If the excess is negative (badwill), it is recognised directly in the income statement. 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. Each insurance company is deemed to be a cash-generating unit. Cash flow projections used in these calculations were based on the business plans approved by the management for the period until and including 2016, as well as on extrapolations of growth rates up until 2021. 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 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, including goodwill belonging to the unit. Under section 24.8 "Intangible assets", there is a presentation of main assumptions for cash flow projections used in the calculation of the value in use.

24.4.9 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 in the month after 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.

24.4.10 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 and are not depreciated.

24.4.11 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 (prior to 1 January 2007).

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

In 2011, deferred tax assets and liabilities were accounted for at the rates applicable in individual countries, ranging from 9–20% (the same as in 2010: 9–20%).

24.4.12 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%. The basis for calculating the depreciation rate is the estimated useful life. All leases where the Group acts as lessor are cancellable operating leases. Payments and/or rentals received are recognised as income on a straight-line basis over the term of the lease. 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.

24.4.13 Financial investments in associates

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 losses on investments in associates are determined based on financial results in individual financial years. The criteria for determining the value of a company is net profit and whether business results are in line with local market trends.

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

24.4.14.1 Classification

The Group classifies its financial assets into the following categories:

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

Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e., realising gains in the short term. Financial assets designated as at fair value through profit or loss comprise instruments hedged by derivative financial instruments. This sub-category also includes funds for the benefit 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 contracts.

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.

24.4.14.2 Recognition, measurement and derecognition

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

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

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

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.

24.4.14.3 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 bid, i.e., the last reported bid price in an active securities market.

24.4.14.4 Impairment of investments

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

The Group assesses whether there is any objective evidence that individual financial assets are impaired on a three-month basis (when preparing interim and annual reports).

24.4.14.4.1 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 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.

24.4.14.4.2 Equity securities

QUOTED FINANCIAL ASSETS
Investments in quoted financial assets and mutual funds are impaired when, as at the statement of financial position date:

- the value of any financial asset is more than 40% below cost; or
- the market price of any financial asset has remained below 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 shares are shares not quoted in any organised securities market, shares for which the Group has evidence that they do not have an active market, and investments in 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 reporting date, the Group must establish whether the cost of unquoted equities still represent 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 at cost. Pursuant to IAS 36, for the purpose of impairment testing, the Group establishes the fair value of an asset, when there is an indication that the asset may be impaired. The Group makes no impairment tests on investments that are 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[24] and the median ratio of the enterprise value to earnings before deduction of interest, tax and amortisation (EV/EBITDA)[25] for comparable companies.

The model uses in its calculations the latest published book value of an unquoted share corrected by a 0.9 discount factor (10%) because of its being unquoted.

Companies pursuing the same or essentially the same activity are considered comparable.

24.4.15 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.

[24] Angl. Price-To-Book Ratio.

[25] Angl. Enterprise Multiple: Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization. Enterprise value relates to the value of the whole business, equal to the sum of its market capitalisation and net debt.

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.

24.4.16 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 Group tests these assets for impairment on the reporting date. Assets retroceded to counterparties are tested strictly individually. The Group 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 an estimation of retrocession risks, see section 24.7 "Risk management: Retrocession programme – non-life business)".

24.4.17 Receivables

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

24.4.17.1 Recognition of receivables

Receivables are initially recognised based on issued policies, invoices or other authentic documents (e.g., confirmed reinsurance or co-insurance accounts). In financial statements, receivables are reported 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 sections "Net premiums earned" and "Net claims incurred".

24.4.17.2 Impairment of receivables

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

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.

24.4.18 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.

24.4.19 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.

24.4.20 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.

24.4.21 Equity

Composition:

- Share capital comprises the par value of paid-up ordinary shares, expressed in euro;
- Capital reserves comprise amounts in excess of the par value of shares;
- Profit reserves comprise reserves provided for by the Articles of Association, legal reserves, reserves for treasury shares, credit risk and catastrophe equalisation reserves and other profit reserves;
- Treasury shares;
- Fair value reserve;
- Retained earnings;
- Net profit/loss for the year;
- Translation reserve;
- Non-controlling interest.

Reserves provided for by the Articles of Association are used:

- to cover the 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 Companies Act, the Management Board has the power to allocate up to half of the net profit to other reserves.

24.4.22 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. It is intended for the expansion of operations. Subordinated liabilities are remeasured at amortised cost on a monthly basis.

24.4.23 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. Underwriting risk is significant, if an insured event results in the insurer paying out significant additional amounts. For this purpose, insurers use relevant criteria. 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.

24.4.24 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 usually increased by a loading for acquisition costs. The calculation of mathematical provisions is based on the assumption that the full agent commission was paid at conclusion of the contract, while agents actually receive the commission within two to five years depending on the policy term. The mathematical provision includes all deferred commission. Only in case of prepaid commission, deferred acquisition costs are set aside and shown under assets. 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 Slovenian annuity tables for 2010 for payments made after age 78; other annuity products also use the Slovenian annuity tables 2010. Mathematical provisions for business where policyholders bear the investment risk are determined as the value of the underlying asset of all policies written. This also applies to guaranteed products where the fund administrator guaranties for the unit values in accordance with conditions of the product; insurers, therefore, do not set aside any additional provisions in this respect. The value of underlying assets for a policy is calculated as the sum of the value of underlying assets linked to a certain fund using the unit value at 31 December 2011. 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.

24.4.24.1 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 contract's provisions. 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 loss ratios.

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

These are provisions for unit-linked life business. They comprise mathematical provisions, unearned premiums and provisions for outstanding claims. The bulk comprises mathematical provisions. Their value is the value of units of funds of all policies. For funds, the market value at 31 December 2011 is used.

24.4.26 Liability adequacy test (LAT)

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

<u>Liability adequacy testing for non-life business</u>

Liability adequacy testing for provisions is regularly carried out for unearned premiums. Unearned premiums are calculated based on the unexpired portion of the policy term (the pro rata temporis method). Therefore, if the premium is adequate, the unearned premium is also adequate, and vice versa. The Group carried out the liability adequacy test separately for gross unearned premiums and for the retroceded portion of unearned premiums at both the Group member and insurance class level. If the expected combined ratio exceeds 100%, the unearned premium is not sufficient. The combined ratio in excess of 100% is multiplied by the unearned premium, which results in the expected deficiency of unearned premium on the level of any Group member and class of insurance; a corresponding provision for unexpired risks within other technical provisions is set aside, in accordance with the Insurance Act (ZZavar).

<u>Liability adequacy testing for life business</u>

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

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 uncertainty in the future development of insurance markets and the Group portfolio, an interest rate of 2.75–4% for annuities, 3.5–4.06% for traditional life and 4% for unit-linked life business is used. 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, 3.5–4.06% 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%; 3,5–4.06% is used in the computation.

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

24.4.27 Other provisions

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

Provisions are calculated based on personal data of employees: date of birth, date of commencement of employment, anticipated retirement, and salary. For each Group company, the amounts of severance pay (retirement) and jubilee benefit are in accordance with local legislations and 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 2011 and 2010.

Provisions for employees

Assumptions for 2011

	Sava Reinsurance Company	Tilia	Sava osiguranje	Sava osiguruvanje	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	-	23,138	100	-	-
JB – 20 years (currency)	942	689	-	46,276	200	-	-
JB – 30 years (currency)	1256	919	-	69,413	300	-	-
JB – 40 years (currency)	-	919	-	-	400		
Discount rate	4.46%	4.75%	9.75%	4.00%	4.46%	-	-
Growth in severance pay (re	5.61%	4.00%	11.12%	7.96%	5.35%	-	-
Growth in jubilee benefit	3.57%	3.00%	11.12%	7.96%	5.35%	-	-
Fluctuation up to age 35	2.10%	8.00%	14.42%	7.80%	7.14%	-	-
Fluctuation from 35 to 45	3.80%	5.00%	12.88%	7.83%	5.71%	-	-
Fluctuation after age 45	2.40%	2.50%	9.53%	6.71%	2.75%	-	-

*or average salary in the country if greater

Assumptions for 2010

	Sava Reinsurance Company	Tilia	Sava osiguranje	Sava osiguruvanje	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 (re	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 from 35 to 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%	-	-

*or average salary in the country if greater

24.4.28 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.

24.4.29 Net premiums earned

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

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

24.4.30 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 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.

24.4.31 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 participation in the loss of the associate calculated using the equity method.

24.4.32 Investment income and expenses

The Group records investment income and expenses separately by source of funds, i.e., separately for the capital fund, liability fund and the life insurance liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions; and the life insurance 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.

24.4.33 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.

24.4.34 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.

24.4.35 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 9–20%.

24.4.36 Information on 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[26] (Chief Operating Decision Maker) 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.

[26] CODM may refer to a person responsible for monitoring an operating segment or to a group of persons responsible for allocating resources, and monitoring and assessing performance. CODM is a function and not a title.

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

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

Asset items by operating segment

(EUR)	Reinsurance business		Non-life business		Life insurance business		Other		Consolidated		Total	
	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010
ASSETS	**417,051,465**	**418,350,613**	**203,991,844**	**193,420,334**	**55,339,001**	**55,904,513**	**14,107,563**	**12,400,388**	**-108,452,846**	**-101,690,439**	**582,037,026**	**578,385,408**
Intangible assets	**175,779**	**178,615**	**1,794,545**	**1,528,759**	**233,455**	**281,413**	**3,046**	**3,694**	**16,067,994**	**21,297,366**	**18,274,819**	**23,289,847**
Property and equipment	**2,367,170**	**2,451,169**	**15,434,217**	**17,900,896**	**4,774,256**	**4,457,529**	**1,927,692**	**1,902,003**	**0**	**0**	**24,503,335**	**26,711,597**
Deferred tax assets	**4,064,272**	**2,073,687**	**342,089**	**154,793**	**121,052**	**7,601**	**0**	**0**	**0**	**0**	**4,527,413**	**2,236,081**
Investment property	**158,587**	**160,920**	**5,749,289**	**4,615,660**	**163,571**	**130,338**	**0**	**0**	**0**	**0**	**6,071,447**	**4,906,918**
Financial investments in associates	**114,423,243**	**106,236,355**	**2,926,546**	**3,023,358**	**859,074**	**1,020,071**	**11,680,470**	**10,084,622**	**-80,804,326**	**-78,042,041**	**49,085,007**	**42,322,366**
Financial investments:	**208,748,194**	**221,513,409**	**105,526,148**	**85,013,892**	**21,807,711**	**24,150,407**	**277,810**	**329,232**	**-11,171,500**	**-6,781,500**	**325,188,363**	**324,225,440**
- Loans and deposits	57,859,936	83,453,132	52,987,374	43,942,058	7,212,843	9,939,799	148,490	197,615	-11,171,500	-6,781,500	107,037,143	130,751,104
- Held to maturity	7,513,050	8,168,143	5,012,364	8,198,802	2,895,100	1,605,060	0	0	0	0	15,420,514	17,972,005
- Available for sale	143,375,208	129,892,133	44,238,494	29,732,181	10,269,917	11,605,880	129,320	131,617	0	0	198,012,939	171,361,811
- At fair value through profit or loss	0	0	3,287,916	3,140,851	1,429,851	999,666	0	0	0	0	4,717,767	4,140,517
Funds for the benefit of policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**24,138,957**	**23,716,699**	**0**	**0**	**0**	**0**	**24,138,957**	**23,716,699**
Reinsurers' share of technical provisions	**17,615,761**	**17,526,300**	**25,645,091**	**25,313,293**	**53,573**	**39,281**	**0**	**0**	**-21,706,044**	**-23,144,335**	**21,608,381**	**19,734,539**
Receivables	**59,848,462**	**58,673,864**	**35,143,479**	**43,815,751**	**1,699,095**	**579,344**	**104,422**	**18,273**	**-10,528,609**	**-15,019,929**	**86,266,849**	**88,067,303**
Receivables arising out of primary insurance business	0	0	25,934,918	31,820,853	349,718	248,406	102,007	0	-44,037	-16,285	26,342,606	32,052,974
Receivables arising out of reinsurance and co-insurance business	58,948,939	58,441,543	3,987,706	7,308,724	18,230	12,660	0	0	-10,255,955	-14,872,500	52,698,920	50,890,427
Tax receivables	0	0	294,490	127,465	0	94,670	1,148	375	0	0	295,638	222,510
Other receivables	899,523	232,321	4,926,365	4,558,709	1,331,147	223,608	1,267	17,898	-228,617	-131,144	6,929,685	4,901,392
Deferred acquisition costs	**9,305,676**	**9,191,801**	**6,565,482**	**7,926,464**	**377,652**	**200,576**	**0**	**0**	**-310,361**	**0**	**15,938,449**	**17,318,841**
Other assets	**190,408**	**175,299**	**1,094,523**	**525,157**	**54,058**	**53,020**	**0**	**509**	**0**	**0**	**1,338,989**	**753,985**
Cash and cash equivalents	**153,912**	**169,193**	**3,385,873**	**2,614,674**	**1,056,547**	**1,180,681**	**114,123**	**62,055**	**0**	**0**	**4,710,455**	**4,026,603**
Non-current assets held for sale	**0**	**0**	**384,562**	**987,637**	**0**	**87,553**	**0**	**0**	**0**	**0**	**384,562**	**1,075,190**

Equity and liabilities items by operating segment

(EUR)	Reinsurance business		Non-life business		Life insurance business		Other		Consolidated		Total	
	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010
EQUITY AND LIABILITIES	**417,051,465**	**418,350,613**	**203,991,844**	**193,420,334**	**55,339,001**	**55,904,513**	**14,107,563**	**12,400,388**	**-108,452,846**	**-101,690,439**	**582,037,026**	**578,385,408**
Equity	**158,454,528**	**156,138,328**	**27,481,892**	**27,757,504**	**13,071,188**	**15,312,585**	**13,816,944**	**12,287,926**	**-64,744,503**	**-56,811,733**	**148,080,050**	**154,684,609**
Share capital	39,069,099	39,069,099	42,750,538	38,436,078	22,086,990	21,516,950	14,153,845	12,162,644	-78,991,374	-72,115,671	39,069,098	39,069,099
Capital reserves	33,003,753	33,003,752	0	0	57	56	0	0	-7,586,413	-7,586,412	25,417,397	25,417,396
Profit reserves	87,556,850	83,238,204	2,115,554	2,494,885	336,491	336,491	90,189	90,189	143,997	-797,750	90,243,081	85,362,019
Treasury shares	-1,774	-1,774	0	0	0	0	0	0	0	0	-1,774	-1,774
Fair value reserve	-9,088,908	-2,767,816	630,488	2,074,151	-400,356	244,490	9,828	9,828	-1,960,790	317,887	-10,809,738	-121,460
Retained earnings	3,596,862	0	-12,788,554	-7,649,452	-5,969,149	-4,057,899	24,003	98,913	18,015,385	12,166,238	2,878,547	557,800
Net profit/loss for the period	4,318,647	3,596,862	-3,652,911	-5,919,962	-2,261,027	-1,943,673	-61,284	-74,663	2,803,586	6,712,134	1,147,011	2,370,698
Translation reserve	0	0	-1,573,223	-1,678,197	-721,818	-783,830	-399,637	1,015	356,676	48,990	-2,338,002	-2,412,020
Equity attributable to equity holders of the controlling company	***158,454,530***	***156,138,328***	***27,481,892***	***27,757,503***	***13,071,188***	***15,312,585***	***13,816,944***	***12,287,926***	***-67,218,933***	***-61,254,584***	***145,605,620***	***150,241,758***
Non-controlling interest in equity	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*2,474,430*	*4,442,851*	*2,474,430*	*4,442,851*
Subordinated liabilities	**31,220,817**	**31,177,758**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**31,220,817**	**31,177,758**
Technical provisions	**183,891,042**	**173,941,974**	**141,608,498**	**136,823,399**	**17,081,646**	**15,666,210**	**0**	**0**	**-21,706,044**	**-23,144,335**	**320,875,142**	**303,287,248**
Unearned premiums	40,897,411	41,861,443	53,660,457	52,522,521	379,712	319,067	0	0	-7,607,311	-7,601,594	87,330,269	87,101,437
Mathematical provisions	0	0	0	0	16,503,688	15,228,730	0	0	0	0	16,503,688	15,228,730
Provision for outstanding claims	142,394,053	131,492,898	85,190,619	81,279,621	198,246	118,413	0	0	-13,952,043	-15,401,760	213,830,875	197,489,172
Other technical provisions	599,578	587,633	2,757,422	3,021,257	0	0	0	0	-146,690	-140,981	3,210,310	3,467,909
Technical provision for the benefit of life insurance policyholders who bear the investment risk	**0**	**0**	**0**	**0**	**23,673,423**	**23,626,363**	**0**	**0**	**0**	**0**	**23,673,423**	**23,626,363**
Other provisions	**143,730**	**112,165**	**573,772**	**581,094**	**77,323**	**73,662**	**781**	**1,933**	**0**	**0**	**795,606**	**768,854**
Deferred tax liabilities	**0**	**86,161**	**0**	**39,013**	**0**	**61,436**	**0**	**0**	**0**	**0**	**0**	**186,610**
Other financial liabilities	**729**	**2,901,061**	**13,997,498**	**6,486,120**	**0**	**0**	**0**	**81,500**	**-8,216,152**	**-6,801,580**	**5,782,075**	**2,667,101**
Liabilities from operating activities	**42,059,351**	**44,336,405**	**9,309,278**	**14,692,522**	**372,080**	**199,360**	**13,700**	**10,200**	**-10,268,384**	**-13,183,474**	**41,486,025**	**46,055,013**
Liabilities from primary insurance business	0	0	1,250,730	4,427,260	136,321	29,467	13,700	10,200	-3,347	-10,200	1,397,404	4,456,727
Liabilities from reinsurance and co-insurance business	40,374,262	42,747,591	7,375,999	9,198,849	135,958	79,595	0	0	-10,265,037	-13,173,274	37,621,182	38,852,761
Current income tax liabilities	1,685,089	1,588,814	682,549	1,066,413	99,801	90,298	0	0	0	0	2,467,439	2,745,525
Other liabilities	**1,281,268**	**9,656,761**	**11,020,906**	**7,040,685**	**1,063,341**	**964,897**	**276,138**	**18,828**	**-3,517,763**	**-1,749,317**	**10,123,890**	**15,931,853**

Items of the income statement by operating segment

(EUR)	Reinsurance business		Non-life business		Life insurance business		Other		Consolidation adjustment		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net earned premiums (1)	**122,486,683**	**123,497,230**	**100,070,517**	**96,085,241**	**12,690,308**	**12,394,003**	**0**	**0**	**-108,299**	**-102,444**	**235,139,209**	**231,874,029**
Gross premiums written	140,350,370	142,861,784	126,411,157	125,757,228	12,882,226	12,532,979	0	0	-21,228,559	-22,048,940	258,415,194	259,103,050
- of this third-party clients	119,261,863	120,989,322	126,271,105	125,580,749	12,882,226	12,532,979	0	0	0	0	258,415,194	259,103,050
Written premiums ceded to reinsurers and co-insurers	-20,030,451	-21,611,105	-25,379,571	-25,243,014	-141,557	-124,434	0	0	21,145,446	21,677,401	-24,406,133	-25,301,152
Change in net unearned premiums	2,166,764	2,246,551	-961,069	-4,428,973	-50,361	-14,542	0	0	-25,186	269,095	1,130,148	-1,927,869
Net claims incurred (2)	**-75,377,584**	**-81,740,116**	**-56,354,647**	**-55,739,316**	**-4,421,221**	**-2,540,031**	**0**	**0**	**-14,713**	**9,502**	**-136,168,165**	**-140,009,961**
Gross claims paid less income from subrogation receivables liquidated	-70,685,269	-78,092,872	-64,230,826	-64,442,773	-4,327,331	-2,613,520	0	0	10,866,587	13,879,561	-128,376,839	-131,269,604
Reinsurers' and co-insurers' shares	7,322,111	11,644,566	12,091,180	15,533,327	15,357	577	0	0	-10,859,275	-13,912,436	8,569,373	13,266,034
Change in the net provision for outstanding claims	-12,014,426	-15,291,810	-4,215,001	-6,829,870	-109,247	72,912	0	0	-22,025	42,377	-16,360,699	-22,006,391
Change in other technical provisions (3)	**-263**	**1,185,050**	**944,778**	**-967,676**	**-1,299,145**	**-1,926,812**	**0**	**0**	**0**	**0**	**-354,630**	**-1,709,438**
Change in the technical provision for policyholders who bear the investment risk (4)	**0**	**0**	**0**	**0**	**-23,713**	**-5,711,680**	**0**	**0**	**0**	**0**	**-23,713**	**-5,711,680**
Operating expenses (5)	**-39,288,833**	**-39,329,664**	**-46,408,509**	**-43,870,376**	**-6,571,380**	**-6,793,923**	**-212,983**	**-107,237**	**4,560,588**	**4,813,515**	**-87,921,117**	**-85,287,685**
Depreciation/amortisation	-207,816	-176,706	-1,548,494	-1,721,678	-147,549	-114,475	-8,509	-1,591		0	**-1,912,368**	**-2,014,450**
Other technical income (6)	**4,140,288**	**4,741,369**	**6,703,495**	**6,652,290**	**48,552**	**30,942**	**0**	**0**	**-4,466,529**	**-4,793,045**	**6,425,806**	**6,631,556**
Other technical expenses (7)	**-2,105,123**	**-2,165,907**	**-8,863,858**	**-7,491,095**	**-79,516**	**-20,264**	**0**	**0**	**107,494**	**49,680**	**-10,941,003**	**-9,627,586**
A) Technical account (1 + 2 + 3 + 4 + 5 + 6 + 7)	**9,855,168**	**6,187,962**	**-3,908,224**	**-5,330,932**	**343,885**	**-4,567,765**	**-212,983**	**-107,237**	**78,541**	**-22,792**	**6,156,387**	**-3,840,765**
Income from investments in affiliates (8)	**4,540,448**	**0**	**0**	**210,210**	**0**	**0**	**0**	**0**	**701,315**	**4,845,091**	**5,241,763**	**5,055,301**
Shares in profit/loss of equity-accounted associates	0	0	0	0	0	0	0	0	998,142	5,055,301	998,142	5,055,301
Investment income (9)	**8,437,718**	**9,831,163**	**5,884,958**	**5,182,893**	**3,733,425**	**5,110,395**	**8,159**	**32,001**	**-283,736**	**-261,093**	**17,780,524**	**19,895,359**
- Interest income	7,210,411	6,431,313	4,737,035	4,218,525	1,078,567	1,105,344	8,159	14,972	-322,155	-223,057	12,712,017	11,547,097
Expenses for investments in affiliates (10)	**-5,156,439**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-5,156,439**	**0**
Expenses from financial assets and liabilities (11)	**-6,392,715**	**-7,282,878**	**-1,919,255**	**-1,154,265**	**-6,216,614**	**-2,023,090**	**0**	**0**	**363,828**	**224,740**	**-14,164,756**	**-10,235,493**
- Interest expense	-1,762,193	-1,543,868	-516,353	-412,889	-47,812	-25,251	0	0	256,985	224,740	-2,069,373	-1,757,268
- impairment loss on goodwill	-5,156,439	-386,392	0	0	0	0	0	0	0	0	-5,156,439	-386,392
B) Non-technical account (8 + 9 + 10 + 11)	**1,429,012**	**2,548,285**	**3,965,703**	**4,238,838**	**-2,483,189**	**3,087,305**	**8,159**	**32,001**	**781,407**	**4,808,738**	**3,701,092**	**14,715,167**
Other income (12)	**10,733**	**87,439**	**578,577**	**398,461**	**13,499**	**0**	**143,541**	**12,347**	**15,737**	**-20,396**	**762,087**	**477,851**
Expenses for bonuses and rebates (13)	**-11,682**	**23,029**	**-256,188**	**-744,937**	**0**	**0**	**0**	**0**	**0**	**0**	**-267,870**	**-721,908**
Other expenses (14)	**-908**	**-166**	**-2,557,819**	**-1,766,394**	**-67,722**	**-12,182**	**-1**	**-11,621**	**0**	**364**	**-2,626,450**	**-1,789,999**
C) Result of other items (12 + 13 + 14)	**-1,857**	**110,302**	**-2,235,430**	**-2,112,870**	**-54,223**	**-12,182**	**143,540**	**726**	**15,737**	**-20,032**	**-2,132,233**	**-2,034,056**
D) Profit/loss before tax (A + B + C)	**11,282,322**	**8,846,549**	**-2,177,951**	**-3,204,964**	**-2,193,527**	**-1,492,642**	**-61,284**	**-74,510**	**875,685**	**4,765,914**	**7,725,246**	**8,840,346**
E) Income tax expense	-2,645,030	-1,652,825	-946,315	-1,552,161	-67,500	-114,537	0	-153	0	0	**-3,658,845**	**-3,319,676**
F) Net profit/loss for the period (D+E)	**8,637,292**	**7,193,724**	**-3,124,266**	**-4,757,125**	**-2,261,027**	**-1,607,179**	**-61,284**	**-74,663**	**875,685**	**4,765,914**	**4,066,401**	**5,520,670**

Inter-segment business

(EUR)	Reinsurance business		Non-life business		Life insurance business		Other		Consolidation adjustment		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net earned premiums	21,088,507	21,872,461	140,052	176,479	0	0	0	0	-21,228,559	-22,048,940	0	0
Net claims incurred	-10,853,324	-13,879,561	-13,263	0	0	0	0	0	10,866,587	13,879,561	0	0
Operating expenses	-4,438,165	-4,674,576	-73,130	-116,497	-39,720	-22,442	-9,573	0	4,560,588	4,813,515	0	0
Investment income	580,563	252,082	0	9,011	0	0	0	0	-580,563	-261,093	0	0
Other income	82,029	0	18,007	18,762	263	0	0	1,634	-100,299	-20,396	0	0

Cost of intangible and property and equipment assets by operating segment

(EUR)	Reinsurance business		Non-life business		Life insurance business		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Investments in intangible assets	72,943	54,657	1,007,747	436,769	141,413	30,224	301	2,500	1,222,404	524,149
Investments in property and equipment assets	67,598	908,231	1,784,103	2,025,130	325,028	739,932	33,341	102,226	2,210,070	3,775,519

Reporting by geographic segment 2011

Group insurance operations are focused on Slovenia and the Western Balkans (Serbia, Croatia, Montenegro, Macedonia and Kosovo), while its reinsurance operations are expanding to Asia and Africa.

(EUR)	Gross premiums written		Long-term assets	
	2011	2010	31. 12. 2011	31. 12. 2010
Slovenia	134,331,179	129,022,307	7,351,161	7,378,006
Europe	97,503,810	107,423,017	37,321,683	42,973,892
Asia	23,806,654	21,316,843	0	0
Africa	2,317,761	1,340,008	0	0
Americas and Australia	455,791	874	0	0
Total	258,415,195	259,103,049	44,672,844	50,351,898

24.5 Changes in accounting policies and correction of errors

In 2011, the Group introduced no material changes in accounting policies nor corrected any errors.

24.6 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 2011 and have not been applied in preparing these financial statements:

- ***Amendment to IFRS 7 Disclosures – Transfer of financial assets (effective for annual periods beginning on or after 1 July 2011)***

The amendment requires that an entity discloses information that enables users of its financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The application of the amendment to IFRS 7 increases the level of disclosure for financial assets that have been partially or entirely derecognised.

24.7 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. To illustrate concentration risk for insurance contracts, a table showing a breakdown of insurance premium by geographical segments is provided in section 24.4.36 "Information on operating segments".

24.7.1 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 sum of required solvency margins of the controlling company and the corresponding required solvency margin of subsidiaries. The Group met capital adequacy requirements through all of 2011, as it maintained a surplus of available solvency margin over required solvency margin.

As at 31 December 2011, its available solvency margin was EUR 136.2m (31 December 2010: EUR 122.0m). The Group's available solvency margin highly exceeds the required solvency margin of EUR 56.8m (31 December 2010: EUR 54.1m), 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).

24.7.2 Underwriting risk

Underwriting risks are risks related to the main activity pursued by insurance companies, i.e., the assumption of risk 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 it has no 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.

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

24.7.2.1 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 2010.

24.7.2.2 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 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.

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 2011 and similar to that in 2010.

24.7.2.3 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.

We consider that there have been no significant changes in the claims risk of 2011 and 2010 if we disregard the fact that there were more catastrophic losses due to natural disasters in 2011 than in 2010, which is closer related to the net retention risk than the claims risk.

24.7.2.4 Net retention risk – non-life business

Net retention risk is the risk that higher retention of insurance loss exposures results 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).

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 in 2011 essentially the same as in 2010 in terms of retention limits and the expected number of catastrophic losses. However, the number of natural catastrophe events in 2011 was larger than in 2010. Nevertheless, the Group was not seriously impacted by net retention risk thanks to its appropriate net retention limits and retrocession programme, as described under the section on estimated exposure to underwriting risks – non-life business.

24.7.2.5 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, the Group took into account the subsidiaries' underreserved technical provisions at the consolidated 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 be meaningful. For this reason, at the end of 2011, 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 claims that have already been incurred (reported and not reported) the settlement of which is provided for within the claims provision, and 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.

Owing to the above, the two tables below show originally estimated gross or net liabilities with claims provisions included at any year-end plus unearned premiums less deferred commission, which is compared to subsequent estimates of these liabilities. Such testing or analysis of whether technical provisions are adequate can only be applied to past years — the further back in time, the more precise the results. 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 2011 are adequate.

Adequacy analysis of gross technical provisions for past years for Sava Reinsurance Company

(thousand EUR)	Year ended 31 December					
Estimate of gross liabilities	2006	2007	2008	2009	2010	2011
As originally estimated	109,145	119,777	148,075	157,182	163,593	173,522
Reestimated as of 1 year later	85,128	112,684	141,395	141,917	148,272	
Reestimated as of 2 years later	89,210	115,393	138,416	134,336		
Reestimated as of 3 years later	92,588	113,161	135,549			
Reestimated as of 4 years later	89,620	110,972				
Reestimated as of 5 years later	88,616					
Cumulative gross redundancy (last estimate – original estimate)	20,529	8,805	12,527	22,846	15,321	
Cumulative gross redundancy as % of original estimate	18.8%	7.4%	8.5%	14.5%	9.4%	

Adequacy analysis of net technical provisions for past years for Sava Reinsurance Company

(thousand EUR)	Year ended 31 December					
Estimate of net liabilities	2006	2007	2008	2009	2010	2011
As originally estimated	92,579	98,878	111,120	132,543	146,636	156,366
Reestimated as of 1 year later	65,813	93,767	107,719	122,908	133,984	
Reestimated as of 2 years later	69,618	96,301	105,045	114,811		
Reestimated as of 3 years later	72,695	94,514	101,164			
Reestimated as of 4 years later	70,201	91,403				
Reestimated as of 5 years later	67,767					
Cumulative net redundancy (last estimate – original estimate)	24,812	7,475	9,956	17,732	12,652	
Cumulative net redundancy as % of original estimate	26.8%	7.6%	9.0%	13.4%	8.6%	

The relative decrease in the cumulative redundancy and the net redundancy for 2007 and 2008 compared to underwriting year 2006 is due to catastrophic losses and cedants' optimistic estimates of claims provisions for catastrophic losses. In contrast, cumulative net redundancies for underwriting years 2006–2009 increased if compared to amounts at the end of the preceding year, which were 24.1%, 4.4%, 5.6% and 7.1% of original estimates.

The cumulative gross and net redundancy is a result of prudent estimation of liabilities. It is also partly because unearned premiums calculated based on the pro rata temporis rule, less deferred commission, for those classes of business where loss ratios are significantly below 100% are by the very nature of the calculation method too large for the portion relating to the difference between 100% and the subsequently known actual loss ratio. 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 then remain essentially the same as the second-year estimate; and only after a long time they stabilise.

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

Generally, insurance companies (including Group companies) analyse data by accident year, which differs from the analysis of data by underwriting year. The two tables below show an adequacy test/analysis 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 analysis of gross claims provisions for subsidiary insurance companies

(thousand EUR)	Year ended 31 December					
Gross provision for claims	2006	2007	2008	2009	2010	2011
As originally estimated	49,047	53,430	61,552	71,891	77,480	80,971
Reestimated as of 1 year later	49,583	53,819	60,504	64,772	70,462	
Reestimated as of 2 years later	50,235	52,465	58,899	63,309		
Reestimated as of 3 years later	49,090	51,826	58,699			
Reestimated as of 4 years later	48,737	51,734				
Reestimated as of 5 years later	48,695					
Cumulative gross redundancy (original estimate – latest estimate)	352	1,696	2,853	8,582	7,018	
Cumulative gross redundancy as % of original estimate	0.7%	3.2%	4.6%	11.9%	9.1%	

Adequacy analysis of net claims provisions for subsidiaries insurance companies

(thousand EUR)	Year ended 31 December					
Net provision for outstanding claims	2006	2007	2008	2009	2010	2011
As originally estimated	36,951	40,252	46,371	56,317	63,174	65,897
Reestimated as of 1 year later	38,387	41,759	47,087	51,472	57,297	
Reestimated as of 2 years later	39,472	41,525	45,832	50,053		
Reestimated as of 3 years later	39,136	41,171	45,560			
Reestimated as of 4 years later	38,842	41,049				
Reestimated as of 5 years later	38,782					
Cumulative gross redundancy (original estimate – latest estimate)	-1,831	-797	811	6,264	5,877	
Cumulative gross redundancy as % of original estimate	-5.0%	-2.0%	1.7%	11.1%	9.3%	

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 redundancy and insufficiency in claims provisions is positive at Group level, especially due to the redundancy in claims provisions in the two largest Slovenian Group members.

24.7.2.6 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 the best risks. The Group also concludes reciprocal contracts with other reinsurers to further disperse risks. The Group's net retained portfolio, relating to both domestic and foreign cedants, is 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 2011 and 2010.

24.7.2.7 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 2.4m (2010: EUR 2.3m).

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, at EUR 2m for motor liability, and a combined limit of EUR 3m is used for the classes: fire and natural forces, other damage to property and miscellaneous financial loss. In life business, net retention limits are set significantly lower. In principle, this limits net claims arising out of any single loss event to a maximum of EUR 3m. In case of any catastrophe event, e.g., flood, hail, storm or even earthquake, the maximum net claim payable is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is EUR 5m for Slovenia and other countries. These amounts represent the maximum net claim for a single catastrophe event based on reasonable actuarial expectations. 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 2011 and 2010.

24.7.2.8 Underwriting risks in life insurance

The subsidiaries are exposed to underwriting risk arising from a wide range of life products: traditional insurance products including annuity and investment-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 unexpectedly higher or lower rate of policy lapses, terminations, changes to paid-up status (cessation of premium payment) and surrenders. The Group manages concentrated underwriting risks arising out of life policies through diversification, reinsurance and through underwriting and risk assessment procedures.

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 surplus reinsurance covers, 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 insured risks). 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 2011 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 2011, 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.

24.7.3 Market risks

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.

Data on financial investments of the Group

(EUR)	31. 12. 2011	31. 12. 2010
Type of investment		
Deposits and money market instruments	104,217,802	129,563,385
Government bonds	103,952,549	75,678,951
Corporate bonds	85,742,610	73,928,404
Shares (excluding strategic shares)	11,004,545	11,482,158
Mutual funds	10,497,447	24,158,534
Bond funds	3,776,869	6,623,490
Mixed funds	3,508,780	12,623,166
Equity funds	3,211,798	4,911,878
Loans granted and other	1,196,666	2,008,380
Total market risk sensitive financial investments	316,611,619	316,819,812
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	8,576,746	7,405,629
Investments for the benefit of life-insurance policyholders who bear the investment risk	24,138,957	23,716,699
Total financial investments	349,327,321	347,942,140

Changes in the value of investments for the benefit of policyholders who bear the investment risk, that arise from changes in market risk parameters affect neither the Group's results nor equity.

24.7.3.1 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.

On the asset side, interest rate risk affects debt securities, bond mutual funds and partly mixed mutual funds. The total amount of investments exposed to interest rate risk at 31 December 2011 totalled EUR 195.2m (31 December 2010: EUR 162.5m)[27]. Of this EUR 181.6m (31 December 2010: EUR 149.6m) related to assets of non-life insurance companies[28] and EUR 13.6m (31 December 2010: 12.9m) to assets of life insurance

[27] Included are amounts in debt securities, bond mutual funds and half of mixed mutual funds.
[28] Included are the portfolio of the controlling company transacting reinsurance business and portfolios of subsidiaries transacting non-life business.

companies. Investments are shown in the table *Data on financial investments of the Group* in section 24.7.3 "Market risks".

We made separate calculations for the impact of an interest rate change on the value of the bond portfolio for the non-life and for the life segment. In both cases, interest rate sensitivity of 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 the 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 sensitivity analysis for the non-life segment[29] showed that in the event of an interest rate increase, the value of interest rate sensitive investments would drop by EUR 10.3m (2010: EUR 9.7m) or 6.0% (31 December 2011: 6.9%). The table below shows in greater detail how the value of investments changes in response to a change in interest rates and the impact on financial statements. The average duration of the observed Group bond portfolio was 3.42 years as at 31 December 2011 (31 December 2010: 3.83 years).

Results of a sensitivity analysis for the bond portfolio

Type of security	31. 12. 2011				31. 12. 2010			
	+200 bp		-200 bp		+200 bp		-200 bp	
	Value	Change in value	Value	Change in value	Value	Change in value	Value	Change in value
Government bonds	78,868,457	-5,488,017	90,669,440	6,312,966	53,958,654	-4,179,759	62,812,193	4,673,780
Corporate bonds	78,063,107	-4,470,733	87,840,048	5,306,208	65,381,869	-4,698,185	75,336,249	5,256,195
Bond mutual funds	3,312,566	-210,213	3,768,041	245,262	5,601,620	-416,714	6,484,428	466,094
Mixed mutual funds	1,477,150	-93,739	1,680,256	109,368	5,686,208	-423,007	6,582,348	473,133
Total	161,721,280	-10,262,702	183,957,785	11,973,803	130,628,352	-9,717,664	151,215,218	10,869,202
Effect on equity	-9,463,708		10,877,731		-9,367,851		10,490,572	
Effect on the income statement	0		0		0		0	
Effect of bonds designated as held to maturity*	-798,994		1,096,072		-349,813		378,630	
*no effect on the company results								

As the Group sells traditional life insurance products, it is exposed to interest rate risk in relation to its liabilities (mathematical provisions). 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.

The Group life insurance segment includes four companies; the largest is Zavarovalnica Tilia. The other three companies 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.

Exposure to interest rate risk – liabilities

(EUR)	31. 12. 2011	31. 12. 2010
Liabilities	Amount	Amount
Mathematical provisions	16,503,688	15,228,730

Interest rate risk affects both mathematical provisions and the value of investments supporting mathematical provisions. An increase in interest rates would result in a decrease in both the mathematical provision as well as in invested assets. An increase in investments would fully

[29] The sensitivity analysis was based on data from the bond portfolios of Sava Reinsurance Company and Zavarovalnica Tilia (non-life business). This covered 95% of the bond portfolio.

offset an increase in mathematical provisions only if maturities of liabilities and investments were fully matched. Complete matching is practically impossible because the market does not offer adequate bonds to match life insurance maturities (which may be up to 40 years). Therefore, the Group tends to reduce this risk by reducing the mismatch between the average maturity of its assets and liabilities.

The sensitivity analysis on the liabilities side (mathematical provisions) showed that in the event of an interest rate increase, the value of the mathematical provision would drop by EUR 2.0m (2010: EUR 2.1m) or 15.8% (31 December 2010: 16.5%). The sensitivity analysis on the investment side (supporting the mathematical provision) showed that in case of an increase in interest rates the value of interest rate sensitive investments would drop by EUR 0.8m (2010: EUR 0.7m) or 7.1% (31 December 2010: 6.9%). The table below gives more details on the sensitivity analysis for the bond portfolio.

Results of a sensitivity analysis for the bond portfolio

Type of security	31. 12. 2011				31. 12. 2010			
	+200 bp		-200 bp		+200 bp		-200 bp	
	Value	Change in value	Value	Change in value	Value	Change in value	Value	Change in value
Government bonds	7,451,696	-625,291	8,823,318	746,331	7,575,020	-583,634	8,844,908	686,254
Corporate bonds	2,618,728	-144,476	2,920,792	157,588	2,211,184	-138,338	2,501,958	152,435
Bond mutual funds	0	0	0	0	467,902	-34,519	542,521	40,100
Mixed mutual funds	169,287	-12,940	197,423	15,195	188,464	-13,904	218,519	16,152
Total	10,239,712	-782,707	11,941,533	919,114	10,442,570	-770,396	12,107,906	894,940
Effect on equity	-603,859		693,860		-770,396		894,940	
Effect on the income statement	0		0		0		0	
Effect of bonds designated as held to maturity*	-178,848		225,254		0		0	

Based on year-end amounts and absolute results of the sensitivity analysis, the Group considers that interest rate risk did not change significantly in 2011 compared to 2010.

24.7.3.2 Equity securities risk

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

Equity securities risk is measured through a stress test assuming a 10-percent drop in equity prices. Equity securities risk affects equities, equity mutual funds and mixed mutual funds (in stress tests, we include half of the amount). The value of assets is shown in the table Data on financial investments of the Group in section 24.7.3 "Market risks".

To assess the Group's sensitivity of investments to equity securities risk, we assume a 10% drop in the value of all equity securities. This would reduce the value of the Group portfolio by EUR 1.6m (31 December 2010: EUR 2.3m). Of this, EUR 1.5m (31 December 2010: EUR 2.2m) would relate to the change in equity and EUR 0.1m (31 December 2010: EUR 0.1m) to the change in the income statement.

Sensitivity assessment of investments to equity securities risk

(EUR)	31. 12. 2011		31. 12. 2010	
Drop in value	Value	Change in value	Value	Change in value
By 20%	14,373,660	1,597,073	20,435,058	2,270,562
By 20%	12,776,586	3,194,147	18,164,496	4,541,124

*Unlike the bond portfolio, which moves inversely to interest rates, the value of the equities and mutual fund portfolio changes linearly with stock prices.

We consider that the Group was less exposed to equity securities risk in 2011 than in 2010. It needs, however, to be noted that these estimates relate strictly to year-end figures for 2011 and 2010.

24.7.3.3 <u>Currency risk</u>

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

As is evident from the below table, the major part of assets and liabilities of the Group is denominated in euro with a surplus of assets over liabilities of EUR 89.9m. In other currencies, the Group has a deficit of assets relative to liabilities of EUR 21.8m. The largest deficit is with US dollars, which is related to greater activity of the controlling company in Asian markets. The controlling company started increasing its USD-denominated investments in order to reduce the dollar currency mismatch.

Currency (mis)match

(EUR)	Carrying amount at 31.12.2011	EUR	USD	HRK	RSD	MKD	KRW	Other currencies
Financial investments	325,188,363	299,014,911	1,296,458	9,704,982	6,838,082	8,333,930	0	0
- At fair value through profit or loss	4,717,767	2,075,132	0	2,642,635	0	0	0	0
- Held to maturity	15,420,514	13,439,662	0	1,980,852	0	0	0	0
- Loans and deposits	107,037,143	93,245,934	1,159	4,787,801	3,003,683	5,998,566	0	0
- Available-for-sale	198,012,939	190,254,183	1,295,299	293,694	3,834,399	2,335,364	0	0
Investment property	6,071,446	942,379	0	863,844	3,768,729	496,494	0	0
Financial investments in Group companies and in associates	49,085,007	49,085,007	0	0	0	0	0	0
Investments for the benefit of life-insurance policyholders who bear the investment risk	24,138,957	23,524,934	614,023	0	0	0	0	0
Reinsurers' share of technical provisions	21,610,381	18,940,806	0	0	775,206	1,894,369	0	0
Receivables	90,794,262	68,713,278	5,200,990	3,502,809	1,689,138	3,416,694	2,064,467	6,206,886
Cash and cash equivalents	4,710,455	4,015,370	88,532	238,968	119,622	176,337	0	71,626
TOTAL ASSETS	523,578,242	466,215,896	7,200,003	14,310,603	13,190,777	14,317,984	2,064,467	6,278,512
Subordinated liabilities	31,220,817	31,220,817	0	0	0	0	0	0
Technical provisions	320,875,142	251,551,812	18,813,377	264,220	16,039,224	12,720,391	4,236,425	17,249,693
Technical provisions for the benefit of life-insurance policyholders who bear the investment risk	23,673,423	23,673,423	0	0	0	0	0	0
Other provisions	795,606	662,776	0	0	75,060	57,770	0	0
Other financial liabilities	5,782,116	5,782,116	0	0	0	0	0	0
Liabilities from operating activities	41,486,025	34,646,746	1,390,646	362,905	358,532	664,586	2,593,386	1,469,224
Other liabilities	10,123,890	7,230,423	119,601	1,514,130	276,146	869,182	0	114,408
Total liabilities	455,447,192	376,258,286	20,323,624	2,141,255	16,748,962	14,311,929	6,829,811	18,833,325
Mismatch	68,131,050	89,957,610	-13,123,621	12,169,348	-3,558,185	6,055	-4,765,344	-12,554,813

In 2010 the Group did not monitor assets and liabilities by currency. However, given that the currency mismatch increased with the controlling company in 2011, we may conclude that in 2011 compared to 2010 it has also increased on a Group level.

Based on exchange rates for USD, HRK, RSD, MKD and KRW for the past six years and the corresponding EUR equivalent surpluses of assets/liabilities at 31 December 2011, we made a stochastic analysis, which projected that after one year the average surplus of assets over liabilities will be EUR 104,511.5, with a 5-percent probability that the deficit of assets will exceed EUR 3,817,409.

24.7.3.4 <u>Concentration risk</u>

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. Thus assets are diversified by type of investment (e.g., time deposits, debt and equity securities, structured products, mutual funds), by maturity and by currency. Likewise, the investment portfolio is diversified by geographic regions and industry.

The Group keeps most of its investments in Slovenia, mostly with the banking sector and with government entities. Concentration by industry is related to investment types as the bulk of the investment portfolio consists of bank deposits and government bonds.

Investment portfolio by geographic area

(EUR)	31. 12. 2011		31. 12. 2010	
Market	Amount	As % of total	Amount	As % of total
Slovenia	210,465,484	66.5%	214,408,298	67.7%
EU	41,646,088	13.2%	43,098,154	13.6%
Other OECD countries	6,857,163	2.2%	4,520,728	1.4%
Other countries	57,642,884	18.2%	54,792,632	17.3%
Total	316,611,619	100.0%	316,819,812	100.0%

Investment portfolio by issuer

(EUR)	31. 12. 2011		31. 12. 2010	
Market	Amount	As % of total	Amount	As % of total
Banks and savings banks	158,214,670	50.0%	172,518,394	54.5%
Government and Central Bank	103,952,549	32.8%	75,678,949	23.9%
Other financial institutions	11,426,473	3.6%	12,967,971	4.1%
Industry & commerce	28,623,722	9.0%	28,157,012	8.9%
Mutual funds	10,497,447	3.3%	24,158,535	7.6%
Insurance companies	3,896,758	1.2%	3,338,951	1.1%
Total	316,611,619	100.0%	316,819,812	100.0%

The largest single issuer of securities that the Group is exposed to is the Republic of Slovenia: at 31 December 2011, 23.2% of investments were sensitive to market risk. At 31 December 2011, the exposure to government bonds of the Republic of Slovenia was EUR 73.6m (2010: EUR 42.3m). Exposure to the 10 largest issuers accounted for 47.3% of the market risk sensitive investment portfolio.

Based on the tables above and considering only the local unfavourable developments, we may conclude that exposure to concentration risk did not change significantly in 2011 compared to 2010.

24.7.3.5 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 obligations. The duration of investments and liabilities is shown in greater detail in the table in section 24.7.4 "Liquidity risk".

Non-life assets are adequately matched with corresponding liabilities in terms of duration. At 31 December 2011, the average duration of bond investments was 3.42 years (31 December 2010: 3.83 years), while the average duration of the majority of liabilities (gross claims provision and unearned premiums) was 3.33 years (31 December 2010: 3.80 years).

The duration of traditional life policies of Zavarovalnica Tilia, which comprised the lion's share of all liabilities, was 7.5 years in 2011, while the duration of the portfolio was shorter, i.e., 4.5 years. This is due to the large amount of short-term deposits.

24.7.4 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 mitigates liquidity risk by having Group companies draw up annual liquidity plans with daily planned cash-flows (investments, reinsurance, expenses). In addition, the Group avoids liquidity risk by diversifying the maturities of deposit which serve to meet day-to-day liquidity needs. The bond portfolio consists mainly of highly liquid listed bonds. 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. 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 remembered 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.

The tables below show the maturities of assets and liabilities.

(EUR)	Carrying amount at 31.12.2011	Up to 1 year	1–5 years	Over 5 years
Financial investments	325,188,363	140,081,964	136,842,936	48,263,463
- At fair value through profit or loss	4,717,767	2,672,524	1,763,127	282,116
- Held to maturity	15,420,514	1,414,705	7,055,116	6,950,693
- Loans and deposits	107,037,143	97,470,844	9,553,992	12,307
- Available-for-sale	198,012,939	38,523,891	118,470,701	41,018,347
Investment property	6,071,446	496,494	0	5,574,952
Financial investments in Group companies and in associates	49,085,007	0	0	49,085,007
Investments for the benefit of life-insurance policyholders who bear the investment risk	24,138,957	889,344	5,111,900	18,137,713
Reinsurers' share of technical provisions	21,608,380	16,031,125	4,936,105	641,150
Receivables*	90,794,262	86,192,340	4,517,280	84,642
Cash and cash equivalents	4,710,455	4,710,455	0	0
Total assets	521,596,870	248,401,722	151,408,221	121,786,927
Subordinated liabilities	31,220,817	0	0	31,220,817
Technical provisions	320,875,142	147,534,052	98,141,210	75,199,880
Technical provisions for the benefit of life-insurance policyholders who bear the investment risk	23,673,423	423,864	5,111,900	18,137,659
Other provisions	795,606	526,635	10,935	258,036
Other financial liabilities	5,782,116	5,782,116	0	0
Liabilities from operating activities	41,486,025	41,465,830	20,195	0
Other liabilities	10,123,890	9,547,227	576,663	0
Total liabilities	433,957,019	205,279,724	103,860,903	124,816,392

(EUR)	Carrying amount at 31.12.2010	Up to 1 year	1–5 years	Over 5 years
Financial investments	324,225,437	179,677,139	98,853,118	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	23,687,008	29,690	0
Reinsurers' share of technical provisions	19,734,540	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	509,235,947	300,551,110	107,044,209	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
Technical provisions 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	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	173,980,217	88,586,993	158,279,880

*Including deferred tax assets.

We consider the liquidity risk to be minor and similar in both in 2011 and 2010.

24.7.5 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. 12. 2011	31. 12. 2010
Type of asset	Amount	Amount
Financial investments in associate companies	49,085,007	42,322,366
Financial investments	325,188,362	324,225,441
Reinsurers' share of technical provisions	21,610,381	19,734,539
Receivables	90,794,262	88,067,303
Total exposure	486,678,013	474,349,649

In accordance with local legislations, implementing regulations and internal acts, Group members invest their cash surpluses only in (i) deposits with adequately performing banks (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.

Credit risk with investments is best measured by the credit rating of issuers or securities. However, with equity securities the credit rating is not an adequate indicator of credit risk. This is why with equity securities, credit risk is monitored by reference to performance indicators of issuers. Below we show credit risk for debt securities and deposits where credit rating is directly related to credit risk.

Debt securities and deposits by issuer credit rating

(EUR)	31. 12. 2011		31. 12. 2010	
Rated by S&P/Moody's	Amount	As % of total	Amount	As % of total
Aaa/AAA	8,755,953	3.0%	3,138,780	1.1%
Aa/AA	78,993,591	26.9%	47,096,331	16.9%
A/A	33,384,548	11.4%	50,623,193	18.1%
Baa/BBB	19,141,043	6.5%	42,750,309	15.3%
Less than Baa/BBB	48,926,185	16.6%	27,429,549	9.8%
Not rated	104,711,641	35.6%	108,132,577	38.7%
Total	293,912,961	100.0%	279,170,739	100.0%

At 31 December 2011, 41.2% of the Group portfolio of debt securities and deposits were rated equal or better than Sava Reinsurance Company (A– by S&P) (31 December 2010: 36.1%). Bonds and deposits rated A or better represented 38.3% of Sava Reinsurance Company’s market risk sensitive investment portfolio (31 December 2010: 31.8%).

The table below shows exposure to Portugal, Ireland, Italy, Greece and Spain.

(EUR)	31. 12. 2011		31. 12. 2010	
Government bonds				
Greece	878,453	0.3%	3,504,760	1.1%
Ireland	462,670	0.1%	442,495	0.1%
Italy	538,214	0.2%	2,162,650	0.7%
Corporate bonds				
Spain	1,339,447	0.4%	0	0.0%
Italy	1,022,723	0.3%	985,607	0.3%
Total	4,241,507	1.3%	7,095,511	2.2%

As is evident from the details above, credit risk in relation to the mentioned countries has decreased compared to 2010.

The Group is also exposed to credit risk in relation to its retrocession programme. As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company, 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.

At 31 December 2011, the Group's total credit exposure associated with reinsurers was EUR 26.4m (31 December 2010: EUR 25.8m); of this, the reinsurers' share of technical provisions was EUR 21.6m (31 December 2010: EUR 19.7m), and reinsurers' share of claims was EUR 4.8m (31 December 2010: EUR 6.1m). At 31 December 2011 the total credit risk exposure of the Group arising from reinsurers represented 4.5% of total assets (31 December 2010: 4.5%).

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 2011 and 2010, reinsurers rated A– or better 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 2010.

Below is an aging analysis of receivables, including the above-mentioned receivables for reinsurers' shares of claims.

Aging analysis of receivables

(EUR) 31. 12. 2011	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables due from policyholders	13,643,530	6,523,248	3,989,632	24,156,410
Receivables from insurance brokers	1,724,107	11	0	1,724,118
Other receivables arising out of primary insurance business	268,823	68,622	124,634	462,079
Receivables for premiums arising out of assumed reinsurance and co-insurance	39,326,155	6,305,598	1,960,185	47,591,938
Receivables for reinsurers’ shares in claims	3,432,375	174,893	832,047	4,439,315
Other short-term receivables arising out of insurance business	447,254	220,414	0	667,668
Short-term receivables arising out of investments	204,595	300,653	133,382	638,630
Current tax assets	95,533	56,816	143,289	295,638
Other receivables	8,450,252	1,937,851	430,363	10,818,466
Total	67,592,624	15,588,106	7,613,532	90,794,262

(EUR) 31. 12. 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

The Group tested receivables for impairment. Where receivables needed to be impaired, allowances were made accordingly. Receivables are discussed in greater detail in section 24.8 under note 9.

24.7.6 Operational risk

Operational risk includes human capital risk, management control risk, system risk, process risk and 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 risks.

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 in 2011 about the same as in 2010.

24.7.7 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 domiciled in the European Union, are monitoring the preparations of regulations relating to Solvency II, preparing themselves for the changes and taking part in quantitative impact studies (QIS5 in 2010).

24.8 Notes to the consolidated 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. 1. 2011	4,030,766	21,297,366	15,635	25,343,766
Additions	1,217,291	0	5,112	1,222,404
Disposals	-183,994	0	0	-183,994
Impairments	0	-5,156,441	0	-5,156,441
Foreign exchange differences	-19,053	-72,931	38	-91,945
31. 12. 2011	5,045,011	16,067,994	20,785	21,133,790
Accumulated amortisation				
1. 1. 2011	2,053,920	0	0	2,053,920
Additions	844,511	0	0	844,511
Disposals	-22,657	0	0	-22,657
Foreign exchange differences	-16,802	0	0	-16,802
31. 12. 2011	2,858,971	0	0	2,858,972
Carrying amount at 1. 1. 2011	1,976,846	21,297,366	15,635	23,289,847
Carrying amount at 31. 12. 2011	2,186,041	16,067,994	20,785	18,274,819

(EUR)	Software	Goodwill	Other intangible assets	Total
Cost				
1. 1. 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. 12. 2010	4,030,766	21,297,366	15,635	25,343,766
Accumulated amortisation				
1. 1. 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. 12. 2010	2,053,920	0	0	2,053,920
Carrying amount at 1. 1. 2010	2,126,838	21,683,758	35,938	23,846,535
Carrying amount at 31. 12. 2010	1,976,846	21,297,366	15,635	23,289,847

Movements in Goodwill

Goodwill relates to the acquisition of the following companies: Sava osiguranje, Illyria, Sava osiguruvanje, Sava Montenegro, Velebit usluge (or indirectly Velebit osiguranje and Velebit životno osiguranje). As at year-end 2011, goodwill totalled EUR 16.1m.

Movements in goodwill in 2011

(EUR)	
Transferred amount at 31 December 2010 total	21,297,366
Sava osiguranje	5,047,588
Illyria	4,991,887
Sava osiguruvanje	2,633,983
Bro-Dil	24,266
Sava Montenegro	3,648,534
Velebit usluge	4,941,108
Disposals in current year	
Impairment loss – Sava osiguruvanje	-2,549,076
Impairment loss – Velebit usluge	-2,607,365
Transferred amount at 31 Dec 2011	16,140,925

Compared to a year ago, goodwill decreased by EUR 5.2m due to impairment of goodwill belonging to the companies Sava osiguruvanje (Skopje) and Velebit osiguranje (Zagreb). The impairment of goodwill in Sava osiguruvanje was impacted by the fair value revaluation of their headquarter premises. This affected the income statement and resulted in a renewed need for capital. The value of goodwill in Velebit osiguranje was weakened because financial expenses were larger than planned and were incurred due to the bankruptcy of a Croatian bank where the company held a substantial deposit. The effect of this impairment loss impacted the business result, resulting in a larger need for additional capital. In addition, the company did not achieve target premium growth due to difficult circumstances in the Croatian market.

Movements in goodwill in 2010

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

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 indicated that impairment losses needed to be recognised in Velebit osiguranje (EUR 2.6m) and Sava osiguruvanje (EUR 2.5m).

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

Discounted cash flow projections were based on the Group's business plan covering a 10-year period (Sava Re Group Strategic Business Plan 2012–2016 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 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.

Goodwill relates primarily to the non-life operating segment, but to a lesser extent also the life insurance segment.

Discount rates for 2011 range from 13 to 16.5% and have not changed significantly from 2010.

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. 1. 2011	3,829,199	21,820,197	9,034,286	510,193	35,193,876
Additions	152,542	1,217,924	1,067,124	24,443	2,462,033
Disposals	-102,634	-1,047,523	-733,963	-96,030	-1,980,150
Impairment losses	-99,480	-627,867	0	0	-727,347
Foreign exchange differences	-13,462	46,532	18,539	11,105	62,714
31. 12. 2011	3,766,165	21,409,263	9,385,986	449,711	35,011,125
Accumulated depreciation					
1. 1. 2011	0	3,494,263	4,904,807	83,207	8,482,277
Additions	0	292,944	1,100,032	52,152	1,445,128
Disposals	0	-322,810	-482,619	-9,454	-814,883
Impairment losses	0	1,356,012	0	0	1,356,012
Foreign exchange differences	0	28,441	9,035	1,781	39,257
31. 12. 2011	0	4,848,850	5,531,255	127,686	10,507,791
Carrying amount at 1. 1. 2011	3,829,199	18,325,934	4,129,478	426,986	26,711,597
Carrying amount at 31. 12. 2011	3,766,165	16,560,414	3,854,731	322,025	24,503,335

Two Group companies recognised impairment losses on real estate after authorised valuers established that fair values were below carrying amounts.

The Group has no property or equipment secured by any lien.

(EUR)	Land	Buildings	Equipment	Other property and equipment	Total
Cost					
1. 1. 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. 12. 2010	3,829,199	21,820,197	9,034,286	510,193	35,193,876
Accumulated depreciation					
1. 1. 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. 12. 2010	0	3,494,263	4,904,807	83,207	8,482,277
Carrying amount at 1. 1. 2010	2,596,694	18,186,290	3,672,710	375,135	24,830,829
Carrying amount at 31. 12. 2010	3,829,199	18,325,934	4,129,478	426,986	26,711,597

3) Deferred tax assets and liabilities

(EUR)	31. 12. 2011	31. 12. 2010
Deferred tax assets	4,527,413	2,236,081
Deferred tax liabilities	0	-186,610
Total net deferred tax assets	4,527,413	2,049,471

(EUR)	1. 1. 2011	Recognised in the IS	Recognised in the SFP	31. 12. 2011
Long-term financial assets	2,062,471	552,949	2,026,440	4,641,860
Short-term operating receivables	162,394	33,067	0	195,461
Provisions for jubilee benefits and severance pay (retirement)	11,216	3,157	0	14,373
Other	-186,610	-164,608	26,937	-324,281
Total	2,049,471	424,565	2,053,377	4,527,413

The lion's share of deferred tax assets recognised in 2011 was due to impairment losses on portfolio investments.

4) Investment property

Movements in cost and accumulated depreciation of investment property

(EUR)	Land	Buildings	Total
Cost			
1. 1. 2011	436,595	4,774,094	5,210,688
Additions	173,376	920,954	1,094,330
Disposals	0	-115,011	-115,011
Foreign exchange differences	-8,502	118,983	110,481
31. 12. 2011	601,469	5,699,020	6,300,488
Accumulated depreciation			
1. 1. 2011	0	303,770	303,770
Additions	0	8,008	8,008
Disposals	0	0	0
Impairment	0	-83,994	-83,994
Foreign exchange differences	0	1,258	1,258
31. 12. 2011	0	229,042	229,042
Carrying amount at 1. 1. 2011	436,595	4,470,323	4,906,918
Carrying amount at 31. 12. 2011	601,469	5,469,978	6,071,447

(EUR)	Land	Buildings	Total
Cost			
1. 1. 2010	136,048	6,015,041	6,151,089
Additions	302,362	50,000	352,362
Disposals	0	-858,135	-858,135
Increase in value	0	0	0
Foreign exchange differences	-1,816	-432,811	-434,627
31. 12. 2010	436,595	4,774,094	5,210,688
Accumulated depreciation			
1. 1. 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. 12. 2010	0	303,770	303,770
Carrying amount at 1. 1. 2010	136,048	5,637,516	5,773,564
Carrying amount at 31. 12. 2010	436,595	4,470,323	4,906,918

The Group realised income of EUR 72,480 (2010: EUR 119,745) by leasing out its investment property in 2011. Maintenance costs associated with investment property are either included in the rent or charged to the lessee.

5) Financial investments in associates

Financial investments in shares of associates

(EUR)	1. 1. 2011		31. 12. 2011		
	As % of total	Value	As % of total	Value	Share of voting rights (%)
Zavarovalnica Maribor	45.79%	40,738,420	48.68%	47,458,106	48.68%
Moja naložba	25.00%	1,583,945	25.00%	1,626,901	25.00%
Total		42,322,365		49,085,007	

Data on associates

(EUR)	31. 12. 2011	31. 12. 2010
Zavarovalnica Maribor		
Value of assets	760,989,148	734,042,192
Liabilities	673,449,535	656,174,733
Equity	87,539,613	77,867,459
Income	248,712,324	247,143,634
Net profit/loss for the year	10,557,075	10,595,331
Profit/loss attributable to the Group	5,139,184	4,851,179

(EUR)	31. 12. 2011	31. 12. 2010
Moja naložba		
Value of assets	135,038,073	125,484,976
Liabilities	6,430,994	119,225,805
Equity	128,607,079	6,259,171
Income	2,818,149	2,356,162
Net profit/loss for the year	410,318	816,489
Profit/loss attributable to the Group	102,579	204,122
Pension fund contributions	62,785	59,527

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 effective at 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. Based on the forward price, the probability of realising this option equals nil and consequently the value of the option is close to nil, which is why it is valued at nil.

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 2011

(EUR)	Held-to-maturity		At fair value through P/L				
			Non-derivative				
31. 12. 2011	Carrying amount	Fair value	Held for trading	Designated as at fair value through P/L	Available-for-sale	Loans and receivables	Total
Long-term financial assets							
Equity and other variable income securities and mutual funds	0	0	0	0	7,453,482	0	7,453,482
Debt securities and other fixed income securities	13,481,584	12,639,258	1,780,764	0	116,971,151	0	132,233,499
Shares in investment funds	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0
Other financial investments	0	0	3,469	0	289,642	0	293,111
Other loans granted	0	0	0	0	0	215,587	215,587
Deposits	524,225	0	0	0	0	7,127,698	7,651,923
Short-term financial investments							
Held-for-trading shares and interests	0	0	2,290,727	0	11,804,314	3,469	14,098,510
Held-for-trading securities or securities with a remaining maturity of less than one year	373,130	375,532	642,807	0	59,446,061	0	60,461,998
Short-term loans granted	0	0	0	0		927,609	927,609
Bank deposits	1,041,575	0	0	0	2,048,289	90,186,034	93,275,898
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	8,576,746	8,576,746
Total	15,420,514	13,014,790	4,717,767	0	198,012,939	107,037,143	325,188,363
Funds for the benefit of policyholders who bear the investment risk	0	0	52	23,253,666	0	885,239	24,138,957

Hierarchical classification of financial investments according to IFRS 7.27

(EUR)	At fair value through P/L		Available-for-sale			
	Non-derivative					
31. 12. 2011	Level 1	Total	Level 1	Level 2	Level 3	Total
Long-term financial assets						
Equity and other variable income securities and mutual funds	2,260,203	2,260,203	484,988	684,780	6,043,462	7,213,230
Debt securities and other fixed income securities	1,550,753	1,550,753	117,731,223	0	3,500,338	121,231,561
Shares in investment funds		0		0	0	0
Other financial investments	3,469	3,469	289,642	0	0	289,642
Short-term financial investments						
Held-for-trading shares and interests	559,388	559,388	9,982,039	0	0	9,982,039
Held-for-trading securities or securities with a remaining maturity of less than one year	344,006	344,006	57,248,177	0	2,048,289	59,296,466
Total	4,717,819	4,717,819	185,736,069	684,780	11,592,089	198,012,938
Investments for the benefit of life-insurance policyholders who bear the investment risk	23,253,666	23,253,666	0	0	0	0

Change in available for sale investments – level 3

(EUR)	Available-for-sale – level 3							
31. 12. 2011	Opening balance	Acquisitions	Sales	Maturity	Impairment losses	Revaluation	Foreign exchange differences	Balance at 31.12.
Long-term financial assets								
Equity and other variable income securities and mutual funds	6,744,898	50,000	0	0	-749,139	0	-2,297	6,043,462
Debt securities and other fixed income securities	2,355,522	3,000,000	-1,855,522	0	0	338	0	3,500,338
Short-term financial investments								
Held-for-trading securities or securities with a remaining maturity of less than one year	3,318,560	2,048,289	-434,771	-2,883,789	0	0	0	2,048,289
Total	12,418,980	5,098,289	-2,290,293	-2,883,789	-749,139	338	-2,297	11,592,089

Financial investments in 2010

(EUR)	Held-to-maturity		At fair value through P/L				
			Non-derivative				
31. 12. 2010	Carrying amount	Fair value	Held for trading	Designated as at fair value through P/L	Available-for-sale	Loans and receivables	Total
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 securities 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 under note 7 below.

Hierarchical classification of financial investments according to IFRS 7.27

(EUR) 31. 12. 2010	At fair value through P/L Non-derivative		Available-for-sale			
	Level 1	Total	Level 1	Level 2	Level 3	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 securities 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

In 2011 there were no reclassifications of investments from level 1 to level 3.

Change in available for sale investments – level 3

(EUR) 31. 12. 2010	Available-for-sale – level 3						
	Opening balance	Acquisitions	Sales	Maturity	Impairment losses	Revaluation	Balance at 31.12.
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 securities 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

Pursuant to reinsurance contracts, part of reinsurance premiums are retained by some reinsurers as interest-earning deposits 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.

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

Financial investments in subordinated debt instruments

(EUR)	31.12.2011	31.12.2010
Total	16,979,980	19,560,391

Financial investments in subordinated debt instruments totalled EUR 16.9m (2010: EUR 19.6m). The percentage share of these investments increased from 2010 and accounted for 5.2% of the Group's total investments at year-end 2011 (2010: 6.0%).

The Group pledged securities in the total amount of EUR 514,057.

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. 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. Unit-linked life business realised EUR 5.4m of financial expenses from revaluation in 2011 (2010: EUR 1.7m), while financial income from revaluation increased by EUR 2.7m (2010: 3.7m) due to related investments.

8) Reinsurers' share of technical provisions

(EUR)	31. 12. 2011	31. 12. 2010
Reinsurers' share of unearned premiums	4,588,135	3,245,993
Reinsurers' share of mathematical provisions	237	306
Reinsurers' share of provisions for claims outstanding	16,413,402	16,488,240
Reinsurers' share of other technical provisions	606,607	0
Total	21,608,381	19,734,539

The reinsurers' share of unearned premiums usually moves in line with premiums from the largest proportional retrocession treaties. 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 have been tested for impairment.

Receivables by type

(EUR)	31. 12. 2011			31. 12. 2010		
	Gross amount	Allowance	Net amount	Gross amount	Allowance	Net amount
Receivables due from policyholders	39,055,594	-14,899,185	24,156,409	40,132,430	-11,688,747	28,443,683
Receivables from insurance brokers	1,991,703	-267,585	1,724,118	1,470,831	-205,021	1,265,810
Other receivables arising out of primary insurance business	790,871	-328,792	462,079	2,632,936	-289,455	2,343,481
Receivables arising out of primary insurance business	41,838,168	-15,495,562	26,342,606	44,236,197	-12,183,223	32,052,974
Receivables for premiums arising out of reinsurance and co-insurance	48,284,545	-692,607	47,591,938	44,119,411	-327,781	43,791,630
Receivables for shares in claims	4,821,358	-35,282	4,786,076	6,202,592	-35,115	6,167,477
Other receivables from co-insurance and reinsurance	320,906		320,906	931,320	0	931,320
Receivables arising out of reinsurance and co-insurance business	53,426,809	-727,889	52,698,920	51,253,323	-362,896	50,890,427
Current tax assets	295,638	0	295,638	222,510	0	222,510
Other short-term receivables arising out of insurance business	7,149,381	-3,936,879	3,212,502	6,480,808	-3,179,887	3,300,921
Receivables arising out of investments	2,183,535	-1,544,903	638,632	2,326,744	-1,499,429	827,315
Other receivables	7,302,439	-4,223,888	3,078,551	5,707,109	-4,002,634	1,704,475
Other receivables	16,635,355	-9,705,670	6,929,685	14,514,661	-8,681,950	5,832,711
Total	112,195,970	-25,929,121	86,266,849	109,295,371	-21,228,069	88,067,302

Aging analysis of net receivables

(EUR) 2011	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables due from policyholders	13,643,530	6,523,248	3,989,632	24,156,409
Receivables from insurance brokers	1,724,107	11	0	1,724,118
Other receivables arising out of primary insurance business	268,823	68,622	124,634	462,079
Receivables for premiums arising out of assumed reinsurance and co-insurance	39,326,155	6,305,598	1,960,185	47,591,937
Receivables for reinsurers' shares in claims	3,607,605	346,424	832,047	4,786,076
Other receivables from co-insurance and reinsurance	272,024	48,883	0	320,907
Other short-term receivables arising out of insurance business	2,040,348	934,561	237,593	3,212,502
Short-term receivables arising out of investments	204,595	300,653	133,382	638,630
Current tax assets	95,533	56,816	143,289	295,638
Other receivables	1,882,491	1,003,292	192,770	3,078,553
Total	63,065,211	15,588,108	7,613,532	86,266,849

(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

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. 12. 2011	31. 12. 2010
Short-term deferred insurance acquisition costs	8,532,994	8,127,040
Short-term deferred reinsurance acquisition costs	7,405,455	9,191,801
Total	15,938,449	17,318,841

11) Other assets

(EUR)	31. 12. 2011	31. 12. 2010
Inventories	86,841	97,579
Accrued interest and rent	105,650	66,653
Other short-term accrued income and deferred expenses	1,146,498	589,752
Total	1,338,989	753,985

Other assets comprise inventories, accrued interest and rent, prepaid subscriptions and insurance of property and equipment, and other short-term accruals and deferred income.

12) Cash and cash equivalents

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

13) Non-current assets held for sale

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

In 2011, the Company decreased non-current assets held for sale by EUR 690k: the amount of EUR 588k was transferred to investment property, assets worth EUR 81k were sold, and reduced the value of non-current assets held for sale by EUR 21k.

14) Share capital

At 31 December 2011, the controlling company's share capital was divided into 9,362,519 shares (the same as at 31 December 2010). 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 2011, the controlling company still had EUR 10.1m of authorised capital available for subscription until 4 June 2013.

As at year-end 2011, the register of shareholders listed 5,067 shareholders (31 December 2010: 5,481). 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 2011.

15) Capital reserves

<u>Business combinations</u>

At the beginning of 2010, the controlling company became sole owner of the Kosovan insurers Illyria (non-life insurer) and Illyria Life (life insurer). In Illyria it acquired an additional 49% share and in Illyria Life an additional share of 45.68%. 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 Sava Re Group statement of financial position at 31 December 2009, being the statement date closest to the acquisition, totalled 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 capital reserves of EUR 6.6m.

The purchase price for the 45.68-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 in the Sava Re Group statement of financial position at 31 December 2009, being the statement date closest to the acquisition, totalled 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 capital reserves of EUR 0.78m.

At the end of 2010, the two insurers Dukagjini and Dukagjini Life were renamed to Illyria and Illyria Life, respectively.

In 2010, the controlling company increased its equity interest in the insurer Velebit through a capital increase 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, totalled EUR 106,293 (the amount of the non-controlling interest that was the object of the acquisition).
The above resulted in a decrease in capital reserves by EUR 7.6m (from EUR 33.0m to EUR 25.4m).

16) Profit reserves

(EUR)	31. 12. 2011	31. 12. 2010	Distributable / non-distributable
Legal reserves and reserves provided for in the articles of association	16,673,828	16,660,613	non-distributable
Reserve for treasury shares	1,774	1,774	non-distributable
Credit risk equalisation reserve	745,290	1,261,187	non-distributable
Catastrophe equalisation reserve	7,996,935	6,576,060	non-distributable
Other profit reserves	64,825,254	60,862,385	distributable
Total	90,243,081	85,362,019	

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).

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 2011 would be smaller by EUR 365k (2010: larger by EUR 2.4m).

The credit risk equalisation reserve was decreased from EUR 1.3m at the end of 2010 to EUR 0.7m at the end of 2010; the catastrophe equalisation reserve (earthquake) grew from EUR 6.6m to EUR 8.0m in 2011 owing to the positive result of earthquake business.

Other profit reserves grew based on profit allocation by the Management Board.

17) Treasury shares

In the years 2010 and 2011, the Group did not make any transactions with treasury shares. As at 31 December 2011, it held 210 treasury shares.

The treasury shares account is a contra-equity account.

18) Fair value reserve

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

(EUR)	2011	2010
As at 1 January	-121,460	543,937
Change in fair value	-11,692,710	1,395,310
Transfer from fair value reserve to the IS due to impairment	-4,386,288	-4,976,267
Transfer from fair value reserve to the IS due to disposal	5,390,720	2,915,560
Total fair value reserve	-10,809,738	-121,460

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 for the financial year 2011 totalled EUR 6m. Of this, the Management Board allocated EUR 4m to other profit reserves; EUR 0.5m was released from the credit risk equalisation reserve, and EUR 1.4m added to the catastrophe equalisation reserve, reducing net profit for the year by EUR 0.9m. The remaining EUR 1.1m is recognised as net profit for the financial year in the statement of financial position.

20) Non-controlling interest in equity

Non-controlling interest in equity

(EUR)	31. 12. 2011	31. 12. 2010
Zavarovalnica Tilia	49,394	48,695
Sava osiguranje	10	10
Sava osiguruvanje	138,690	632,342
Bro-Dil	121,921	115,767
Sava životno osiguranje	142	227
Velebit osiguranje	479,920	1,384,072
Velebit životno osiguranje	1,684,353	2,261,738
Total	2,474,430	4,442,851

<u>Note to the statement of changes in equity:</u>

In 2011 non-controlling interest decreased in Velebit osiguranje and Sava osiguruvanje as not all shareholders participated in the recapitalisation.

21) Subordinated liabilities

The controlling company raised a subordinated loan in the amount of EUR 32m based on two contracts: one for a drawdown in 2006 and one for 2007, in total 97% of the principal amount. Maturity of the loan is 20 years, with the possibility of early repayment after 10 years. The principal is due at maturity. The applicable interest rate is a 3-month Euribor + 3.35%, with interest payable on a quarterly basis. The loan is carried at amortised cost.

Subordinated liabilities

Outstanding debt at effective interest rate as at 31 December 2011	31.220.817
Debt currency	EUR
Maturity date	27. 12. 2026
Conversion into shareholders' equity applicable	not available
Conversion into other liabilities applicable	not available

Outstanding debt at effective interest rate as at 31 December 2010	31.177.758
Debt currency	EUR
Maturity date	27. 12. 2026
Conversion into shareholders' equity applicable	not available
Conversion into other liabilities applicable	not available

In 2010, the Company paid EUR 1.5m in interest on the subordinated debt (2010: EUR 1.4m), and EUR 79,410 in taxes on the subordinated debt, net of interest paid (2010: EUR 69,845).

22) 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 1 January 2011	At 1 January 2011 prior to elimination	Additions	Uses and releases	Foreign currency differences	At 31 December 2011 prior to elimination	Consolidated 31 December 2011
	1	2	3	4	5	6 = 2+3+4+5	7
Gross unearned premiums	87,101,437	94,703,031	72,540,942	-72,355,301	43,191	94,931,863	87,330,269
Mathematical provision	15,228,730	15,228,731	3,188,195	-1,874,075	-39,162	16,503,689	16,503,688
Gross provision for claims	197,489,172	212,890,933	92,890,929	-76,640,738	91,511	229,232,635	213,830,875
Gross provision for bonuses, rebates and cancellations	544,113	685,094	752,005	-685,094	-408	751,597	610,616
Other gross technical provisions	2,923,797	2,923,797	2,555,811	-2,881,006	1,092	2,599,694	2,599,694
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	23,626,363	23,626,363	2,475,629	-2,428,568	-1	23,673,423	23,673,423
Total	326,913,612	350,057,949	174,403,511	-156,864,782	96,223	367,692,901	344,548,565

(EUR)	Consolidated 1 January 2010	At 1 January 2010 prior to elimination	Additions	Uses and releases	Foreign currency differences	At 31 December 2010 prior to elimination	Consolidated 31 December 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 provision	13,363,462	13,363,462	3,127,014	1,229,701	-32,044	15,228,731	15,228,730
Gross provision for 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

<u>Movements in technical provisions</u>

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 238,373, which is the adjustment on the Group level relating to established deficits in subsidiaries. Releases 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 in 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.

The tables below give a summary of the calculation of the gross provision for unexpired risks by class of insurance for 2011 and 2010.

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

(EUR) 2011	Primary insurance	Reinsurance business	
	Provision for unexpired risks	Expected combined ratio	Provision for unexpired risks
Personal accident	0	67.1%	0
Health	0	133.3%	1,017
Land vehicles casco	442,178	93.7%	0
Aircraft hull	0	83.3%	0
Ships hull	3,457	111.5%	51,698
Goods in transit	0	79.5%	0
Fire and natural forces	0	87.8%	0
Other damage to property	223,983	89.7%	0
Motor liability	0	75.2%	0
Aircraft liability	0	74.9%	0
Liability for ships	490	82.4%	0
General liability	0	98.3%	0
Credit	1,454,147	125.3%	296,092
Suretyship	91,080	165.7%	35,550
Miscellaneous financial loss	0	50.8%	0
Legal expenses	0	6.0%	0
Assistance	0	78.6%	0
Life business	0	42.7%	0
Unit-linked life	0	40.3%	0
Total	2,215,337	86.4%	384,357

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

(EUR) 2010	Primary insurance	Reinsurance business	
	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

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) 2011	Reported but not settled provision (RBNS)	Incurred but not reported provision (IBNR)	Provision for outstanding claims	IBNR as % of total claims provisions
Consolidated	116,768,755	97,062,120	213,830,875	45.4%
Total prior to elimination	130,720,798	97,062,120	227,782,918	42.6%
Total primary insurers	41,815,898	43,572,967	85,388,865	51.0%
Total reinsurers	88,904,900	53,489,153	142,394,053	37.6%

(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%

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

23) Other provisions

Other provisions comprise mainly provisions for long-term employee benefits. Assumptions for these provisions are given in section 24.4.27 "Other provisions".

Movements in other provisions

(v EUR)	1. 1. 2011	Additions	Uses	Releases	Currency ex. differences	31. 12. 2011
Provision for severance pay upon retirement	585,506	56,180	-14,068	-57,813	3,127	572,932
Provision for jubilee benefits	182,496	36,976	-10,108	-7,199	-691	201,474
Total provisions for employees	**768,002**	**93,156**	**-24,176**	**-65,012**	**2,436**	**774,406**
Other long-term deferred income	**852**	**21,200**	**-852**	**0**	**0**	**21,200**

(EUR)	1. 1. 2010	Additions	Uses	Releases	Currency ex. differences	31. 12. 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**

24) Other financial liabilities

Other financial liabilities comprise liabilities for loans taken up by subsidiaries.

25) Liabilities from operating activities

Liabilities from operating activities

(EUR) 2011	Maturity		
	1–5 years	Up to 1 year	Total
Liabilities to policyholders	0	803,993	803,993
Liabilities to insurance intermediaries	0	71,766	71,766
Liabilities from primary insurance business	20,195	501,450	521,645
Liabilities from primary insurance business	20,195	1,377,209	1,397,404
Liabilities for reinsurance and co-insurance premiums	0	2,772,786	2,772,786
Liabilities for shares in reinsurance claims	0	22,399,070	22,399,070
Other liabilities from co-insurance and reinsurance	0	12,449,325	12,449,325
Liabilities from reinsurance and co-insurance business	0	37,621,182	37,621,182
Current tax liabilities		2,467,439	2,467,439
Total	20,195	41,465,830	41,486,025

(EUR) 2010	Maturity	
	Up to 1 year	Total
Liabilities to policyholders	3,072,553	3,072,553
Liabilities to insurance intermediaries	74,294	74,294
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
Other liabilities from co-insurance and reinsurance	12,338,642	12,338,642
Liabilities from reinsurance and co-insurance business	38,852,761	38,852,761
Current tax liabilities	2,745,525	2,745,525
Total	33,716,371	33,716,371

In 2011, most liabilities were short-term.

26) Other liabilities

Other liabilities

(EUR) 2011	Secured liabilities	Maturity		
		Over 1 year	Up to 1 year	Total
Other liabilities	1,148,829	776,850	6,143,422	6,920,272
Short-term provisions (deferred income and accrued expenses)	0	0	3,203,618	3,203,618
Total	1,148,829	776,850	9,347,040	10,123,890

(EUR) 2010	Secured liabilities	Maturity		
		Over 1 year	Up to 1 year	Total
Other short-term liabilities	266,218	1,208,491	11,727,882	12,936,373
Short-term provisions (deferred income and accrued expenses)	0	0	2,995,482	2,995,482
Total	266,218	1,208,491	14,723,364	15,931,854

Change in short-term provisions

(EUR)	1. 1. 2011	Additions	Uses	Released	Foreign exchange differences	31. 12. 2011
Short-term accrued costs	1,124,650	1,378,693	-853,398	0	-9,663	1,640,282
Other accrued expenses and deferred income	1,870,832	5,917,768	-5,997,790	-261,683	34,209	1,563,336
Total	2,995,482	7,296,461	-6,851,188	-261,683	24,546	3,203,618

(EUR)	1. 1. 2010	Additions	Uses	Released	Foreign exchange differences	31. 12. 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

24.9 Notes to the consolidated financial statements – income statement

27) Net earned premiums

Net earned premiums

(EUR) 2011	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	18,318,946	8,187	-143,403	197,413	-235	18,380,908
Health	6,262,412	0	0	90,219	0	6,352,631
Land vehicles casco	42,079,922	10,766	-3,412,618	-705,472	-166,195	37,806,403
Aircraft hull	359,487	0	89	75,207		434,783
Ships hull	2,420,345	1,493	-120,918	-115,581	57,092	2,242,431
Goods in transit	3,797,802	8,499	-238,329	-398,016	55,968	3,225,924
Fire and natural forces	57,887,135	196,734	-10,230,181	-521,707	1,056,719	48,388,700
Other damage to property	30,923,453	104,809	-6,594,868	-300,477	179,104	24,312,021
Motor liability	69,510,408	17,638	-1,352,095	1,857,952	-197,945	69,835,958
Aircraft liability	44,400	0	-50,523	-1,423	1,197	-6,349
Liability for ships	351,175	0	-5,749	-3,427	55	342,054
General liability	7,773,095	107,759	-1,032,682	-757,032	23,019	6,114,159
Credit	1,170,007	0	-11	640,676	0	1,810,672
Suretyship	414,515	0	-433	882	0	414,964
Miscellaneous financial loss	961,969	0	-399,845	22,772	138,235	723,132
Legal expenses	235,548	6,610	-129,647	38,278	4,746	155,535
Assistance	2,092,993	0	-355,353	-71,343	52,393	1,718,690
Life business	5,207,093	0	-219,780	-149,203	56,728	4,894,838
Unit-linked life	8,141,996	0	-119,787	-94,447	63,989	7,991,751
Total non-life	244,603,612	462,495	-24,066,566	48,924	1,204,156	222,252,620
Total life	13,349,089	0	-339,567	-243,650	120,718	12,886,589
Total	257,952,700	462,494	-24,406,133	-194,726	1,324,874	235,139,209

(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

In 2011, gross premiums written dropped by 0.3% compared to 2010, while reinsurers' and co-insurers' share of premiums written decreased by 3.5%. Unearned premiums increased by EUR 1.1m in 2011 (2010: decrease of EUR 1.9m).

28) Income from investments in associates

In 2011, the Group accounted participation in the profits of its associates using the equity method.

(EUR)	2011	2010
Profit/loss of associated companies	998,142	5,055,301
Dividend of associates	4,243,621	0
Total	5,241,763	5,055,301

The Group obtained dividends of associate companies of EUR 4,243,621.

29) Investment income and expenses

Investment income, expenses and net investment income by IFRS categories

Investment income by IFRS categories

(EUR)		At fair value through P/L							
		Non-derivative							
2011	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Dividend income	0	15,833	2,107	0	209,942	0	0	0	227,882
Interest income	760,132	559,434	0	0	6,440,093	4,952,358	0	0	12,712,017
Change in fair value	4,731	67,878	113,249	0	249,751	245,588	0	0	681,197
Other financial income	20,327	19,825	0	0	63,703	9,298	33,868	0	147,021
Gains on disposal of investments	0	94,628	2,354,529	0	1,563,250	0	0	0	4,012,407
Total	785,190	757,598	2,469,885	0	8,526,739	5,207,244	33,868	0	17,780,524

Investment expenses by IFRS categories

(EUR)		At fair value through P/L							
		Non-derivative							
2011	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Interest expenses	0	0	0	0	0	438,052	0	1,631,321	2,069,373
Other financial expenses	12,240	3,381	0	0	46,453	36,800	9,208	0	108,082
Impairment of financial assets and liabilities	1,176,839	241,166	0	0	3,270,390	309,179	0	0	4,997,574
Losses on disposal of investments	0	21,285	5,533,346	0	1,435,096	0	0	0	6,989,727
Total	1,189,079	265,832	5,533,346	0	4,751,939	784,031	9,208	1,631,321	14,164,756

Net investment income by IFRS categories

(EUR)		At fair value through P/L							
		Non-derivative							
2011	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Dividend income	0	15,833	2,107	0	209,942	0	0	0	227,882
Interest income/expense	760,132	559,434	0	0	6,440,093	4,514,306	0	-1,631,321	10,642,644
Change in fair value	-1,172,108	-173,288	113,249	0	-3,020,639	-63,591	0	0	-4,316,377
Other financial income/expenses	8,087	16,444	0	0	17,250	-27,502	24,660	0	38,939
Gains/losses on disposal of investments	0	73,343	-3,178,817	0	128,154	0	0	0	-2,977,320
Total	-403,889	491,766	-3,063,461	0	3,774,800	4,423,213	24,660	-1,631,321	3,615,768

Investment income by IFRS categories

(EUR)		At fair value through P/L							
		Non-derivative							
2010	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Dividend income	0	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)		At fair value through P/L							
		Non-derivative							
2010	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Interest expenses	0	0	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 liabilitie	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

Net investment income by IFRS categories

(EUR)		At fair value through P/L							
		Non-derivative							
2010	Held-to-maturity	Held for trading	Designated as at fair value through P/L	Derivatives	Available-for-sale	Loans and receivables	Other	Subordinated liabilities	Total
Dividend income	0	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

In 2011, investment income from impaired investments totalled EUR 123,854m (2010: EUR 169,259m).

Income from level 3 investments totalled EUR 186,177 in 2011 (2010: EUR 21,926), while expenses amounted to EUR 696,662 (2010: EUR 2,344,325).

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 life insurance liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions; and the life insurance liability fund, which is part of the liability fund, comprises assets supporting mathematical provisions.

Investment income – non-life business

(EUR)	Liability fund 2011	Liability fund 2010
Income from shares	92,886	76,968
Interest income	9,643,574	8,331,343
Change in fair value	480,608	726,865
Other financial income	41,531	216,498
Gains on disposal of investments	1,083,927	1,668,485
Total investment income – liability fund	11,342,526	11,020,159
	Capital fund 2011	Capital fund 2010
Income from shares	118,189	107,554
Interest income	1,989,876	2,110,410
Other financial income	22,804	160,330
Gains on disposal of investments	573,233	1,386,510
Total investment income – capital fund	2,704,102	3,764,804
Total investment income	14,046,628	14,784,964

Investment income – life business

(EUR)	Liability fund – life 2011	Liability fund – life 2010
Income from shares	14,700	1,819
Interest income	1,027,330	1,021,148
Change in fair value	19,111	30,989
Other financial income	82,686	114,099
Gains on disposal of investments	718	16,688
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	2,469,885	3,678,265
Total investment income – life insurance liability fund	3,614,430	4,863,008
	Capital fund 2011	Capital fund 2010
Interest income	51,238	80,502
Change in fair value	68,228	0
Other financial income	0	166,886
Total investment income – capital fund	119,466	247,387
Total investment income	3,733,896	5,110,395

Total investment income (life & non-life)	17,780,524	19,895,359

Expenses for financial assets and liabilities – non-life business

(EUR)	Liability fund	Liability fund
	2011	2010
Interest expenses	0	31,665
Asset management expenses and other financial expenses	265,669	165,851
Impairment of financial assets and liabilities	2,446,379	2,395,709
Losses on disposal of investments	780,261	750,430
Total investment expenses – liability fund	3,492,309	3,343,655
	Capital fund	Capital fund
	2011	2010
Interest expenses	1,760,693	1,700,353
Asset management expenses and other financial expenses	95,597	38,557
Impairment of financial assets and liabilities	2,065,035	3,018,218
Losses on disposal of investments	662,805	111,621
Total investment expenses – capital fund	4,584,130	4,868,749
Total investment expenses	8,076,439	8,212,403

Expenses from financial assets and liabilities – life business

(EUR)	Liability fund – life	Liability fund – life
	2011	2010
Interest expenses	47,812	25,251
Asset management expenses and other financial expenses	7,865	29,876
Impairment of financial assets and liabilities	404,688	142,635
Losses on disposal of investments	13,315	88,904
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	5,533,346	1,706,353
Total investment expenses – life insurance liability fund	6,007,026	1,993,020
	Capital fund	Capital fund
	2011	2010
Asset management expenses and other financial expenses	0	30,070
Impairment of financial assets and liabilities	81,291	0
Total investment expenses – capital fund	81,291	30,070
Total investment expenses	6,088,317	2,023,090

Total investment expenses (life & non-life)	14,164,756	10,235,493

Net investment income from non-life and life business

(EUR)	2011	2010
Non-life business	5,970,189	6,572,561
Life business	-2,354,421	3,087,305
Total	3,615,768	9,659,866

Impairment of investments

(EUR)	31. 12. 2011	31. 12. 2010
Bonds	1,173,032	1,994,396
Shares	2,216,755	2,960,538
Mutual funds	227,565	21,333
Loans	768,936	0
Total	4,386,288	4,976,267

Expenses for investments in affiliates comprise impairment losses on investments in subsidiaries.

30) Other technical income

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

(EUR)	2011	2010
Personal accident	29,368	26,408
Land vehicles casco	117,092	241,076
Aircraft hull	-18	1,988
Ships hull	3,829	10,936
Goods in transit	8,620	17,994
Fire and natural forces	1,437,947	1,329,299
Other damage to property	869,137	613,853
Motor liability	75,727	133,595
Aircraft liability	5,166	5,365
Liability for ships	0	-1
General liability	83,410	40,854
Miscellaneous financial loss	31,807	14,837
Legal expenses	30,075	-
Life business	40,258	39,385
Unit-linked life	11,475	4,172
Total non-life	2,692,160	2,436,204
Total life	51,733	43,557
Total	2,743,893	2,479,762

Other technical income

(EUR)	2011	2010
Other income from insurance (foreign exchange differences, other services, etc.)	2,792,299	3,335,346
Income from other insurance business	889,614	816,448
Total	3,681,913	4,151,794

31) Net claims incurred

Net claims incurred

(EUR)	Gross amount						
2011	Claims	Recourse receivables	Reinsurers' share (-)	Coinsurers' share of claims (-)	Change in gross claims provision (+/-)	Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	Net claims incurred
Personal accident	8,491,383	-623	-16,509	13,415	349,099	5,046	8,841,811
Health	4,114,041	0	0	0	444,616	0	4,558,657
Land vehicles casco	28,832,758	-1,147,875	-1,116,541	-149,385	-278,441	675,026	26,815,542
Aircraft hull	94,596	0	74	0	363,722	11,577	469,969
Ships hull	910,372	0	-401	0	859,694	-5,741	1,763,924
Goods in transit	1,392,720	-25,631	-1,934	8,504	666,341	67,949	2,107,949
Fire and natural forces	26,119,912	-44,848	-3,690,039	-38,503	8,301,017	-144,913	30,502,626
Other damage to property	16,978,185	-895,154	-2,392,532	-57,727	-1,474,914	922,315	13,080,173
Motor liability	35,864,505	-1,383,052	-979,684	-3,744	3,620,411	-847,521	36,270,915
Aircraft liability	47,685	0	-14,405	0	-13,119	5,498	25,659
Liability for ships	36,330	0	0	0	46,916	-2,235	81,011
General liability	2,737,218	-79,073	-26,297	-3,982	3,164,167	-559,102	5,232,931
Credit	3,470,926	-2,686,023	0	0	228,851	0	1,013,754
Suretyship	315,551	-9,092	0	0	2,137	0	308,596
Miscellaneous financial loss	356,138	-2,461	4,959	-1,838	-189,134	-11,868	155,796
Legal expenses	0	0	0	248	-3	0	245
Assistance	322,337	0	0	0	104,071	-13,281	413,127
Life business	1,987,956	0	-61,531	0	-2,438	0	1,923,987
Unit-linked life	2,578,058	0	-41,522	0	64,956	0	2,601,492
Total non-life	130,084,657	-6,273,832	-8,233,309	-233,011	16,195,431	102,750	131,642,685
Total life	4,566,014	0	-103,053	0	62,518	0	4,525,479
Total	134,650,671	-6,273,832	-8,336,362	-233,011	16,257,949	102,750	136,168,164

(EUR)	Gross amount						
2010	Claims	Recourse receivables	Reinsurers' share (-)	Coinsurers' share of claims (-)	Change in gross claims provision (+/-)	Change in the provision for outstanding claims for the reinsurance and co-insurance part (+/-)	Net claims incurred
Personal accident	7,528,614	-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

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 2011 this resulted in an increase of EUR 16.4m.

Gross claims paid increased by 2.2% from 2011, while the reinsurers' share of claims dropped by as much as 35.4% compared to 2010. Movements in the claims provision decreased by 25.6%; this also affected net claims incurred.

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

Other technical provisions

The change in other technical provisions relates to the increase in the provision for unexpired risks of EUR 0.3m, and to the decrease in the mathematical provision of EUR 1.3m. Net technical provisions comprise gross technical provisions net of the reinsurers' share of technical provisions (note 8). The change in gross technical provisions is described in note 21.

33) Operating expenses

The Group classifies operating expenses by nature. Compared to 2010, operating expenses increased by 3.0%.

Breakdown of operating expenses

(EUR)	2011	2010
Acquisition costs (commissions)	53,190,889	54,310,851
Change in deferred acquisition costs	291,125	-790,635
Depreciation of operating assets	1,912,368	1,669,272
Labour costs	18,153,357	17,499,476
Remuneration of the supervisory board and audit committee and payments under contracts for services	506,394	413,551
Other operating expenses	13,866,985	12,185,171
Total	87,921,118	85,287,686

In 2011, other operating expenses, net of acquisition costs (commissions) and change in deferred acquisition costs (commissions), represented 13.3% of gross premium written (2010: 12.2%).

The total costs relating to auditing as charged against the 2011 result were EUR 329,718 (2010: EUR 330,637). Other auditing costs totalled EUR 31,796.

34) Other technical expenses and other 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.

Other expenses mainly comprise allowances for receivables.

35) Income tax expense

Income tax expense

(EUR)	2011	2010
Current tax for the year	4,083,410	3,113,232
Adjustments for prior years		93,559
Total income tax expense	**4,083,410**	**3,206,791**
Income from deferred tax arising from a previously unrecognised tax credit	-538,317	0
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	112,474	111,256
Other	1,278	1,629
Total deferred tax	-424,565	112,885
Total income tax expense in the income statement	3,658,845	3,319,676

Reconciliation of tax rate

(EUR)	2011		2010	
	%	Amount	%	Amount
Net profit/loss for the year	-	4,066,402	-	5,520,670
Income tax expense	-	3,658,845	-	3,319,676
Profit/loss before tax	-	7,725,247	-	8,840,346
Income tax expenses at statutory tax rate	38.06%	2,940,015	32.10%	2,837,571
Non-deductible expenses	30.91%	2,388,061	17.09%	1,510,689
Tax exempt income	-15.29%	-1,181,033	-6.52%	-576,645
Tax incentives	-0.82%	-63,444	-7.96%	-704,107
Deferred tax income arising from a previously unrecognised temporary difference from previous periods	-6.97%	-538,317	1.27%	112,394
Deferred tax expense arising from the write-down of previously recognised deferred tax assets	1.46%	112,474	1.26%	111,257
Other	0.01%	1,090	0.32%	28,518
Total income tax expense in the income statement	47.36%	3,658,845	37.55%	3,319,676

24.10 Notes to the consolidated financial statements – cash flow statement

36) Notes to the cash flow statement, which was prepared using the indirect method.

The positive cash flow from operating activities in 2011 is mainly a result of a favourable claims development in the Slovenian portfolio and 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)	2011	2010
Net profit/loss for the year	**4,066,402**	**5,520,670**
Non-monetary items of the income statement not included in the cash flow statement:	**27,355,113**	**32,579,192**
Change in unearned premiums	-1,130,148	1,927,869
Change in the provision for outstanding claims	16,360,699	22,006,391
Change in other technical provisions	354,630	1,709,438
Change in technical provisions for policyholders who bear the investment risk	23,713	5,711,680
- Operating expenses – amortisation/depreciation and change in deferred acquisition cost	2,203,493	1,223,814
- Impairment losses on financial assets not measured at fair value through profit or loss	9,542,727	0
Eliminated investment income items	**-18,179,556**	**-16,893,493**
- Interest received disclosed under B. a.) 1.	-12,712,017	-11,651,851
- Cash receipts from dividends and participation in the profit of others disclosed under B. a.) 2.	-5,467,538	-5,241,642
Eliminated investment expense items	**2,069,373**	**1,757,268**
- Interest paid disclosed under C. b.) 1.	2,069,373	1,757,268
Cash flows from operating activities – income statement items	15,311,332	22,963,636

24.11 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 totalled EUR 0.6m.

24.12 Related party disclosures

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

- owners and related enterprises;
- 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 shareholder (25%), the Slovenian Restitution Fund.

Associates

Investments in and amounts due from associates

(EUR)		31. 12. 2011	31. 12. 2010
Debt securities and loans granted to associates	gross	1,512,404	1,512,612
	allowance	0	0
	net	1,512,404	1,512,612
Receivables from policyholders	gross	0	22,468
	allowance	0	0
	net	0	22,468
Receivables for premiums arising out of reinsurance assumed	gross	13,010,377	10,405,032
	allowance	0	0
	net	13,010,377	10,405,032
Total		14,522,781	11,940,112

Liabilities to associates

(EUR)	2010	2010
Liabilities for shares in reinsurance claims	10,749,608	8,876,223
Other short-term liabilities for insurance business	2,966,760	2,455,628
Total (excl. provisions)	13,716,368	11,331,851

Income from and expenses for associates

(EUR)	2011	2010
Gross premiums written	47,311,832	51,145,169
Gross claims paid	-27,328,337	-31,679,708
Acquisition costs	-9,670,183	-10,218,143
Income from realised gross recourse receivables	1,896,322	430,685
Dividend income	4,243,621	0
Interest income	113,856	113,871
Income from shares in associates	998,142	5,055,301
Additional pension insurance premium	-62,785	-59,527
Total	17,502,468	14,787,648

The controlling company transacts reinsurance business for Zavarovalnica Maribor.

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

Income from and expenses for companies that are majority state-owned

(EUR)	2011
Gross premiums written	36,271
Gross claims paid	-17,776
Dividend income	143,873
Interest income	857,220
Total	1,019,588

Investments in and receivables due from the state and companies that are majority state-owned

(EUR)	31.12.2011
Debt securities and loans granted to associates	71,892,920
Receivables from policyholders	2,415
Total	71,895,335

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)	2011	2010
Management Board	687,863	504,640
Supervisory Board	72,538	27,532
Audit Committee	20,583	12,745
Supervisory boards of subsidiaries	45,751	14,702
Payments to employees not subject to the tariff section of the Collective Agreement	4,295,723	4,225,595
Total	5,122,459	4,785,214

Remuneration paid to Management Board members in 2011

(EUR)	Gross salary – fixed amount	Gross salary – variable amount	Fringe benefits – insurance premium	Fringe benefits – use of company car	Total
Zvonko Ivanušič	169,320	13,280	6,501	5,847	194,948
Jošt Dolničar	152,363	11,950	5,483	6,088	175,884
Srečko Čebron	152,363	11,950	5,536	1,943	171,792
Mateja Treven	140,293	0	4,947	0	145,240
Total	614,339	37,180	22,466	13,878	687,863

Liabilities for Management Board members

(EUR)	31. 12. 2011	31. 12. 2010
Zvonko Ivanušič	6,831	6,817
Jošt Dolničar	5,665	5,279
Srečko Čebron	6,728	6,561
Mateja Treven	5,977	0
Total	25,202	18,657

At 31 December 2011, the Group had no receivables due from the Management Board members. Management Board members are not remunerated for their functions in subsidiary companies.

Remuneration paid to members of the Supervisory Board and the Auditing Committee in 2011

(EUR)		Attendance fees	Expenses reimbursed	Total
Supervisory Board members				
Branko Tomažič	Chairman of the SB	16,273	2,045	18,318
Mateja Lovšin Herič	Deputy Chairman of the SB	12,210	15	12,225
Slaven Mićković	Member of the SB	11,835	0	11,835
Gregor Hudobivnik	Member of the SB	7,875	209	8,084
Aleš Mirnik	Member of the SB	3,300	0	3,300
Nada Zidar	Member of the SB	3,300	0	3,300
Samo Selan	Member of the SB	7,875	0	7,875
Martin Albreht	Member of the SB	7,600	0	7,600
Total Supervisory Board members		70,268	2,270	72,538
Auditing Committee members				
Mateja Lovšin Herič	Chairman of the AC	8,026	0	8,026
Slaven Mićković	Member of the AC	6,025	0	6,025
Blanka Vezjak	Member of the AC	5,475	1,057	6,532
Total Auditing Committee members		19,525	1,057	20,583

At 31 December 2011, the Group had liabilities to members of the Supervisory Board and Audit Committee of EUR 8,662.

25 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

- As announced at the end of 2011, in January 2012 S&P reviewed the sovereign credit ratings of euro area members that had been placed on CreditWatch. Slovenia was downgraded from AA– to A+. Further to the sovereign downgrade of Slovenia, S&P reaffirmed Sava Reinsurance Company's current credit and financial strength rating of A– but with a negative outlook. Thereafter, the Company was no longer on CreditWatch.
- In February 2012, the Macedonian subsidiary Sava osiguruvanje sold all shares of Goldmak.
- In March 2012, the controlling company recapitalised its Kosovan subsidiary Illyria with EUR 2.2m.
- On 2 April 2012, the POSR share of Sava Reinsurance Company was transferred to the prime market.
- On 2 April 2012, the Management Board of Sava Reinsurance Company adopted the resolution to initiate liquidation proceedings in the company Bro-Dil.

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

Administrative expenses ratio *= operating expenses – 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 premiums written*

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

IBNR – provision for claims that are **Incurred But Not Reported**
IBNER – provision for claims that are **Incurred But Not Enough Reported**
RBNS – provision for claims that are **Reported But Not Settled**
IBNS – provision for claims that are **Incurred But Not Settled**
IBNS = RBNS + IBNR

Insurance density *= gross premiums written / number of inhabitants*

Insurance penetration *= gross premiums written / gross domestic product*

Liability fund
Assets supporting technical provisions.

Life insurance liability fund
Assets supporting mathematical provisions.

Loss ratio (Incurred loss ratio)
Gross (incurred) loss ratio = 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. It can be subdivided into two main types: quota-share reinsurance and surplus reinsurance.

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

Retention ratio *= 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.