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**TRANSLATION OF THE
FINANCIAL REPORT OF THE
SAVA RE GROUP AND
SAVA REINSURANCE COMPANY FOR THE
NINE MONTHS TO 30 SEPTEMBER 2012**

Ljubljana, 20 November 2012

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INTRODUCTION

1 INTRODUCTION

In accordance with the Financial Instruments Market Act and the Rules of the Ljubljana Stock Exchange, Sava Reinsurance Company d.d. ("Sava Reinsurance Company"), with registered office at Ljubljana, Dunajska 56, hereby publishes the Unaudited Financial Report of the Sava Re Group and Sava Reinsurance Company for the Nine Months to 30 September 2012.

Published data and interim financial statements for both the Sava Re Group and Sava Reinsurance Company for the nine months to 30 September 2012 have been prepared in accordance with IAS 34 "Interim Financial Reporting" and need to be read together with the annual financial statements prepared for the financial year ended 31 December 2011. The interim financial statements have not been audited.

The Unaudited Financial Report of the Sava Re Group and Sava Reinsurance Company for the Nine Months to 30 September 2012 will be available as a hardcopy for viewing at the registered office of Sava Reinsurance Company at Dunajska 56, 1000 Ljubljana on every workday between 9:00 and 15:00 hrs, and as a softcopy on the Company's website at www.sava-re.si as from 30 November 2012.

1.1 Summary of key performance indicators¹

(EUR)	Sava Re Group		Sava Reinsurance Company	
	1-9/2012	1-9/2011	1-9/2012	1-9/2011
Gross premiums written	215,852,845	202,274,074	124,390,521	110,933,925
Year-on-year change	6.7%	-0.4%	12.1%	-2.2%
Gross claims paid	95,728,819	94,037,615	53,636,419	50,992,706
Year-on-year change	1.8%	-1.1%	5.2%	-10.5%
Net incurred loss ratio	62.9%	58.5%	67.4%	62.7%
Operating expenses including reinsurance commission income	62,133,027	62,936,150	29,744,900	28,180,704
Porast/padec glede na predhodno obdobje	-1.3%	-17.8%	5.6%	-1.8%
Net expense ratio	33.8%	35.6%	29.7%	30.5%
Net combined ratio (total expenses/total income; except from investments)	97.9%	98.4%	97.2%	93.6%
Net investment income incl. finance costs*	12,823,739	4,647,876	6,263,440	3,184,906
Annualised realised investment return including finance costs*	4.3%	1.7%	2.5%	1.3%
Net investment income excl. finance costs*	14,414,305	6,304,756	7,392,108	4,489,543
Annualised realised investment return excluding finance costs*	4.9%	2.3%	3.0%	1.9%
Profit/loss, net of tax	11,945,511	2,333,341	7,070,725	7,092,030
Year-on-year change	411.9%	108.3%	-0.3%	344.7%
Comprehensive income	18,002,845	-1,053,748	11,524,462	4,414,591
Return on equity	7.6%	1.5%	4.3%	4.5%
	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011
Total assets	634,060,263	582,037,026	455,729,203	417,051,465
Year-on-year change	8.9%	0.6%	9.3%	-0.3%
Shareholders' equity	165,920,551	148,080,050	169,978,990	158,454,528
Year-on-year change	12.0%	-4.3%	7.3%	1.5%
Net technical provisions	358,610,233	322,940,184	192,405,284	166,275,281
Year-on-year change	11.0%	5.1%	15.7%	6.3%
No. of employees (full-time equivalent basis)	1,442	1,530	66	66

Note:

*The net investment income and the annualised realised investment return do not include income and expenses of assets pertaining to policyholders who bear the investment risk since such assets do not affect the income statement. The mathematical provision of policyholders who bear the investment risk moves in line with this item.

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

1.2 Company Profile of Sava Reinsurance Company

Company name:	Pozavarovalnica Sava, d. d./ Sava Reinsurance Company, d.d., Sava Re d.d.
Registered office:	Dunajska 56 1000 Ljubljana Slovenia
Telephone (switchboard):	(01) 47 50 200
Facsimile:	(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
Shares:	9,362,519 no-par-value shares
Governance and supervision bodies:	<u>MANAGEMENT BOARD</u> Zvonko Ivanušič (Chairman) Jošt Dolničar Srečko Čebren Mateja Treven <u>SUPERVISORY BOARD</u> Branko Tomažič (Chairman) Mateja Lovšin Herič (Deputy Chairperson) Slaven Mičković Gregor Hudobivnik Martin Albreht (employee representative) Samo Selan (employee representative)
Date of entry into court register:	28 Dec 1990 Ljubljana District Court
Certified auditor:	KPMG, Slovenija, podjetje za revidiranje, d.o.o. Železna cesta 8a 1000 Ljubljana Slovenia
Largest shareholder and holding:	Slovenska odškodninska družba, d.d. 25% + 1 share (2,340,631 no-par value shares)
Credit rating (AM Best):	A– /stable/; October 2012
Credit rating (S&P):	BBB+ /negative/; November 2012
The Company has no branches.	

1.3 Bodies of the Company

The Management Board


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

Members of the Management Board as at 30 September 2012:

Member	Title	Term of office	Beginning of term of office
Zvonko Ivanušič	Chairman	5 years	31. 12. 2008
Jošt Dolničar	Member	5 years	31. 12. 2008
Srečko Čebren	Member	5 years	1. 2. 2009
Mateja Treven	Member	5 years	3. 2. 2011

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

Zvonko Ivanušič:

-  Banka Celje, d.d., Vodnikova cesta 2, 3000 Celje – Deputy Chairman of the Supervisory Board.

The Supervisory Board



In the nine months to 30 September 2012, there were no changes in the composition of the Supervisory Board.

Composition of the Supervisory Board at 30 September 2012:


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

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


Branko Tomažič:

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

Slaven Mičković:

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

Gregor Hudobivnik:

-  ABANKA SKLADI, družba za upravljanje, d.o.o., Pražakova ulica 8, Ljubljana – Chairman of the Supervisory Board.

Supervisory Board Committees

The Audit Committee

In the nine months to 30 September 2012, there were no changes in the composition of the Supervisory Board Audit Committee.

Members of the Supervisory Board Audit Committee as at 30 September 2012:

Mateja Lovšin Herič	Chairperson
Slaven Mičković	Member
Blanka Vezjak	External member

The Nomination Committee

Pursuant to the recommendations of the Corporate Governance Code for Public Joint-Stock Companies, the Supervisory Board appointed a 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.

Members of the Supervisory Board Nomination Committee as at 30 September 2012:

Branko Tomažič	Chairman
Mateja Lovšin Herič	Member
Vesna Razpotnik	Member

The General Meeting of Shareholders

The General Meeting of Shareholders did not meet in the third quarter of 2012.

1.4 Significant events in the 9 months to 30 September 2012

- S** 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+. Further to the sovereign downgrade of Slovenia, S&P reaffirmed Sava Reinsurance Company's then credit and financial strength rating of A–, but with a negative outlook.
- S** In February 2012, the Macedonian subsidiary Sava osiguruvanje sold all shares of Goldmak.
- S** In March 2012, the controlling company recapitalised its Kosovan subsidiary Illyria with EUR 2.2m.
- S** On 2 April 2012, the POSR share of Sava Reinsurance Company was transferred to the prime market.
- S** On 2 April 2012, the Management Board of Sava Reinsurance Company adopted the resolution to initiate liquidation proceedings in the company Bro-Dil.
- S** Between January and April 2012, the controlling company recapitalised its subsidiary Sava životno osiguranje with EUR 0.7m.

- S** On 28 May 2012, the 25th General Meeting of Sava Reinsurance Company took place at the Horus Hall of the Austria Trend Hotel in Ljubljana.
- S** On 10 July 2012, the General Meeting of Zavarovalnica Tilia took place. In the Meeting the resolution was passed to transfer all shares of minority shareholders of Zavarovalnica Tilia to majority shareholder Sava Reinsurance Company (99.71%) against adequate cash compensation.
- S** In August 2012, rating agency Standard & Poor's downgraded Sava Reinsurance Company from A– with a negative outlook to BBB+ with a negative outlook. The downgrading has been a result of the downgrading in Slovenia's sovereign rating and is not related to the performance or financial stability of the controlling company.
- S** In September 2012, the controlling company paid EUR 210,000 to recapitalise Sava osiguranje as based on a resolution by the General Meeting.
- S** In September, Sava Reinsurance Company acquired 3.8% of Sava osiguruvanje, Skopje, from minority shareholders, increasing its total shareholding of the company to 85.67%.
- S** In September 2012, the controlling company recapitalised Velebit usluge d.o.o. with EUR 2.5m as per General Meeting resolution.

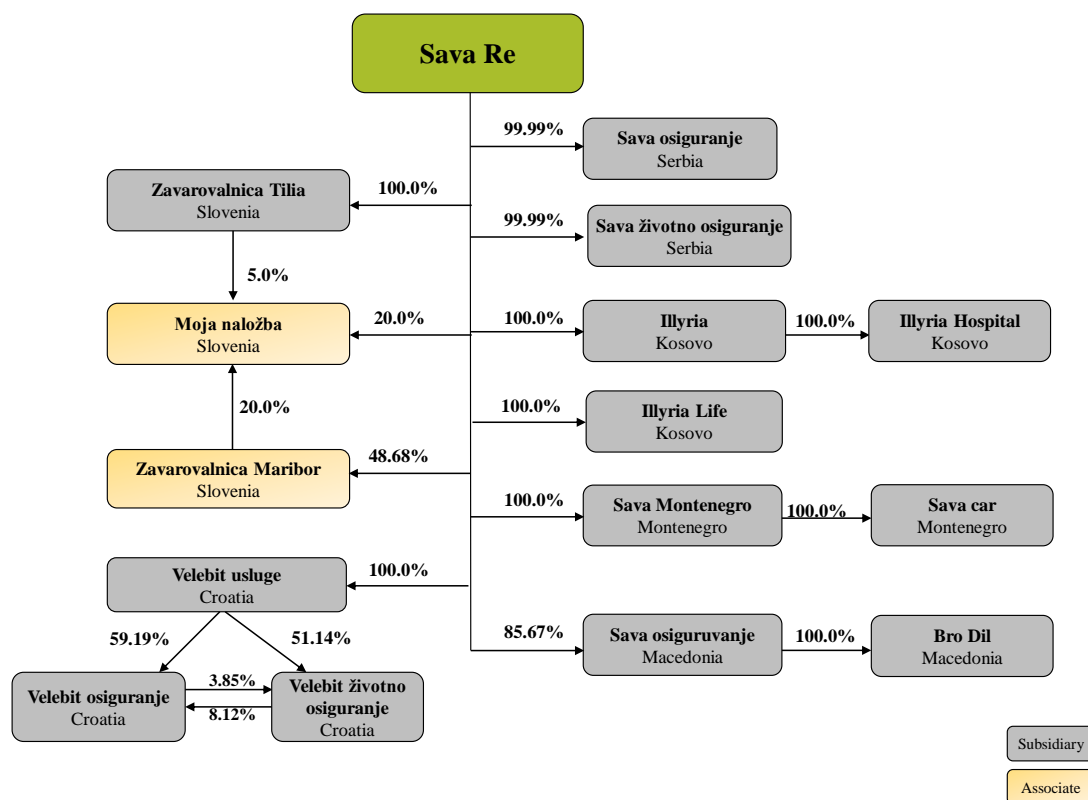
1.5 Significant events after the reporting period

- S** In October 2012, the controlling company paid EUR 2.0m to recapitalise Sava osiguruvanje as per General Meeting resolution. At the time of preparing this report, the recapitalisation has not been entered in the register of companies.
- S** In October 2012, rating agency A.M. Best Europe, London, awarded the controlling company a financial strength rating of A– (excellent) with a stable outlook.
- S** At the beginning of November, Sava Reinsurance Company filed a binding bid for the acquisition of a 50.99% share of Zavarovalnica Maribor. The procedure has not been completed at the time of preparing this report for publication.
- S** In its regular annual rating update, rating agency Standard & Poor's reaffirmed its previous BBB+ rating on Sava Reinsurance Company d.d., retaining the negative outlook.

1.6 Sava Re Group structure including associate companies

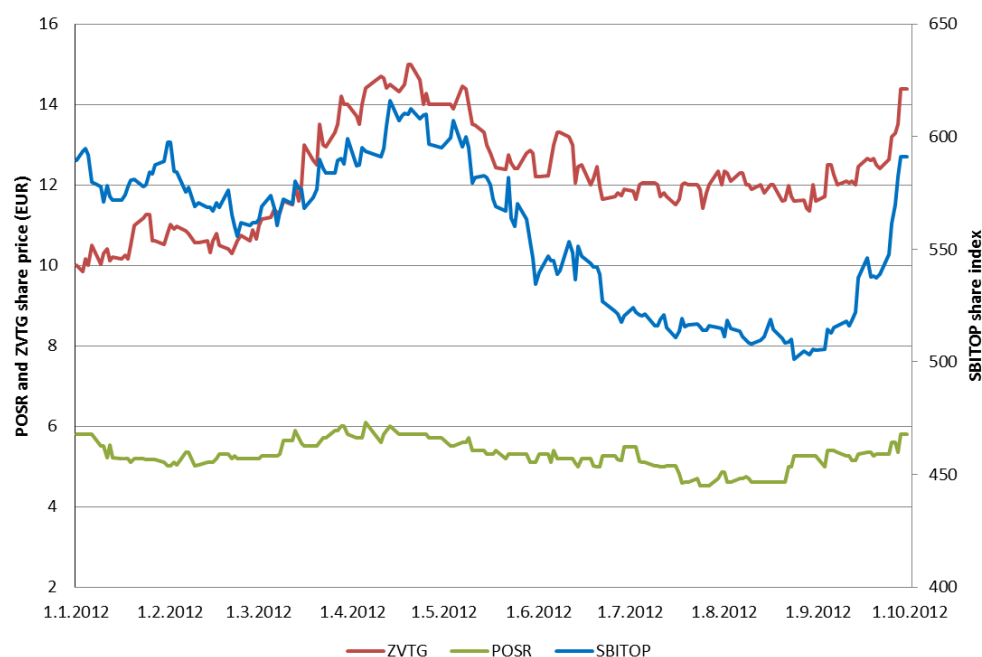
In addition to Sava Reinsurance Company, the controlling company, the insurance part of the Sava Re Group comprises nine insurers based in Slovenia and other countries of the former Yugoslavia as well as two associate companies – an insurer and a pension company, both based in Slovenia.

Sava Re Group structure including associate companies as at 30 September 2012



2 SHAREHOLDERS AND SHARE TRADING

Movements in the POSR share price in the period 1 January 2012–30 September 2012 compared to the Zavarovalnica Triglav share and the SBITOP share index



Basic details about the POSR share

	30. 9. 2012	30. 9. 2011
Share capital	39,069,099	39,069,099
No. of shares	9,362,519	9,362,519
Ticker symbol	POSR	POSR
No. of shareholders	4,966	5,168
Type of share	ordinary	ordinary
Listing	Ljubljana Stock Exchange, prime market	Ljubljana Stock Exchange, standard market
Number of treasury shares	210	210
Net earnings/loss per share (EUR) ²	0.76	0.76
Consolidated net earnings/loss per share (EUR)	1.28	0.25
Book value of shares (EUR) ³	18.16	17.15
Consolidated book value of shares (EUR)	17.72	15.82
Market price at 30 September (EUR)	5.80	5.21
Average share price in reporting quarter (EUR)	5.27	7.23
Minimum share price in reporting quarter (EUR)	4.51	5.21
Maximum share price in reporting quarter (EUR)	6.10	8.30
Share turnover volume in quarter (EUR)	1,405,593	1,583,437

The controlling company paid no dividend in the first three quarters of 2012. In this period, the controlling company did not have conditional equity. As at 30 September 2012, 96.3% of shareholders were Slovenian and 3.7% foreign. The largest shareholder of the POSR share is

² Net profit/loss for the period/no. of shares excl. treasury shares (9,362,309).

³ Equity at 30 September/no. of shares excl. treasury shares (9,362,309).

the Slovenska odškodninska družba (Slovenian Restitution Fund), which holds 25% plus one share.

Top ten shareholders of Sava Reinsurance Company as at 30 September 2012

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
Pišljari Marjan	444,345	4.75
Nova KBM d.d.	435,925	4.66
Zavarovalnica Maribor d.d.	416,433	4.45
NFD 1, delniški podsklad	406,221	4.34
SOP Ljubljana	402,605	4.30
Modra Zavarovalnica d.d. - ZVPS	320,346	3.42
KD Galileo, fleksibilna struktura naložb	250,754	2.68
Total	6,140,385	65.59

Shareholder Structure of Sava Reinsurance Company as at 30 September 2012

	Domestic investors (%)	Foreign investors (%)
Other financial institutions	30.3	2.3
Insurers and pension companies	18.6	0.0
Natural persons	17.5	0.2
Banks	14.4	0.8
Investment funds and mutual funds	13.2	0.4
Other commercial companies	2.4	0.0
Total	96.3	3.7

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.

Analyst coverage on the POSR share is regularly provided by the financial institution Alta Invest d.d., which in September 2012 raised its target price from EUR 9.60 to EUR 11.60.

Share analyst	Target price
Alta Invest d.d.	11.60

In the third quarter 2012, no management board member of Sava Reinsurance Company acquired any POSR shares.

INTERIM MANAGEMENT REPORT

3 SAVA RE GROUP BUSINESS RESULTS

Key financials of the Sava Re Group by operating segment (non-consolidated)

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Total consolidated	
	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011
Net earned premiums	84,352,643	76,881,383	89,639,673	90,592,965	9,989,481	9,549,379	183,981,797	177,023,727
Other technical income	3,293,022	2,603,220	1,390,233	1,698,905	64,420	38,208	4,747,675	4,359,626
Net claims incurred	-59,935,251	-50,616,434	-47,727,912	-50,380,960	-4,366,706	-3,277,113	-112,029,869	-104,274,507
Change in other technical provisions	0	0	-241,846	-152,224	-711,100	-937,189	-952,946	-1,089,413
Expenses for bonuses and rebates	21,228	-1,248	-129,201	-245,869	0	0	-107,973	-247,117
Operating expenses	-27,285,221	-26,079,817	-32,172,540	-33,864,649	-4,655,448	-4,668,379	-64,332,517	-64,755,650
Other technical expenses	-1,737,107	-1,323,480	-5,094,226	-5,923,219	-179,683	-49,648	-7,011,016	-7,296,347
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	0	0	0	0	3,069,068	870,737	3,069,068	870,737
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	0	0	0	0	-1,762,478	-4,893,176	-1,762,478	-4,893,176
Change in technical provisions for policyholders who bear the investment risk	0	0	0	0	-3,068,843	1,724,735	-3,068,843	1,724,735
Underwriting result	-1,290,686	1,463,624	5,664,181	1,724,949	-1,621,289	-1,642,446	2,532,898	1,422,615
Income from investments in affiliates	4,772,235	4,243,621	0	0	0	0	4,772,235	4,243,621
Investment income	7,419,706	4,219,508	4,854,964	3,767,593	1,114,750	918,543	13,776,192	8,911,439
Expenses for investments in affiliates	0	-2,549,076	0	0	0	0	0	-2,549,076
Expenses for financial assets and liabilities	-4,705,309	-4,993,462	-693,367	-763,152	-214,825	-178,372	-5,613,501	-5,934,986
Investment result	7,486,632	920,591	4,161,597	3,004,441	899,925	740,171	12,934,926	4,670,998
Other income	18,892	1,779	466,648	344,956	41,139	11,349	595,133	365,292
Other expenses	-5	-62	-979,582	-1,181,226	-1,339	9	-983,872	-1,181,278
Result of other items	18,887	1,717	-512,934	-836,270	39,800	11,358	-388,739	-815,986
Profit/loss before tax	6,214,833	2,385,932	9,312,844	3,893,120	-681,564	-890,917	15,079,085	5,277,627
Income tax expense	-2,065,931	-2,132,125	-1,039,304	-682,146	-28,339	-130,015	-3,133,574	-2,944,286
Net profit for the period	4,148,902	253,807	8,273,540	3,210,974	-709,903	-1,020,932	11,945,511	2,333,341

3.1 Consolidated net earned premiums

Consolidated net earned premiums

(EUR)	1-9/2012	1-9/2011	Index
Gross premiums written	215,852,845	202,274,074	106.7
Net premiums written	196,913,084	181,745,162	108.3
Change in net unearned premiums	-12,931,287	-4,721,435	273.9
Net premiums earned	183,981,797	177,023,727	103.9

Non-consolidated gross premiums written by Group insurer

(EUR)	1-9/2012	1-9/2011	Index
Sava Reinsurance Company, Slovenia	124,390,521	110,933,925	112.1
Zavarovalnica Tilia, Slovenia	65,441,938	61,776,282	105.9
Sava osiguruvanje, Macedonia	8,888,864	9,546,155	93.1
Illyria, Kosovo	8,642,730	11,146,645	77.5
Sava Montenegro, Montenegro	8,503,431	7,716,522	110.2
Sava osiguranje, Serbia	8,333,941	9,324,668	89.4
Velebit osiguranje, Croatia	6,970,905	7,006,058	99.5
Velebit životno osiguranje, Croatia	1,052,094	688,770	152.7
Illyria Life, Kosovo	727,776	704,376	103.3
Sava životno osiguranje, Serbia	562,634	409,657	137.3

Consolidated gross premiums written by region

(EUR)	1-9/2012	1-9/2011	Index	Structure 1–9/2012 (%)
Slovenia	101,482,808	104,095,770	97.5	47.0
International	114,370,037	98,178,304	116.5	53.0
Total	215,852,845	202,274,074	106.7	100.0

In the first quarter 2012, the Sava Re Group wrote EUR 215.8m of gross premiums, up 11.3% year-on-year. The largest absolute growth was generated by the largest companies in the Group, Sava Reinsurance Company and Zavarovalnica Tilia. Sava Reinsurance Company grew premiums written by 12.1% as a result of expanding its international portfolio by 34.4%. The largest premium decline was experienced by the Kosovan, Serbian and Macedonian non-life insurers. In Macedonia and in Kosovo, the decline was a result of excluding major loss-making policyholders from the portfolio. In Serbia the decrease is due to limiting growth in motor TPL where the market demands high commissions, a trend we chose not to follow in order to ensure long-term profitability.

The change in consolidated net unearned premiums, which together with consolidated net premiums written form net premiums earned, in the nine months to 30 September 2012 was an increase of EUR 12.9m. The increase is due to the mentioned premium growth generated by Sava Reinsurance Company especially in Asian markets where contracts are written mainly in the second quarter (April–July).

Consolidated gross premiums written by operating segment

(v EUR)	1-9/2012	1-9/2011	Index	Structure 1-9/2012 (%)
Reinsurance business	106,859,295	94,075,762	113.6	49.5
Non-life insurance business	99,143,275	98,653,207	100.5	45.9
Life insurance business	9,850,275	9,545,105	103.2	4.6
Total	215,852,845	202,274,074	106.7	100.0

Consolidated reinsurance premium⁴ grew by 13.6% in the first three quarters of 2012, which is due to an increase in international reinsurance premium. Non-life insurance premium grew by 0.5%. This modest growth is due to a decline in premium volume in three markets, as mentioned above. The largest absolute increase in gross premiums written was recorded by Zavarovalnica Tilja (EUR 3.9m) and Sava Montenegro (EUR 0.8m). Life premiums, on the other hand, grew by 3.2% in the first three quarters, year-on-year. In the Group, Zavarovalnica Tilja is the only life insurer to have experienced a premium decline in life business. Conditions in life insurance markets remain tough in both Slovenia and Croatia, as these life markets continue to shrink. In the other markets with low life insurance penetration, this operating segment still enjoys modest growth, however, one that is much lower than what could be generated in a more favourable economic environment.

3.2 Consolidated net claims incurred

Consolidated net claims incurred

(EUR)	1-9/2012	1-9/2011	Index
Gross claims paid	95,728,819	94,037,615	101.8
Net claims paid	91,585,815	88,558,749	103.4
Change in the net provision for outstanding claims	20,444,054	15,715,758	130.1
Net claims incurred	112,029,869	104,274,507	107.4

Non-consolidated gross claims paid by Group insurer

(EUR)	1-9/2012	1-9/2011	Index
Sava Reinsurance Company, Slovenia	53,636,419	50,992,706	105.2
Zavarovalnica Tilja, Slovenia	30,743,925	30,675,494	100.2
Sava osiguruvanje, Macedonia	4,743,555	5,368,008	88.4
Illyria, Kosovo	4,292,795	5,138,859	83.5
Sava osiguranje, Serbia	3,335,537	4,930,529	67.7
Sava Montenegro, Montenegro	2,876,016	2,791,797	103.0
Velebit osiguranje, Croatia	2,508,588	2,337,416	107.3
Velebit životno osiguranje, Croatia	225,214	97,787	230.3
Sava životno osiguranje, Serbia	56,373	4,325	1,303.4
Illyria Life, Kosovo	34,171	25,445	134.3

⁴ Consolidated reinsurance premiums comprise gross premiums written by Sava Reinsurance Company less premiums received from subsidiaries.

Consolidated gross claims paid by region

(EUR)	1-9/2012	1-9/2011	Index	Structure 1–9/2012 (%)
Slovenia	48,747,796	50,700,836	96.1	50.9
International	46,981,023	43,336,779	108.4	49.1
Total	95,728,819	94,037,615	101.8	100.0

In the first three quarters of 2012, the Sava Re Group recorded consolidated gross claims paid of EUR 95.7m, an increase of 1.8% year-on-year. The mentioned increase is a result of movements in the controlling company. Almost all other companies recorded lower claims compared to the same period in 2011. The largest decline in absolute terms was recorded by the Serbian insurer, and it is a combined result of limiting growth in motor TPL over that past two years and improved claims management. The decrease in claims of the Kosovan non-life insurer is due to reducing the health portfolio. After three quarters of 2012, Sava Reinsurance Company incurred 5.2% more gross claims than in the same period in 2011 (gross premiums written grew 12.1%).

The change in the consolidated net claims provision, which is used to calculate net claims incurred, was an increase of EUR 20.4m after three quarters of 2012. This increase is mainly due to the increase in the net claims provision of the controlling company and relates to the international portfolio, which is growing fast and incurred some major losses in the prior year.

Consolidated net claims incurred increased by 7.4% year-on-year (net premiums earned grew by 4.2%) as a result of a significantly larger increase in the net claims provision of the controlling company.

Consolidated gross claims paid relating to business written in Slovenia fell by 3.9% year-on-year. The decline in consolidated gross claims in Slovenian business was due to the Sava Reinsurance Company, while Zavarovalnica Tilia recorded a modest increase in gross claims compared to the same period last year. The 8.4% increase in international gross claims was also mainly due to the controlling company as its international claims portfolio increased by 27.9% (especially because of the floods in Thailand at the end of 2011). Most non-life insurers in the Group recorded a decline in gross claims compared to the first nine months of 2011 thanks to a systematic implementation of information systems and streamlining of claims management processes over the recent years. The increase in life insurance claims is due to more frequent policy surrenders in Slovenia and ordinary claims movements on the other markets where portfolios still see growth.

Consolidated gross claims paid by operating segment

(EUR)	1-9/2012	1-9/2011	Index	Structure 1–9/2012 (%)
Reinsurance business	46,927,923	42,667,124	110.0	49.0
Non-life insurance business	44,480,840	48,125,063	92.4	46.5
Life insurance business	4,320,056	3,245,428	133.1	4.5
Total	95,728,819	94,037,615	101.8	100.0

3.3 Consolidated operating expenses

Consolidated operating expenses

(EUR)	1-9/2012	1-9/2011	Index
Acquisition costs	41,481,369	39,179,428	105.9
Change in deferred acquisition costs	-985,716	219,922	-448.2
Other operating expenses	23,836,864	25,356,300	94.0
Gross operating expenses	64,332,517	64,755,650	99.3
Income from reinsurance commission	-2,199,490	-1,819,500	120.9
Net operating expenses	62,133,027	62,936,150	98.7

Net operating expenses by operating segment

(EUR)	Reinsurance business			Non-life insurance business			Life insurance business		
	1-9/2012	1-9/2011	Index	1-9/2012	1-9/2011	Index	1-9/2012	1-9/2011	Index
Acquisition costs	23,219,232	21,552,375	107.7	15,858,342	15,654,032	101.3	2,403,795	1,973,021	121.8
Change in deferred acquisition costs	-561,277	6,695	-8,383.5	-493,211	375,552	-131.3	68,772	-162,325	-42.4
Other operating expenses	4,627,266	4,520,747	102.4	16,807,409	17,835,065	94.2	2,182,881	2,857,683	76.4
Gross operating expenses	27,285,221	26,079,817	104.6	32,172,540	33,864,649	95.0	4,655,448	4,668,379	99.7
Income from reinsurance commission	-1,688,342	-1,467,344	115.1	-511,148	-352,156	145.1	0	0	
Net operating expenses	25,596,879	24,612,473	104.0	31,661,392	33,512,493	94.5	4,655,448	4,668,379	99.7

In the first three quarters of 2012, consolidated policy acquisition expenses were 5.9% higher year-on-year, which is close to growth in gross premiums written (6.7%). The largest absolute increase in acquisition costs was recorded by Sava Reinsurance Company (EUR 2.6m) and Zavarovalnica Tilia (EUR 0.5m), who also generated the largest premium growth.

Other operating expenses (administrative expenses) decreased by 6.0%, which indicates that Group cost management has been effective.

Reinsurance commission income, which is set off against expenses, rose by 20.9% year-on-year. The largest increase in this type of income in absolute terms was recorded by Zavarovalnica Tilia, where it is due to a favourable loss ratio – the basis for calculating reinsurance commission.

Consolidated expense ratios⁵

	1-9/2012	1-9/2011
Gross expense ratio	29.8%	32.0%
Administrative expense ratio	11.0%	15.2%
Net expense ratio	33.7%	35.6%

Consolidated expense ratios indicate that cost optimisation has been efficient in the Group. Almost all companies improved cost management as shown by lower expense ratios compared to the same period last year.

⁵ The calculation of ratios is explained in the appended glossary.

3.4 Investment income of the Sava Re Group investment portfolio

Consolidated investment income of the Sava Re Group

(EUR)	30.9.2012	Reinsurance business	Non-life business	Life insurance business	Total
Deposits and money market instruments*		1,578,514	2,411,332	312,209	4,302,055
Government bonds		1,143,760	1,462,832	455,218	3,061,810
Corporate bonds		2,455,623	687,473	149,481	3,292,576
<i>Regular corporate bonds</i>		<i>2,112,585</i>	<i>631,966</i>	<i>141,938</i>	<i>2,886,488</i>
<i>Covered bonds</i>		<i>99,690</i>	<i>388</i>	<i>0</i>	<i>100,078</i>
<i>Government-guaranteed bonds</i>		<i>243,348</i>	<i>55,119</i>	<i>7,543</i>	<i>306,010</i>
Shares (excluding strategic shares)		-577,175	328,817	-41,596	-289,953
Mutual funds		-855,813	-56,597	27,379	-885,031
Loans granted		0	298,164	-5,097	293,068
Other		0	-139,682	7,127	-132,554
Net investment income excluding income from land and buildings, strategic shares and shares/investments in associates		3,744,909	4,992,340	904,722	9,641,971
Land and buildings**		-479	3,197	408	3,126
Strategic shares and participating interests		-3,027	0	0	-3,027
Investments in associated companies		4,772,235	0	0	4,772,235
Total net investment income (including income from land and buildings, strategic shares and shares/investments in associates) excluding finance costs		8,513,638	4,995,537	905,130	14,414,305
Total net investment income (including income from land and buildings, strategic shares and shares/investments in associates) including finance costs		7,384,970	4,548,731	890,038	12,823,739

(EUR)	30.9.2011	Reinsurance business	Non-life business	Life insurance business	Total
Deposits and money market instruments*		1,764,520	1,888,765	278,366	3,931,652
Government bonds		577,006	922,239	338,082	1,837,328
Corporate bonds		2,111,532	451,029	124,529	2,687,090
<i>Regular corporate bonds</i>		<i>2,111,532</i>	<i>451,029</i>	<i>124,529</i>	<i>2,687,090</i>
<i>Covered bonds</i>		<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Government-guaranteed bonds</i>		<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Shares (excluding strategic shares)		-1,579,502	-46,100	-21,766	-1,647,368
Mutual funds		-590,281	-283,846	23,801	-850,326
Loans granted		85,158	441,517	7,474	534,149
Other		-109,113	-12,815	6,603	-115,325
Net investment income excluding income from land and buildings, strategic shares and shares/investments in associates		2,259,319	3,360,790	757,091	6,377,200
Land and buildings**		-480	-15,695	0	-16,174
Strategic shares and participating interests		-2,549,332	0	472	-2,548,860
Investments in associated companies		2,515,722	0	0	2,515,722
Total net investment income (including income from land and buildings, strategic shares and shares/investments in associates) excluding finance costs		2,225,230	3,345,095	757,563	6,327,888
Total net investment income (including income from land and buildings, strategic shares and shares/investments in associates) including finance costs		920,593	3,010,192	740,223	4,671,008

*Deposits and CDs include income from Sava Reinsurance Company's deposits with cedants totalling EUR 101.7k (2011: EUR 89.9k).

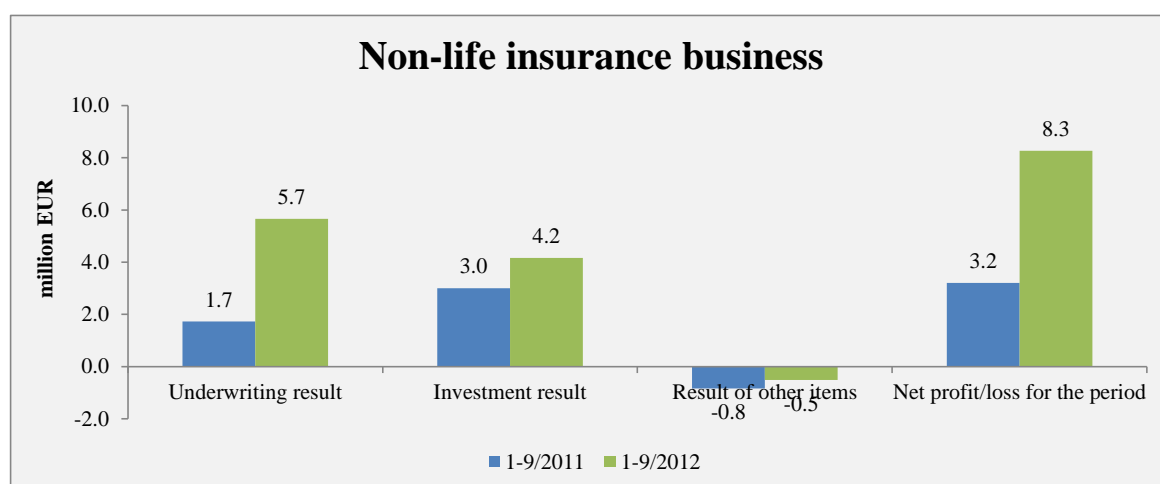
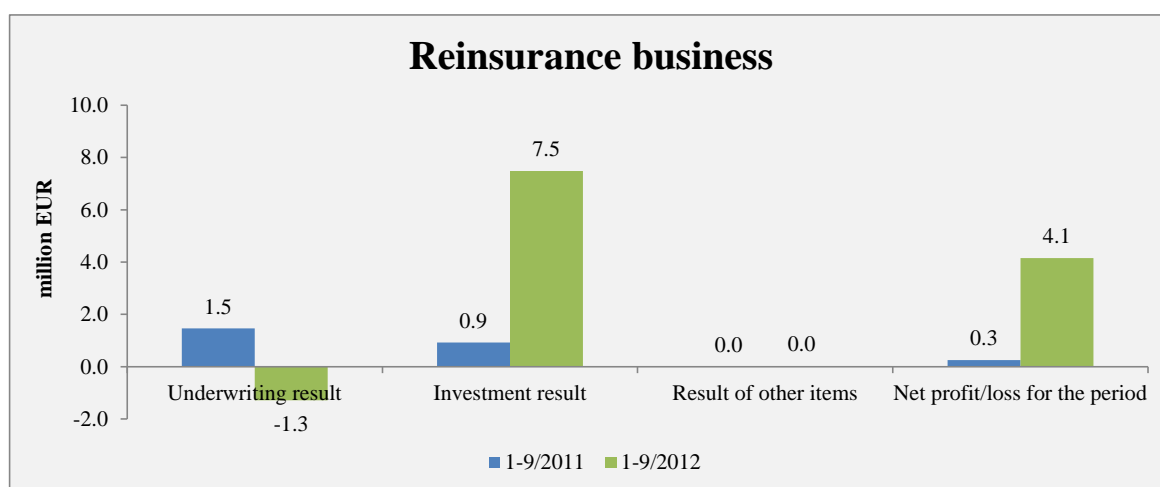
**Income from land and buildings includes rental income, gains on disposal and financial income from disposal of investment property.

**Expenses from land and buildings include depreciation, impairment losses, losses on disposal of investment property and indirect operating expenses of investment property that has or has not generated rental income in the period.

Net investment income does not include net investment income of policyholders who bear the investment risk of EUR 1,316,480 (2011: EUR -1,452,199) as it has no effect on the income statement. This is because the mathematical provision of policyholders who bear the investment risk moves in line with this item.

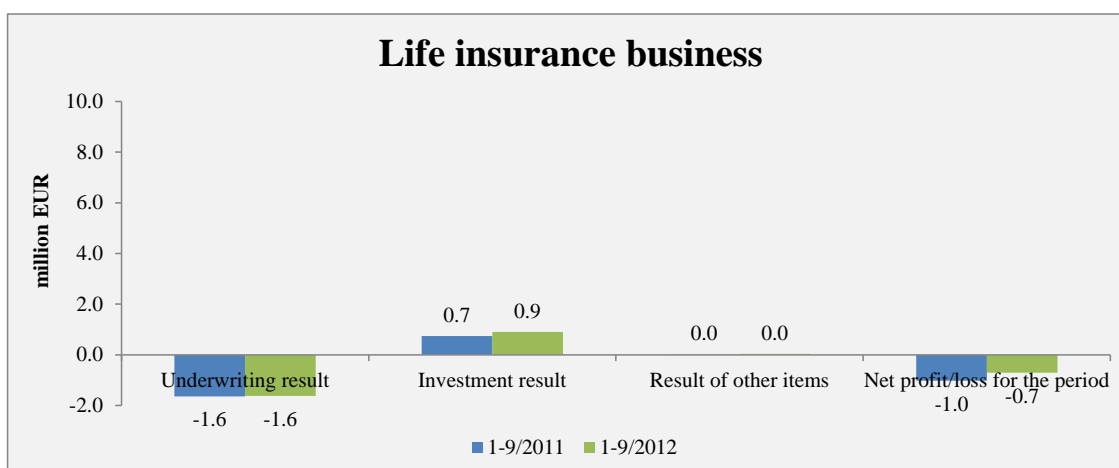
The net investment income including finance costs increased by EUR 8.2m year-on-year. The improvement in the net investment income for the nine months to 30 September 2012 compared to the same prior year period is primarily due to improved income from associates (profits of Zavarovalnica Maribor and Moja naložba accounted under the equity method and dividend payment of Zavarovalnica Maribor), increased interest income and realised capital gains on disposals of investments owned by the controlling company. Impairment losses on equity securities are lower by EUR 1.4m, while returns on deposits and bond investments of subsidiaries improved.

3.5 Segment reporting⁶



⁶ This is a presentation of consolidated results by operating segment.

Net unrealised gains and losses on investments of life insurance policyholders who bear the investment risk are included in the underwriting result.



3.6 Realisation of the 2012 budget

Realisation of planned consolidated gross premiums written by operating segment

(million EUR)	1-9/2012	Plan 2012	%
Reinsurance business	106.9	120.2	88.9%
Non-life insurance business	99.1	135.4	73.2%
Life insurance business	9.9	15.5	63.6%
Total	215.9	271.1	79.6%

In the first three quarters of 2012, gross premiums written reached 79.6% of the annual target. We estimate that our premium growth target can be achieved by the end of the year.

The expense and loss ratios do not substantially depart from planned amounts; return on equity exceeded our planned target mainly due to a better investment result than planned.

Realisation of planned ratios

	1-9/2012	Plan 2012	%
Net expense ratio	33.7%	33.3%	101.1
Net incurred loss ratio	62.8%	62.3%	100.8
Return on equity	7.6%	6.6%	119.8

4 FINANCIAL POSITION OF THE GROUP

4.1 Composition of assets and liabilities

At 30 September 2012, total assets of the Sava Re Group stood at EUR 634.1m, an increase of 8.9% over year-end 2011.

Consolidated total assets by type of investment

(EUR)	30. 9. 2012	Structure 30. 9. 2012	31. 12. 2011	Structure 31. 12. 2011
ASSETS	634,060,263	100.0%	582,037,026	100.0%
Intangible assets	18,098,049	2.9%	18,274,819	3.1%
Property, plant and equipment	24,261,730	3.8%	24,503,335	4.2%
Deferred tax assets	2,858,793	0.5%	4,527,413	0.8%
Investment property	5,591,397	0.9%	6,071,447	1.0%
Financial investments in associate companies	54,097,386	8.5%	49,085,007	8.4%
Financial investments	352,656,537	55.6%	325,188,363	55.9%
Funds for the benefit of policyholders who bear the investment risk	27,127,565	4.3%	24,138,957	4.1%
Reinsurers' share of technical provisions	31,404,001	5.0%	21,608,381	3.7%
Receivables	97,090,066	15.3%	86,266,849	14.8%
Deferred acquisition costs	16,135,803	2.5%	15,938,449	2.7%
Other assets	1,090,647	0.2%	1,338,989	0.2%
Cash and cash equivalents	3,311,102	0.5%	4,710,455	0.8%
Non-current assets held for sale	337,188	0.1%	384,562	0.1%

The largest part of assets are financial investments, which increased by 8.4% compared to end of 2011. This increase was driven by positive operating cash flow of EUR 9.4m, income generated by investment activities and gains on fair value revaluations of investments of EUR 5.1m.

The second largest asset item is receivables, which increased in absolute terms (by 12.5%) compared to 31 December 2011 and also relatively compared to other assets items. This increase is due to the movements in this item in controlling company (increase of EUR 11.7m) as the time schedule for accounting reinsurance premium is different from that of insurance premium payment. The increase in receivables is thus not unusual and does not entail increased risks for bad debts as Sava Reinsurance Company only transacts business with legal persons (insurance and reinsurance companies) and there are very few write-downs on receivables. In the non-life insurance segment, which had also recorded an increase in receivables compared to end-of-2011, this increase is likewise related to the timing of policy underwriting for large policyholders.

Financial investments in associates account for 8.5% of assets, up by 10.2%. This item increased compared to 31 December 2011, particularly by the amount of profit contributed by both Zavarovalnica Maribor and Moja naložba for the period 1–9/2012.

Another item that changed by more than EUR 5m is the reinsurers' share of technical provisions, which increased by 45.3% or EUR 9.8m. The increase in the reinsurers' share of technical provisions of EUR 7.0m relates to catastrophe reinsurance protection of the

controlling company's portfolio activated by the Thailand floods in 2011; these provisions have continued to increase in 2012 because of late reporting of claims by foreign partners. The increase in retroceded unearned premiums by EUR 3.2m, which is a result of ordinary movements in unearned premiums and affects both liabilities (gross unearned premiums) and assets (reinsurers' share of unearned premiums). Over 50% of the increase of this item relates to the change in unearned premiums in the controlling company. This item tends to decrease towards the end of the year.

Consolidated liabilities by type

(EUR)	30. 9. 2012	Structure 30. 9. 2012	31. 12. 2011	Structure 31. 12. 2011
EQUITY AND LIABILITIES	634,060,263	100.0%	582,037,026	100.0%
Equity	165,920,551	26.2%	148,080,050	25.4%
Subordinated liabilities	31,231,435	4.9%	31,220,817	5.4%
Technical provisions	363,383,033	57.3%	320,875,142	55.1%
Technical provision for the benefit of life insurance policyholders who bear the investment risk	26,631,201	4.2%	23,673,423	4.1%
Other provisions	841,270	0.1%	795,606	0.1%
Other financial liabilities	3,145,648	0.5%	5,782,075	1.0%
Liabilities from operating activities	33,672,693	5.3%	41,486,025	7.1%
Other liabilities	9,234,432	1.5%	10,123,890	1.7%

The technical provisions item is the largest item of equity and liabilities; in the nine months to 30 September 2012, the share of technical provisions grew by 2.2 percentage points to account for 57.3% of equity and liabilities. Gross claims provisions grew by EUR 26.3m (12.3%), while gross unearned premiums increased by EUR 15.7m (18.0%). The reinsurance portfolio of the controlling company contains an increasing number of contracts that renew during the year (especially from Asian markets), which is why the growth in unearned premiums is still fairly high after the third quarter. The increase in technical provisions was contributed also by the claims provision of the controlling company, which is increasing in consequence of both a growing portfolio and an increase in estimated losses for the Thai floods in 2011. This loss is protected by a catastrophe cover and has been largely retroceded.

The next largest item is equity, accounting for 26.2%. The increase in the amount of equity of 12.0% is a result of movements in its components as follows:

- Net profit as reported in equity totalled EUR 12.4m, an improvement of EUR 11.2m over the net profit for 2011 (at the year-end part of the profit had already been allocated to profit reserves).
- There was a decrease in the negative fair value reserve (of EUR 7.0m) as a result of capital market trends with most effects relating to the controlling company.

Liabilities from operating activities, representing 5.3% of the liabilities side, fell by 18.8%. The largest impact relates to reduced liabilities arising out of reinsurance and co-insurance due to the controlling company's claims settling activities. Current income tax liabilities have been decreased by EUR 1.7m.

4.2 Financial investments of the Sava Re Group

In line with long-term strategy, the Sava Re Group has continued following a conservative investment policy in the third quarter 2012.

Due to solvency II requirements and uncertainties in capital markets, the investment policy has been to invest in better rated and more secure investments with a maturity of up to five years.

At 30 September 2012, the Sava Re Group portfolio totalled EUR 412.3m⁷, an increase of EUR 32.0m since year-end 2011. The increase in the investment portfolio is a result of positive cash flow from insurance business and gains on fair value revaluations of investments.

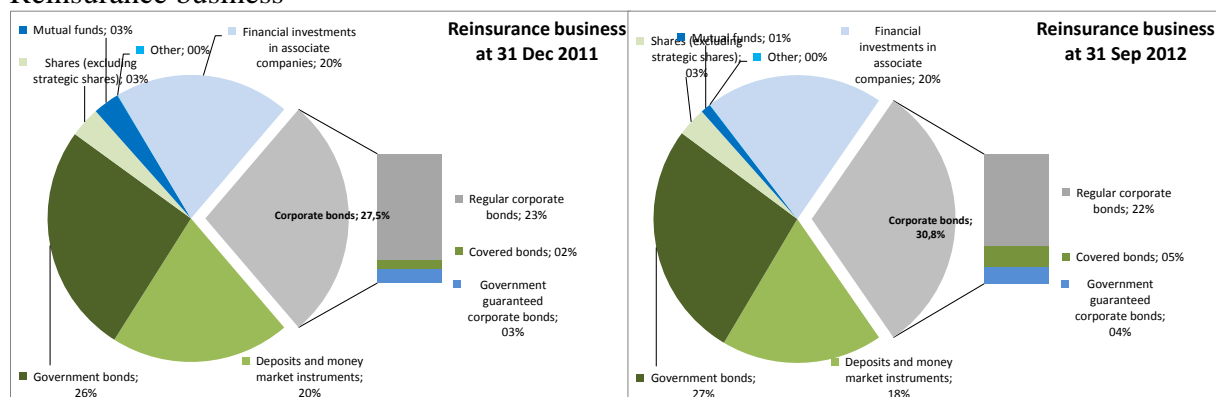
The share of deposits decreased by 2.8 percentage points (from 29.7% to 26.9%). Funds have been invested primarily in government and corporate bonds of EU and OECD issuers. The share of government bonds increased by 2.1% compared to the end of the previous year, the share of corporate bonds by 3.0%.

In the category of corporate bonds, the share of covered bonds and government-guaranteed foreign bonds increased as a result of our policy of investing in highly rated bonds. Compared to 31 December 2011, the share of the former increased by 2.4 percentage points, while the share of the latter rose 0.7 percentage points. In the period the Company has been systematically reducing the share of its unrated bond investments as well its exposure to equity investments. The share of equities and mutual funds fell by 2.3 percentage points compared to 31 December 2011. The main objectives of the Sava Re Group regarding the structure of its investment portfolio is maintaining the value of investments and high liquidity.

The increase in financial investments in associates (of 0.2 percentage points from 31 December 2011) is a result of the addition of profits generated by both Zavarovalnica Maribor and Moja naložba using the equity method.

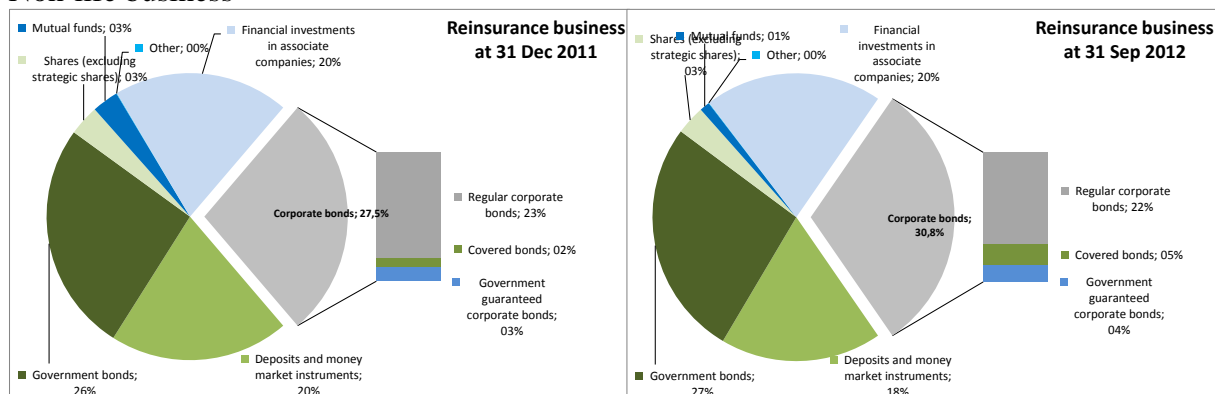
Sava Re Group investment portfolio by operating segment

Reinsurance business

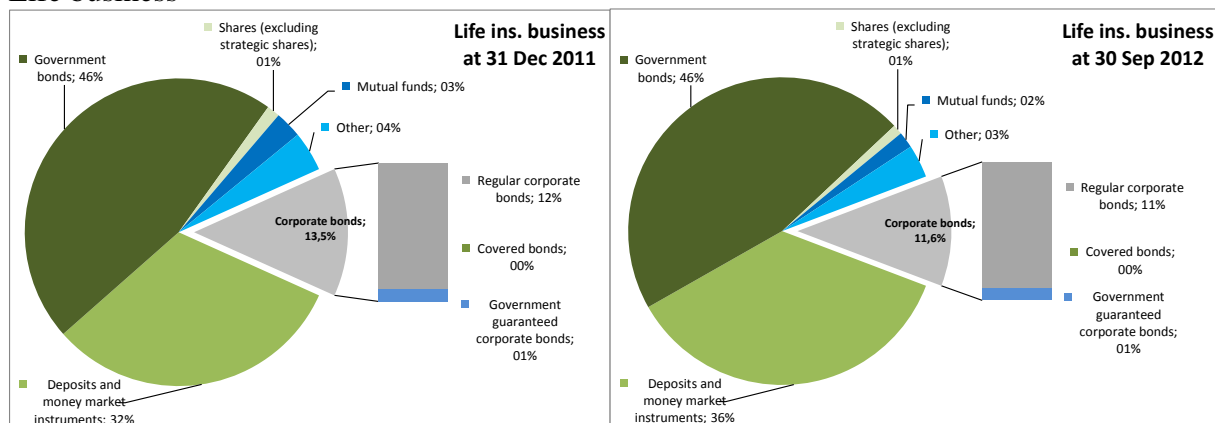


⁷ V izkazu finančnega položaja so v ta znesek vključene naložbene nepremičnine, finančne naložbe v pridruženih družbah ter finančne naložbe.

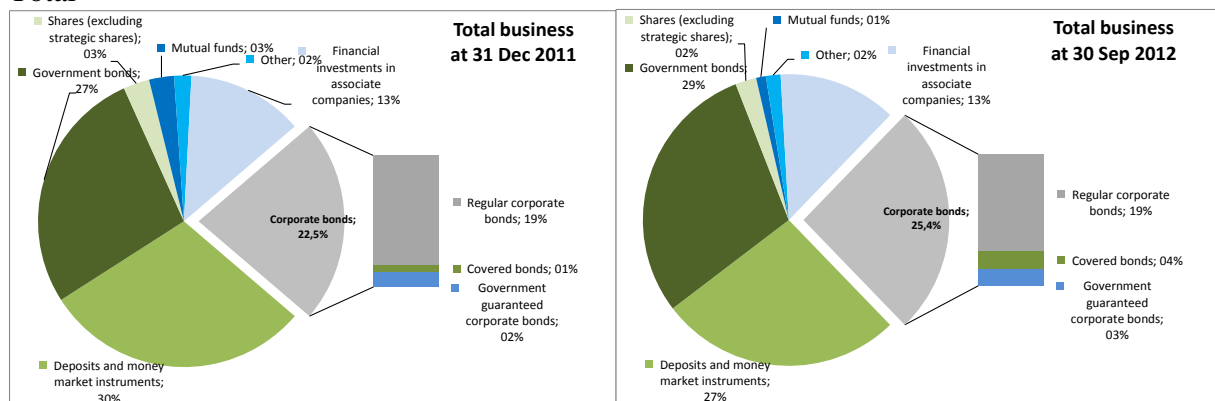
Non-life business



Life business



Total



*Deposits and CDs include Sava Reinsurance Company's deposits with cedants totalling EUR 8.3m (2011: EUR 8.6m).

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

4.3 Technical provisions of the Sava Re Group

Technical provisions are the main liability item of the Group; therefore, we will give below a more detailed presentation thereof.

Movements in consolidated gross technical provisions (TP)

(EUR)	Sava Re Group		Sava Reinsurance Company	
	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011
Unearned premiums	103,041,148	87,330,269	52,552,148	40,897,411
Mathematical provisions	17,218,629	16,503,688	0	0
Provision for outstanding claims	240,093,257	213,830,875	165,533,794	142,394,053
Other technical provisions	3,029,999	3,210,310	596,565	599,578
Total	363,383,033	320,875,142	218,682,507	183,891,042
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	26,631,201	23,673,423	0	0

Movements in consolidated gross technical provisions (TP) by operating segment

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business	
	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011
Unearned premiums	43,055,669	33,290,100	59,667,102	53,660,457	318,377	379,712
Mathematical provisions	0	0	0	0	17,218,629	16,503,688
Provision for outstanding claims	150,828,360	128,442,010	89,019,740	85,190,619	245,157	198,246
Other technical provisions	449,875	452,888	2,580,124	2,757,422	0	0
Gross technical provisions	194,333,904	162,184,998	151,266,966	141,608,498	17,782,163	17,081,646
Technical provisions for the benefit of life insurance policyholders who bear the investment risk	0	0	0	0	26,631,201	23,673,423

Consolidated gross unearned premiums increased by 18.0% compared to year end 2011. Most of this increase has been contributed by Sava Reinsurance Company with its high growth in Asian markets where treaties are renewed in the second quarter, which is why unearned premiums of this portfolio are still relatively high. Likewise, the increase in unearned premiums in other parts of the portfolio quarters is in line with normal interim movement.

Consolidated gross claims provisions grew by 12.3%, which was also mostly contributed by the controlling company; provisions for Slovenian cedants dropped by 0.5%, while provisions for foreign business grew by 32.4% in line with the change in the portfolio structure. Incidentally, the increased loss estimate for the Thailand floods had a very small effect on the claims provision as the majority of the increase had been transferred to retrocessionaires.

4.4 Capital adequacy

At 30 September 2012, Sava Reinsurance Company recorded a EUR 19.4m surplus of available solvency margin over minimum capital, with the solvency ratio at 182.3%. The ratio compares favourably with the ratios of other European reinsurers and ensures stable operations. In the final quarter, Sava Reinsurance Company is planning to recapitalise certain subsidiaries, which will reduce available capital through increased contra accounts; conversely, available capital is expected to go up by the amount of net profit for the year 2012.

At 30 September 2012, capital levels were adequate in all Group companies, except in Sava osiguruvanje, Skopje, which was recapitalised in October.

4.5 Sources of finance and their maturities

At 30 September 2012, the Sava Re Group had EUR 165.9m of equity, EUR 31.2m of subordinated liabilities and EUR 3.1m of other financial liabilities. From the above, it is evident that debt accounts for 17.2% of equity (year-end 2011: 20%). Sava Reinsurance Company and other Group companies are planning to reduce the debt-to-equity ratio as equity will suffice for day-to-day operations of the Group.

The subordinate loan 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 are EUR 3.0m and are all due in 2012.

At 30 September 2012, intra-Group loans totalled EUR 6.8m (31 December 2011: EUR 10.9m).

4.6 Cash flow

On 30 September 2012, net cash from operating activities at the Group level was EUR 9.4m, net cash from investing activities totalled EUR 4.0m and net cash used in financing activities was EUR 6.8m. The net decrease in cash and cash equivalents was thus EUR 1.4m.

Sava Reinsurance Company generated a positive cash-flow from operating activities of EUR 7.4m.

4.7 Credit rating

In August 2012, rating agency Standard & Poor's downgraded Sava Reinsurance Company from A– with a negative outlook to BBB+ with a negative outlook. The change in the credit rating is a result of Standard & Poor's downgrade in the sovereign rating for Slovenia from A+ to A with a negative outlook. This credit rating was reaffirmed in November 2012.

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 at the Company's website www.sava-re.si.

In 2012, Sava Reinsurance Company decided to obtain a second credit rating – from the international rating agency AM Best, which specialises in insurance businesses. Upon reviewing the operations of Sava Reinsurance Company and the Sava Re Group, the rating agency awarded Sava Reinsurance Company an A– credit rating with a stable outlook. This credit rating is marginally less strongly tied to the sovereign credit rating of Slovenia, reflecting the Company's financial stability.

5 PERSONNEL

No. of employees in the Sava Re Group⁸

	30. 9. 2012	31. 12. 2011	Change
Zavarovalnica Tilia, Slovenia	367	378	-11
Sava osiguranje, Serbia	241	266	-25
Sava Montenegro, Montenegro	152	140	12
Velebit osiguranje, Croatia	142	147	-6
Sava osiguruvanje, Macedonia	119	120	-1
Illyria Life, Kosovo	98	98	0
Illyria, Kosovo	85	141	-56
Sava životno osiguranje, Serbia	84	84	-1
Velebit životno osiguranje, Croatia	78	79	-1
Sava Reinsurance Company, Slovenia	66	66	0
Sava Car, Montenegro	9	9	0
Bro-Dil, Macedonia	2	2	0
Total	1,442	1,530	-88

Compared to year-end 2011, the number of employees in the Group decreased by 88. The movement in the number of employees largely relates to changes in agency networks, where we aim at increased efficiency.

⁸ No. of employees on a full-time equivalent basis.

6 RISK MANAGEMENT

6.1 Underwriting risk

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

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

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

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

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

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

6.2 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.

6.2.1 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.

Interest rate risk sensitivity is monitored through calculating the loss in the bond portfolio if interest rates rose by two percentage points. The bond portfolio includes government bonds, corporate bonds, bond mutual funds with a weight of 1 and mixed mutual funds with a weight of 0.5.

In the first three quarters of 2012, interest rate risk for non-life business continued decreasing due to the purchase of short-term bonds.

Interest rate risk in life business 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 invested assets would fully offset an increase in mathematical provisions only if maturities of liabilities and investments were fully matched.

We consider that interest rate risk on the Group level did not change in the first three quarters of 2012, as the amount of interest sensitive investments did not change substantially compared to the end of the prior year.

6.2.2 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 20-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).

To assess the Group's sensitivity of investments to equity securities risk, we assume a 20% drop in the value of all equity securities. At 30 September 2012, this would decrease the value of the Group portfolio by EUR 2.3m (30 June 2012: EUR 2.2m). The increased potential drop in the value of investments is a result of the increase in prices for Slovenian stocks. The value of the equity portfolio changes linearly with stock prices.

6.2.3 Currency risk

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.

The Group has a surplus of euro-denominated assets over liabilities, while it has deficits in other currencies. At the end of 2011, the controlling company had the largest deficit in US dollars (EUR 16.5m), which is related to the growth in business from Asia. The controlling company has continued buying US-denominated investments in 2012, reducing its deficit to EUR 2.9m.

6.2.4 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.

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.

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.

In terms of geography, the controlling company is most strongly exposed to Slovenia (49.2% of the investment portfolio), while by industry, its largest exposure is to the banking sector and to government bonds.

The largest single issuer of debt or equity securities that the Group is exposed to is the Republic of Slovenia, an exposure that decreased by EUR 16.2m from EUR 74m at year-end 2011. The remaining portfolio is diversified between over 30 countries.

While we seek to decrease concentration risk by diversification, we are unable to neutralise the (global) systemic risk by diversification only, when all developments in capital markets are unfavourable.

6.3 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.

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 deposits, 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.

We consider liquidity risk to be low in largely unchanged throughout the third quarter 2012.

6.4 Credit risk

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

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.

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.

Retrocession programmes are mostly placed with first-class reinsurers with an adequate credit rating. This is at least A– according to Standard & Poor's for long-term business, and at least BBB+ for short-term business. 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 substantially the same as in 2011.

6.5 Operational risks

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

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

6.6 Exposure to risk up until the end of 2012

We expect that in the remaining three months of the year, the exposure of Sava Reinsurance Company and the Sava Re Group to risks will not change significantly. Due to the nature of its business, the main risks that the Group is exposed to are underwriting risks followed by market risks. The realisation of underwriting risks is fortuitous and only for certain classes of insurance seasonal.

Events that could affect the performance of Sava Reinsurance Company and the Sava Re Group include the November floods in Slovenia and hurricane Sandy in the USA. We estimate that the former event may deteriorate the loss ratio of the controlling company by about one percentage point, while hurricane Sandy is not expected to have any significant effect on business results.

6.7 Insolvency risk

Sava Reinsurance Company meets capital adequacy requirements and so do all its subsidiary companies under local provisions, if we count as such also Sava osiguruvanje, Skopje, which at 30 September 2011 was in recapitalised procedures, which were completed in October 2012. Sava Reinsurance Company's excess of available solvency margin over minimum capital decreased by EUR 0.4m compared to 31 December 2011. The available solvency margin is still well above (EUR 19.4m) the required solvency margin of EUR 23.6m.

Statement of capital adequacy for Sava Reinsurance Company

(EUR)		30. 9. 2012	30. 9. 2011
CORE CAPITAL (Article 106 of the Insurance Act ("ZZavar"))			
Subscribed capital other than share capital subscribed based on cumulative preference shares, or founding capital	1	39,069,099	39,069,099
Capital reserves other than capital reserves related to cumulative preference shares	2	33,003,752	33,003,752
Profit reserves other than reserve for treasury shares and credit risk equalisation & catastrophe equalisation reserves	3	79,810,005	75,848,910
Retained earnings	4	7,915,508	3,596,862
Fair value reserve relating to assets not financed by technical provisions	5	-26,276	-2,959,825
Treasury shares and own interests	6	1,774	1,774
Intangible assets	7	159,355	192,138
Core capital (1+2+3+4+5-6-7)	8	159,610,959	148,364,886
Minimum guarantee fund	9	7,860,997	7,046,814
Meeting the requirement under paragraph 4 of Article 106 of the ZZavar (8 – 9)	10	151,749,962	141,318,072
ADDITIONAL CORE CAPITAL (Article 107 of the ZZavar)			
Subordinated debt	11	5,895,748	5,285,110
Additional core capital (11), however not more than 50% of the lower of core capital and minimum guarantee fund	12	5,895,748	5,285,110
AVAILABLE SOLVENCY MARGIN AND STATEMENT OF CAPITAL ADEQUACY (Article 108 of the ZZavar)			
Total of core and additional core capital (8 + 12)	13	165,506,707	153,649,996
Participation according to Article 108, paragraph 1, point 1 of the ZZavar	14	121,122,422	118,294,342
Participation according to Article 108, paragraph 1, point 2 of the ZZavar	15	1,390,000	1,512,507
Available solvency margin of insurer (13 – 14 – 15)	16	42,994,285	33,843,147
Required solvency margin	17	23,582,992	21,140,441
Surplus/deficit of available solvency margin (16 – 17)	18	19,411,293	12,702,706



<p>SUMMARY OF SAVA RE GROUP FINANCIAL STATEMENTS WITH NOTES</p>

7 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7.1 Unaudited consolidated statement of financial position

(EUR)	30. 9. 2012	31. 12. 2011
ASSETS	634,060,263	582,037,026
Intangible assets	18,098,049	18,274,819
Property, plant and equipment	24,261,730	24,503,335
Deferred tax assets	2,858,793	4,527,413
Investment property	5,591,397	6,071,447
Financial investments in associate companies	54,097,386	49,085,007
Financial investments:	352,656,537	325,188,363
- Loans and deposits	108,233,019	107,037,143
- Held to maturity	15,625,642	15,420,514
- Available for sale	225,372,267	198,012,939
- At fair value through profit or loss	3,425,609	4,717,767
Funds for the benefit of policyholders who bear the investment risk	27,127,565	24,138,957
Znesek ZTR, prenesen pozavarovateljem	31,404,001	21,608,381
Receivables	97,090,066	86,266,849
Receivables arising out of primary insurance business	29,758,158	26,342,606
Receivables arising out of reinsurance and co-insurance business	59,896,421	52,698,920
Current tax assets	545,874	295,638
Druge terjatve	6,889,613	6,929,685
Deferred acquisition costs	16,135,803	15,938,449
Other assets	1,090,647	1,338,989
Cash and cash equivalents	3,311,102	4,710,455
Non-current assets held for sale	337,188	384,562
EQUITY AND LIABILITIES	634,060,263	582,037,026
Equity	165,920,551	148,080,050
Share capital	39,069,099	39,069,098
Capital reserves	25,368,113	25,417,397
Profit reserves	90,331,903	90,243,081
Treasury shares	-1,774	-1,774
Fair value reserve	-3,841,842	-10,809,738
Retained earnings	4,008,814	2,878,547
Net profit for the period	12,383,397	1,147,011
Translation reserve	-3,289,198	-2,338,002
Equity attributable to owners of the controlling company	164,028,512	145,605,620
Non-controlling interest in equity	1,892,039	2,474,430
Subordinated liabilities	31,231,435	31,220,817
Technical provisions	363,383,033	320,875,142
Unearned premiums	103,041,148	87,330,269
Mathematical provisions	17,218,629	16,503,688
Provision for outstanding claims	240,093,257	213,830,875
Other technical provisions	3,029,999	3,210,310
Technical provision for the benefit of life insurance policyholders who bear the investment risk	26,631,201	23,673,423
Other provisions	841,270	795,606
Other financial liabilities	3,145,648	5,782,075
Obveznosti iz poslovanja	33,672,693	41,486,025
Liabilities from primary insurance business	1,882,974	1,397,404
Liabilities from reinsurance and co-insurance business	31,049,084	37,621,182
Tax liabilities	740,635	2,467,439
Other liabilities	9,234,432	10,123,890

7.2 Unaudited consolidated income statement

(EUR)	1-9/2012	1-9/2011
Net earned premiums	183,981,797	177,023,727
Gross premiums written	215,852,845	202,274,074
Written premiums ceded to reinsurers and co-insurers	-18,939,761	-20,528,912
Change in net unearned premiums	-12,931,287	-4,721,435
Income from investments in associates	4,772,235	2,515,871
- Profit from investments in equity-accounted associate companies	2,832,294	-1,727,750
- prihodki od dividend pridruženih družb	1,939,941	4,243,621
Investment income	16,845,260	11,509,926
- Interest income	10,316,780	9,370,941
- Other investment income	3,459,412	1,268,248
- Net unrealised gains on investments of life insurance policyholders who bear the investment risk	3,069,068	870,737
Other technical income	4,747,675	4,359,626
Commission income	2,199,490	1,819,499
Other technical income	2,548,185	2,540,127
Other income	595,133	365,292
Net claims incurred	-112,029,869	-104,274,507
Gross claims paid less income from recourse receivables	-95,728,819	-94,037,615
Reinsurers' and co-insurers' share of claims paid	4,143,004	5,478,866
Change in the net provision for outstanding claims	-20,444,054	-15,715,758
Change in other technical provisions	-952,946	-1,089,413
Change in technical provisions for policyholders who bear the investment risk	-3,068,843	1,724,735
Expenses for bonuses and rebates	-107,974	-247,117
Operating expenses	-64,332,516	-64,755,649
- Acquisition costs	-40,495,653	-39,399,350
- Other operating expenses	-23,836,863	-25,356,299
Expenses for investments in affiliates	0	-2,549,076
Expenses for financial assets and liabilities	-7,375,979	-10,828,162
- Impairment losses on financial assets not measured at fair value through profit or loss	-935,770	-3,162,625
- Interest expense	-1,278,770	-1,415,834
- Other investment expenses	-3,398,961	-1,356,527
- Net unrealised losses on investments of life insurance policyholders who bear the investment risk	-1,762,478	-4,893,176
Other technical expenses	-7,011,016	-7,296,347
Other expenses	-983,872	-1,181,278
Profit/loss before tax	15,079,085	5,277,627
Income tax expense	-3,133,574	-2,944,286
Net profit for the period	11,945,511	2,333,341
Net profit/loss for the period attributable to owners of the controlling company	12,466,462	3,344,401
Net profit/loss for the period attributable to non-controlling interest	-520,951	-1,011,060

7.3 Unaudited consolidated statement of comprehensive income

(EUR)	1-9/2012	1.9.2011
PROFIT/LOSS FOR THE PERIOD, NET OF TAX	11,945,511	2,333,341
OTHER COMPREHENSIVE INCOME, NET OF TAX	6,057,335	-3,387,089
Net change in fair value of available-for-sale financial assets	6,068,066	-3,511,027
Gains/losses recognised in the fair value reserve	5,125,740	-1,601,699
Net change transferred from fair value reserve to profit or loss	942,327	-1,909,328
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	2,180,083	-349,751
Tax on other comprehensive income	-1,255,066	141,433
Net gains/losses from translation of financial statements of non-domestic companies	-935,748	332,256
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	18,002,845	-1,053,748
Share attributable to controlling interest	18,479,048	1,167
Share attributable to non-controlling interest	-476,203	-1,054,915

7.4 Unaudited consolidated statement of cash flows

EUR		Note	1-9/2012	1-9/2011
A. Cash flows from operating activities				
a.)	Items of the income statement	35	29,776,393	5,551,064
1.	Net premiums written	27	215,852,845	181,745,162
2.	Investment income (other than financial income), financed from:	29	2,546,323	1,923,453
	- technical provisions		2,251,627	1,553,222
	- other sources		294,696	370,231
3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables		4,747,675	4,359,626
4.	Net claims paid	31	-112,029,869	-88,558,749
5.	Expenses for bonuses and rebates		-7,011,016	-7,011,016
6.	Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	33	-64,114,910	-62,841,390
7.	Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:		-6,097,209	-12,243,996
	- technical sources		-5,221,282	-7,216,102
	- other sources		-875,927	-5,027,894
8.	Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	34	-983,872	-8,477,625
9.	Tax on profit and other taxes not included in operating expenses	35	-3,133,574	-3,344,401
b.)	Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax receivables/liabilities) of operating items of the statement of financial position		-20,411,571	1,689,367
1.	Change in receivables from primary insurance	9	-3,415,552	1,823,455
2.	Change in receivables from reinsurance	9	-7,197,501	-460,662
3.	Change in other receivables from re/insurance business	9	40,072	-597,484
4.	Change in receivables and assets	9	-2,228,914	186,532
5.	Change in deferred tax assets	3	1,667,237	-488,763
6.	Change in inventories		53,355	-21,045
7.	Change in liabilities arising out of primary insurance	25	485,570	-2,982,775
8.	Change in liabilities arising out of reinsurance business	25	-6,572,098	-3,426,680
9.	Change in other operating liabilities	26	-2,416,262	7,640,482
10.	Change in other liabilities (except unearned premiums)	26	-827,478	150,231
11.	Change in deferred tax liabilities	3	0	-133,924
c.)	Net cash from/used in operating activities (a + b)		9,364,822	7,240,431
B. Cash flows from investing activities				
a.)	Cash receipts from investing activities		369,951,795	386,000,451
1.	Interest received from investing activities relating to:		10,316,780	9,370,941
	- investments financed from technical provisions		8,376,839	7,711,591
	- other investments		1,939,941	1,659,350
2.	Cash receipts from dividends and from participation in the profit of others, relating to:		3,629,907	4,459,153
	- investments financed from technical provisions		218,319	84,960
	- other investments		3,411,588	4,374,193
4.	Proceeds from sale of property and equipment, financed from:		111,154	151,831
	- technical provisions		101,243	29,516
	- other sources		9,911	122,315
5.	Proceeds from sale of long-term financial investments, financed from:		83,120,188	236,364,159
	- technical provisions		71,125,214	142,392,694
	- other sources		11,994,974	93,971,465
6.	Proceeds from sale of short-term financial investments, financed from:		272,773,766	135,654,367
	- technical provisions		236,085,485	134,636,080
	- other sources		36,688,281	1,018,287
b.)	Cash disbursements in investing activities		-373,928,468	-396,903,506
1.	Izdatki za pridobitev neopredmetenih sredstev		-89,956	-337,480
2.	Purchase of property and equipment, financed from:		-830,942	-218,911
	- technical provisions		-57,995	0
	- other sources		-772,947	-396,652
3.	Purchase of long-term financial investments, financed from:		-250,472,343	-87,694,214
	- technical provisions		-235,428,006	-65,756,349
	- other sources		-15,044,337	-21,937,865
4.	Purchase of short-term financial investments, financed from:		-122,535,226	-325,844,046
	- technical provisions		-82,759,578	-238,923,808
	- other sources		-39,775,648	-86,920,238
c.)	Net cash from/used in investing activities (a + b)		-3,976,673	-10,903,055
C. Cash flows from financing activities				
a.)	Cash receipts from financing activities		8,000,000	11,500,000
3.	Proceeds from short-term borrowing		8,000,000	11,500,000
b.)	Cash disbursements in financing activities		-14,787,500	-7,915,834
1.	Interest paid		-1,278,770	-1,415,834
4.	Repayment of short-term financial liabilities		-13,500,000	-6,500,000
5.	Dividends and other profit participations paid		-8,730	0
c.)	Net cash from/used in financing activities (a + b)		-6,787,500	3,584,166
C2 Closing balance of cash and cash equivalents			3,311,102	3,948,145
x.) Net increase/decrease in cash and cash equivalents for the period (Ac + Bc +			-1,399,350	-78,457
Opening balance of cash and cash equivalents			4,710,453	4,026,603

7.5 Unaudited consolidated statement of changes in equity for the nine months to 30 September 2012

(EUR)	III. Profit reserves								IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	VII. Treasury shares (contra account)	VIII. Consolidation equity adjustment	IX. Total Group equity	XI. Non-controlling interest in equity	XII. Total (14 + 15)
	I. Share capital	II. Capital reserves	Contingency reserve	Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risks	Catastrophe equalisation reserve	Other								
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.
Opening balance in financial period	39,069,099	25,417,396	0	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
Comprehensive income for the year, net of tax	0	0	0	0	0	0	0	0	6,963,784		12,466,462	0	-951,196	18,479,049	-476,203	18,002,845
Payout of (accounting for) dividends	0	0	0	0	0	0	0	0	0	-8,731	0	0	0	-8,731	0	-8,731
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	0	-9,260	92,327	0	0	0	-83,067	0	0	0	0	0
Increase in share	0	-49,284	0	4,152	0	0	1,603	0	4,113	-8,014	0	0	0	-47,430	-106,191	-153,621
Transfer of profit/loss	0	0	0	0	0	0	0	0	0	1,147,009	-1,147,009	0	0	0	0	0
Closing balance in financial period	39,069,099	25,368,112	0	16,677,980	1,774	736,030	8,090,865	64,825,254	-3,841,842	4,008,814	12,383,397	-1,774	-3,289,203	164,028,509	1,892,039	165,920,551

7.6 Unaudited consolidated statement of changes in equity for the nine months to 30 September 2011

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	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	Reserves for credit risks	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	25,417,397	16,660,613	1,774	1,261,187	6,576,060	60,862,385	-121,459	557,800	2,370,698	-1,774	-2,412,023	150,241,757	4,442,851	154,684,608
Comprehensive income for the period, net of tax	0	0	0	0	0	0	0	-3,675,490	0	3,344,401	0	332,256	1,167	-1,054,915	-1,053,748
Allocation of net profit to profit reserve	0	0	13,215	0	0	0	0	0	-13,215	0	0	0	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-243,569	76,157	0	0	0	167,412	0	0	0	0	0
Increase in share	0	0	0	0	0	0	0	0	41,004	0	0	0	41,004	27,534	68,538
Transfer of profit/loss	0	0	0	0	0	0	0	0	2,370,698	-2,370,698	0	0	0	0	0
Closing balance in financial period	39,069,099	25,417,397	16,673,828	1,774	1,017,618	6,652,217	60,862,385	-3,796,949	2,956,287	3,511,813	-1,774	-2,079,767	150,283,928	3,415,470	153,699,398

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The selected notes to the financial statements for the nine months to 30 September 2012 are significant to an understanding of the changes in financial position and performance of the Group in the first nine months of 2012 as compared to both the first nine months of 2011 and end-of-year 2011.

8.1 Overview of major accounting policies

The financial statements with notes have been prepared in compliance with IAS 34 "Interim Financial Reporting".

Pursuant to IAS 34, notes are provided in relation to major business events that are required to understand the financial position and performance of the Group compared to the previous annual financial report prepared for 2011.

The financial statements for the nine months to 30 September with notes have not been audited.

The interim financial statements at 30 September 2012 have been prepared using the same accounting policies and calculation methods as in the annual financial statements for 2011.

8.2 Seasonality and cyclicity of interim operations

The operations of the Group are not seasonal in nature. Pursuant to technical rules, Group insurance companies defer costs/expenses and income that, by their nature, may or is required to be deferred also at the year-end.

8.3 The nature and amount of unusual items

There were no unusual events that by their nature, scope or manner of occurrence would affect the assets, liabilities, equity, net profit or cash flows in the nine months to 30 September 2012.

8.4 Issuances, repurchases, and repayments of debt and equity securities

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

The Group paid out dividends to minority shareholders of EUR 8,730. These are dividends of the Zavarovalnica Tilia.

8.5 Key accounting estimates and judgements

The Group is predominately composed of financial companies that invest their assets (those supporting liabilities as well as capital funds) in financial instruments. If the fair value of any financial instrument falls below its cost, the Group – pursuant to applicable accounting rules – considers whether the decrease is a significant and long-term one, in the event of which the financial instrument is impaired. In the nine months to 30 September 2012, the Group recognised impairment losses on investments, mainly equities, of EUR 936k.

8.6 Analysis of operating segments

Operating segments disclosed and monitored were determined based on the various activities carried out in the Group. Segments have been formed based on types of 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, CODM⁹ (Chief Operating Decision Maker) is a group composed of management board members, director of finance, director of accounting, director of controlling, and director of risk management. CODM can monitor quarterly the profit/loss generated by 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.

Operating segments include reinsurance, non-life business, life business, and other. Performance of these segments is monitored based on different indicators, a common 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 insurers and to the non-life business of Zavarovalnica Tilia, a composite insurance company; the life segment relates to life business of Group insurers and to the life business of Zavarovalnica Tilia. The "other" segment relates to business of a stock broking company and other Group companies. 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 segment and the non-life segment 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.

⁹ Chief Operating Decision Maker (senior executive with decision making power or management board including executive directors who allocate resources and assess performance).

Statement of financial position by operating segment

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Consolidation adjustment		Total	
	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011
ASSETS	455,949,838	417,051,465	219,370,591	203,991,844	59,450,927	55,339,001	17,144,902	14,107,563	-117,855,994	-108,452,846	634,060,263	582,037,029
Intangible assets	159,355	175,779	1,584,223	1,794,545	266,725	233,455	2,442	3,046	16,085,304	16,067,994	18,098,049	18,274,819
Property, plant and equipment	2,440,125	2,367,170	15,225,744	15,434,217	4,650,028	4,774,256	1,945,833	1,927,692	0	0	24,261,730	24,503,335
Deferred tax assets	2,570,915	4,064,272	180,659	342,089	107,219	121,052	0	0	0	0	2,858,793	4,527,413
Investment property	156,836	158,587	5,268,597	5,749,289	165,964	163,571	0	0	0	0	5,591,397	6,071,447
Financial investments in associate companies	120,243,317	114,423,243	2,931,621	2,926,546	869,480	859,074	14,351,440	11,680,470	-84,298,472	-80,804,326	54,097,386	49,085,007
Financial investments:	222,048,553	208,748,194	113,231,222	105,526,148	23,803,852	21,807,711	634,410	277,810	-7,061,500	-11,171,500	352,656,537	325,188,366
- Loans and deposits	52,544,761	57,859,936	53,339,010	52,987,374	8,776,338	7,212,843	634,410	148,490	-7,061,500	-11,171,500	108,233,019	107,037,143
- v posesti do zapadlosti	5,078,169	7,513,050	7,284,025	5,012,364	3,263,448	2,895,100	0	0	0	0	15,625,642	15,420,514
- Available for sale	163,853,109	143,375,208	50,850,321	44,238,494	10,668,837	10,269,917	0	129,320	0	0	225,372,267	198,012,939
- At fair value through profit or loss	572,514	0	1,757,866	3,287,916	1,095,229	1,429,851	0	0	0	0	3,425,609	4,717,767
Funds for the benefit of policyholders who bear the investment risk	0	0	0	0	27,127,565	24,138,957	0	0	0	0	27,127,565	24,138,957
Reinsurers' share of technical provisions	26,277,222	17,615,761	29,437,740	25,645,091	37,642	53,573	0	0	-24,348,603	-21,706,044	31,404,001	21,608,381
Assets from investment contracts	0	0	0	0	0	0	0	0	0	0	0	0
Receivables	71,585,364	59,848,462	41,610,286	35,143,479	1,583,229	1,699,095	131,521	104,422	-17,820,334	-10,528,609	97,090,066	86,266,849
Receivables arising out of primary insurance business	0	0	29,605,984	25,934,918	260,939	349,718	0	102,007	-108,765	-44,037	29,758,158	26,342,606
Receivables arising out of reinsurance and co-insurance business	70,349,322	58,948,939	5,799,978	3,987,706	11,515	18,230	0	0	-16,264,394	-10,255,955	59,896,421	52,698,920
Current tax assets	267,011	0	277,596	294,490	0	0	1,267	1,148	0	0	545,874	295,638
Other receivables	969,031	899,523	5,926,728	4,926,365	1,310,775	1,331,147	130,254	1,267	-1,447,175	-228,617	6,889,613	6,929,685
Deferred acquisition costs	9,815,133	9,305,676	6,424,179	6,565,482	308,880	377,652	0	0	-412,389	-310,361	16,135,803	15,938,449
Other assets	282,633	190,408	719,532	1,094,523	57,821	54,058	30,661	0	0	0	1,090,647	1,338,989
Cash and cash equivalents	370,385	153,912	2,419,600	3,385,873	472,522	1,056,547	48,595	114,123	0	0	3,311,102	4,710,455
Non-current assets held for sale	0	0	337,188	384,562	0	0	0	0	0	0	337,188	384,562

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Consolidation adjustment		Total	
	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011	30. 9. 2012	31. 12. 2011
EQUITY AND LIABILITIES	455,949,838	417,051,465	219,370,591	203,991,844	59,450,927	55,339,001	17,144,902	14,107,563	-117,855,994	-108,452,846	634,060,263	582,037,029
Equity	169,978,989	158,454,528	33,556,780	27,481,892	13,803,741	13,071,188	16,846,742	13,816,944	-68,265,696	-64,744,503	165,920,552	148,080,052
Share capital	39,069,099	39,069,099	45,395,199	42,750,538	21,966,869	22,086,990	16,697,025	14,153,845	-84,059,093	-78,991,374	39,069,099	39,069,098
Capital reserves	33,003,753	33,003,753	1,430,708	0	1,098,838	57	0	0	-10,165,186	-7,586,413	25,368,113	25,417,397
Profit reserves	87,547,590	87,556,850	2,207,881	2,115,554	336,491	336,491	90,189	90,189	149,752	143,997	90,331,903	90,243,081
Treasury shares	-1,774	-1,774	0	0	0	0	0	0	0	0	0	-1,774
Fair value reserve	-4,635,170	-9,088,908	1,024,434	630,488	-425,954	-400,356	72	9,828	194,776	-1,960,790	-3,841,842	-10,809,738
Retained earnings	7,915,508	3,596,862	-17,973,885	-12,788,554	-7,404,976	-5,969,149	-27,525	24,003	21,499,692	18,015,385	4,008,814	2,878,547
Net profit for the period	7,079,982	4,318,647	3,669,874	-3,652,911	-789,438	-2,261,027	357,075	-61,284	2,065,904	2,803,586	12,383,397	1,147,011
Consolidation equity adjustment	0	0	-2,197,432	-1,573,223	-978,090	-721,818	-270,095	-399,637	156,419	356,676	-3,289,198	-2,338,000
Equity attributable to owners of the controlling company	169,978,989	158,454,530	33,556,780	27,481,892	13,803,741	13,071,188	16,846,742	13,816,944	-70,157,735	-67,218,933	164,028,513	145,605,622
Non-controlling interest in equity	0	0	0	0	0	0	0	0	1,892,039	2,474,430	1,892,039	2,474,430
Subordinated liabilities	31,231,435	31,220,817	1,390,550	0	0	0	0	0	-1,390,550	0	31,231,435	31,220,817
Technical provisions	218,682,506	183,891,042	151,266,965	141,608,498	17,782,162	17,081,646	-1	0	-24,348,604	-21,706,044	363,383,029	320,875,142
Unearned premiums	52,552,148	40,897,411	59,667,102	53,660,457	318,377	379,712	0	0	-9,496,479	-7,607,311	103,041,148	87,330,269
Mathematical provisions	0	0	0	0	17,218,629	16,503,688	0	0	0	0	17,218,629	16,503,688
Provision for outstanding claims	165,533,794	142,394,053	89,019,740	85,190,619	245,157	198,246	0	0	-14,705,434	-13,952,043	240,093,257	213,830,875
Other technical provisions	596,565	599,578	2,580,124	2,757,422	0	0	0	0	-146,690	-146,690	3,029,999	3,210,310
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	0	0	26,631,201	23,673,423	0	0	0	0	26,631,201	23,673,423
Other provisions	162,629	143,730	602,400	573,772	75,457	77,323	784	781	0	0	841,270	795,606
Liabilities related to non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Liabilities under financial contracts	0	0	0	0	0	0	0	0	0	0	0	0
Other financial liabilities	511	729	8,677,693	13,997,498	0	0	271,500	0	-5,804,056	-8,216,152	3,145,648	5,782,075
Liabilities from operating activities	34,663,616	42,059,351	15,173,236	9,309,278	197,267	372,080	13,700	13,700	-16,375,126	-10,268,384	33,672,694	41,486,025
Liabilities from primary insurance business	0	0	1,782,668	1,250,730	94,488	136,321	13,700	13,700	-7,882	-3,347	1,882,974	1,397,404
Liabilities from reinsurance and co-insurance business	34,663,616	40,374,262	12,700,569	7,375,999	52,143	135,958	0	0	-16,367,244	-10,265,037	31,049,085	37,621,182
Tax liabilities	0	1,685,089	689,999	682,549	50,636	99,801	0	0	0	0	740,635	2,467,439
Other liabilities	1,230,152	1,281,268	8,702,967	11,020,906	961,099	1,063,341	12,177	276,138	-1,671,963	-3,517,763	9,234,432	10,123,889

Income statement by operating segment

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Total	Consolidation adjustment		Total	
	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011		1-9/2012	1-9/2011	1-9/2012	1-9/2011
Net earned premiums (1)	99,994,702	92,265,325	74,114,652	75,334,211	9,943,931	9,507,059	0	0	184,053,285	-71,488	-82,868	183,981,797	177,023,727
Gross premiums written	124,390,521	110,933,926	99,274,038	98,774,028	9,850,275	9,545,105	0	0	233,514,834	-17,661,989	-16,978,985	215,852,845	202,274,074
- of this third-party clients	106,859,294	94,075,764	99,143,276	98,653,205	9,850,275	9,545,105	0	0	215,852,845	0	0	215,852,845	202,274,074
Written premiums ceded to reinsurers and co-insurers	-15,368,156	-16,744,358	-21,092,790	-20,663,511	-63,562	-76,225	0	0	-36,524,508	17,584,747	16,888,273	-18,939,761	-20,595,821
Change in net unearned premiums	-9,027,663	-1,924,243	-4,066,596	-2,776,306	157,218	38,179	0	0	-12,937,041	5,754	7,844	-12,931,287	-4,654,526
Net claims incurred (2)	-67,378,925	-57,893,476	-40,305,937	-43,102,813	-4,366,716	-3,262,156	0	0	-112,051,578	21,709	-16,064	-112,029,869	-104,274,507
Gross claims paid less income from subrogation receivables	-53,636,420	-50,992,706	-44,496,118	-48,124,232	-4,320,056	-3,245,428	0	0	-102,452,594	6,723,775	8,324,751	-95,728,819	-94,037,615
Reinsurers' and co-insurers' shares	3,362,848	4,431,854	7,490,898	9,355,637	299	13,351	0	0	10,854,045	-6,711,041	-8,321,976	4,143,004	5,478,866
Change in the net provision for outstanding claims	-17,105,353	-11,332,623	-3,300,717	-4,334,217	-46,959	-30,079	0	0	-20,453,029	8,975	-18,839	-20,444,054	-15,715,758
Change in other technical provisions (3)	0	0	-241,846	-152,224	-711,100	-937,189	0	0	-952,946	0	0	-952,946	-1,089,413
Change in the technical provision for policyholders who bear the investment risk (4)	0	0	0	0	-3,068,843	1,724,735	0	0	-3,068,843	0	0	-3,068,843	1,724,735
Operating expenses (5)	-31,433,243	-29,648,047	-32,356,328	-33,793,720	-4,697,337	-4,673,883	-224,769	-151,038	-68,486,908	4,379,160	3,511,040	-64,332,517	-64,755,648
Depreciation/amortisation	-151,963	-156,896	-1,025,469	-1,422,516	-149,183	-108,337	-14,251	-6,588	-1,340,866	-1,694,337	0	-3,035,203	-1,694,337
Other technical income (6)	3,402,294	2,648,357	5,788,131	5,098,258	73,069	45,795	0	23,998	9,263,494	-4,515,819	-3,456,782	4,747,675	4,359,626
Other technical expenses (7)	-1,737,107	-1,323,480	-5,431,181	-5,972,603	-179,763	-49,650	0	0	-7,348,051	337,035	49,386	-7,011,016	-7,296,347
A) Underwriting result (1+2+3+4+5+6+7)	2,847,721	6,048,679	1,567,491	-2,588,891	-3,006,759	2,354,711	-224,769	-127,040	1,408,453	150,597	4,712	1,334,281	5,692,173
Income from investments in affiliates (8)	3,227,949	4,540,448	0	0	0	0	0	0	3,227,949	1,544,286	-2,024,577	4,772,235	2,515,871
Shares in profit/loss of equity-accounted associates	0	0	0	0	0	0	0	0	0	2,832,294	-1,727,750	2,832,294	-1,727,750
Investment income (9)	7,740,799	6,186,996	4,859,733	3,775,149	4,183,818	1,788,808	386,772	5,795	16,784,350	-325,862	-246,820	16,845,260	11,509,928
Interest income	5,955,471	5,341,975	3,874,298	3,444,640	788,676	806,795	7,956	5,795	10,618,445	-309,621	-228,264	10,316,780	9,370,941
Expenses for investments in affiliates (10)	0	-2,549,076	0	0	0	0	0	0	0	0	0	0	-2,549,076
Shares in profit/loss of equity-accounted associates	0	0	0	0	0	0	0	0	0	0	0	0	0
Expenses for financial assets and liabilities (11)	-4,705,309	-4,993,462	-1,005,162	-1,015,305	-1,977,303	-5,071,548	0	0	-7,687,774	311,795	252,153	-7,375,979	-10,828,162
Interest expense	-1,128,668	-1,304,637	-446,805	-334,903	-15,092	-28,447	0	0	-1,590,565	311,795	252,153	-1,278,770	-1,415,834
Impairment loss on goodwill	0	0	0	0	0	0	0	0	0	0	0	0	0
B) Investment result (8 + 9 + 10 + 11)	6,263,439	3,184,906	3,854,571	2,759,844	2,206,515	-3,282,740	386,772	5,795	12,324,525	1,530,219	-2,019,244	14,241,516	648,561
Other income (12)	22,485	1,779	470,011	354,525	40,485	11,349	198,018	7,208	532,981	-135,866	-9,569	595,133	365,292
Expenses for bonuses and rebates (13)	3,013	-11,147	-110,987	-235,970	0	0	0	0	-107,974	1	0	-107,973	-247,117
Other expenses (14)	-5	-62	-979,582	-1,181,225	-1,340	9	-2,946	1	-980,927	1	-4	-983,872	-1,181,281
C) Result of other items (12 + 13 + 14)	25,493	-9,430	-620,558	-1,062,670	39,145	11,358	195,072	7,209	-360,848	-135,864	0	-496,712	-1,063,107
D) Profit/loss before tax (A + B + C)	9,136,653	9,224,155	4,801,504	-891,716	-761,099	-916,671	357,075	-114,036	13,534,133	1,544,952	-2,014,532	15,079,085	5,277,627
E) Income tax expense	-2,065,931	-2,132,125	-1,039,304	-682,146	-28,339	-130,015	0	0	-3,133,574	0	0	-3,133,574	-2,944,286
F) Net profit/loss for the period (D+E)	7,070,722	7,092,030	3,762,200	-1,573,862	-789,438	-1,046,686	357,075	-114,036	10,400,559	1,544,952	-2,014,532	11,945,511	2,333,341

Inter-segment business

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Consolidation adjustment		Total	
	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011
Net earned premiums	17,531,227	16,858,162	130,762	120,823	0	0	0	0	-17,661,989	-16,978,985	0	0
Net claims incurred	-6,708,497	-8,325,583	-15,278	832	0	0		0	6,723,775	8,324,751	0	0
Operating expenses	-4,148,022	-3,568,232	-183,788	70,929	-41,889	-5,504	-5,461	-8,233	4,379,160	3,511,040	0	0
Investment income	321,093	239,736	4,769	7,556	0	-472		0	-325,862	-246,820	0	0
Other income	112,865	45,137	4,401,261	3,413,627	7,995	7,587	129,564	0	-4,651,685	-3,466,351	0	0

8.7 Notes to significant changes in the statement of financial position

8.7.1 Financial investments in associate companies

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

8.7.2 Financial investments

In the first nine months of 2012, financial investments increased by EUR 27.5m: there was an increase in available-for-sale financial investments by approximately this amount, while there was a marginal decrease in assets at fair value through profit or loss.

Pursuant to accounting policies, the Group recognised some impairment losses:

(EUR)	1-9/2012	1-9/2011
Corporate bonds	11,829	940,433
Shares (excluding strategic shares)	855,003	1,838,355
Mutual funds	0	227,565
Loans	68,938	156,272
Total impairment loss	935,770	3,162,625

8.7.3 Receivables

Receivables increased by EUR 10.8m. The largest increase in receivables was recorded in receivables arising out of reinsurance and co-insurance. These are receivables due to the controlling company of EUR 7.2m. There was also an increase in receivables arising out of primary insurance business of EUR 3.4m.

Receivables are discussed in greater detail in section 4.1.

8.7.4 Technical provisions

Technical provisions grew by EUR 42.5m. The largest increase was in the claims provision (EUR 26.3m). Growth was also recorded in unearned premiums (EUR 15.7m).

Technical provisions are described in greater detail in sections 4.1 and 4.3.

8.7.5 Liabilities from operating activities

Liabilities from operating activities decreased by EUR 7.8m especially because of a decrease in liabilities arising out of reinsurance (EUR 6.6m).

9 BUSINESS COMBINATIONS

In the nine months to 30 September 2012, the controlling company participated in the recapitalisation of several Group companies:

- S** Sava životno osiguranje, Belgrade, in the amount of EUR 0.7m,
- S** Illyria, Pristina, in the amount of EUR 2.2m,
- S** Sava osiguranje, Belgrade, in the amount of EUR 0.2m,
- S** Velebit usluge, Zagreb, in the amount of EUR 2.5m.

The recapitalisations had no effect on ownership relations in the above subsidiaries.

The controlling company acquired minority interests in Zavarovalnica Tilia (EUR 0.1m) and some shares in Sava osiguruvanje, Skopje, (EUR 0.05m). The shareholding in both companies thus increased.

10 RELATED-PARTY DISCLOSURES

Key management personnel

Fixed remunerations received by members of the Management Board in the nine months to 30 September 2012 amounted to EUR 451,708 (nine months of 2011: EUR 477,698), while bonuses and other income were EUR 25,731 (first half of 2011: EUR 31,392). No variable remunerations were paid out.

Remunerations paid to Supervisory Board members and members of the Supervisory Board Audit Committee in the first nine months of 2011 amounted to EUR 95,683 (nine months of 2011: EUR 67,820).

Transactions with associates

Receivables due from associates

(EUR)		30. 9. 2012	31. 12. 2011
Receivables for premiums arising out of reinsurance assumed	gross	12,850,198	13,010,377
	allowance	0	0
	net	12,850,198	13,010,377
Total		12,850,198	13,010,377

Liabilities to associates

(EUR)		30. 9. 2012	31. 12. 2011
Liabilities for shares in reinsurance claims		8,453,369	10,749,608
Other short-term liabilities		2,941,045	2,966,760
Total		11,394,414	13,716,368

Operating income from and expenses for associate companies

(EUR)	1-9/2012	1-9/2011
Gross premiums written	34,823,581	40,171,724
Gross claims paid	-17,182,606	-20,080,892
Income from recourse receivables	637,190	1,620,214
Dividend income	1,939,941	4,243,621
Interest income	83,904	85,157
Acquisition costs	-7,323,372	-8,039,667
Additional pension insurance premium	-48,508	-47,015
Total	12,930,130	17,953,142

Transactions with Group companies

Investments in and amounts due from Group companies

(EUR)		30. 9. 2012	31. 12. 2011
Debt securities and loans granted to Group companies	gross	6,790,000	10,900,000
	allowance	0	0
	net	6,790,000	10,900,000
Receivables for premiums arising out of reinsurance assumed	gross	11,567,943	7,015,448
	allowance	0	0
	net	11,567,943	7,015,448
Short-term receivables arising out of investments	gross	299,305	170,550
	allowance	0	0
	net	299,305	170,550
Other short-term receivables	gross	1,773	1,739
	allowance	0	0
	net	1,773	1,739
Short-term deferred acquisition costs	gross	2,182,318	1,900,221
	allowance	0	0
	net	2,182,318	1,900,221
Total		20,841,339	19,987,958

Liabilities to Group companies

(EUR)	30. 9. 2012	31. 12. 2011
Liabilities for shares in reinsurance claims due to Group companies	2,561,634	2,329,272
Other liabilities due from co-insurance and reinsurance	2,189,766	924,970
Other short-term liabilities	855	8,673
Total (excl. provisions)	4,752,255	3,262,915

Intra-group transactions

(EUR)	1-9/2012	1-9/2011
Gross premiums written	17,531,227	16,858,163
Gross claims paid	-7,017,515	-8,708,740
Income from recourse receivables	309,018	383,158
Other operating expenses	54,281	57,345
Dividend income	1,288,008	296,827
Other investment income	321,093	239,737
Interest income	219,303	223,057
Acquisition costs	-4,093,737	-4,735,981
Other non-life income	112,865	45,137
Total (excl. provisions)	8,724,543	4,658,702

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



<p>FINANCIAL STATEMENTS OF SAVA REINSURANCE COMPANY</p>

11 UNAUDITED SEPARATE FINANCIAL STATEMENTS

11.1 Unaudited statement of financial position

(EUR)	30. 9. 2012	31. 12. 2011
ASSETS	455,949,837	417,051,465
Intangible assets	159,355	175,779
Opredmetena osnovna sredstva	2,440,125	2,367,170
Deferred tax assets	2,570,914	4,064,272
Investment property	156,837	158,587
Financial investments in Group companies and in associates	120,243,317	114,423,243
Financial investments:	222,048,553	208,748,194
- Loans and deposits	52,544,761	57,859,936
- Held to maturity	5,078,169	7,513,050
- Available for sale	163,853,109	143,375,208
- At fair value through profit or loss	572,514	0
Reinsurers' share of technical provisions	26,277,222	17,615,761
Receivables	71,585,363	59,848,463
Receivables arising out of reinsurance and co-insurance business	70,349,322	59,880,259
Current tax assets	267,011	0
Other receivables	969,030	899,524
Deferred acquisition costs	9,815,132	9,305,676
Other assets	282,633	190,409
Cash and cash equivalents	370,385	153,913
EQUITY AND LIABILITIES	455,949,837	417,051,465
Equity	169,978,990	158,454,528
Share capital	39,069,099	39,069,099
Capital reserves	33,003,752	33,003,752
Profit reserves	87,547,590	87,556,850
Treasury shares	-1,774	-1,774
Fair value reserve	-4,635,171	-9,088,908
Retained earnings	7,915,508	3,596,862
Net profit for the period	7,079,985	4,318,646
Subordinated liabilities	31,231,435	31,220,817
Technical provisions	218,682,507	183,891,042
Unearned premiums	52,552,148	40,897,411
Mathematical provisions	0	0
Provision for outstanding claims	165,533,794	142,394,053
Other technical provisions	596,565	599,578
Other provisions	162,629	143,730
Other financial liabilities	511	729
Liabilities from operating activities	34,663,618	42,059,351
Liabilities from reinsurance and co-insurance business	34,663,617	40,374,262
Current income tax liabilities	0	1,685,089
Other liabilities	1,230,147	1,281,268

11.2 Unaudited consolidated income statement

(EUR)	1-9/2012	1-9/2011
Net earned premiums	99,994,701	92,265,324
Gross premiums written	124,390,521	110,933,925
Written premiums ceded to reinsurers and co-insurers	-15,368,156	-16,744,358
Change in net unearned premiums	-9,027,664	-1,924,243
Income from investments in affiliates	3,227,949	4,540,448
Investment income	7,740,799	6,186,996
Interest income	5,955,471	5,341,975
Other investment income	1,785,328	845,020
Other technical income	3,402,294	2,648,357
Commission income	1,688,341	1,467,344
Other technical income	1,713,952	1,181,013
Other income	22,485	1,779
Net claims incurred	-67,378,924	-57,893,474
Gross claims paid less income from recourse receivables	-53,636,419	-50,992,706
Reinsurers' and co-insurers' share of claims paid	3,362,848	4,431,854
Change in the net provision for outstanding claims	-17,105,353	-11,332,623
Expenses for bonuses and rebates	3,013	-11,147
Operating expenses	-31,433,241	-29,648,047
Acquisition costs	-26,751,692	-25,069,069
Other operating expenses	-4,681,549	-4,578,978
Expenses for investments in affiliates	0	-2,549,076
Expenses for financial assets and liabilities	-4,705,309	-4,993,462
Impairment losses on financial assets not measured at fair value through profit or loss	-843,018	-2,893,761
Interest expenses	-1,128,668	-1,304,637
Other expenses	-2,733,623	-795,064
Other technical expenses	-1,737,107	-1,323,480
Other expenses	-5	-62
Profit/loss before tax	9,136,656	9,224,156
Income tax expense	-2,065,931	-2,132,125
Net profit for the period	7,070,725	7,092,030
Net diluted earnings/losses per share	0.76	0.76

11.3 Consolidated statement of comprehensive income

(EUR)	1-9/2012	1-9/2011
PROFIT/LOSS FOR THE PERIOD, NET OF TAX	7,070,725	7,092,030
OTHER COMPREHENSIVE INCOME, NET OF TAX	4,453,737	-2,677,440
Net change in fair value of available-for-sale financial assets	5,708,489	-3,346,800
Gains/losses recognised in the fair value reserve	4,765,546	-3,151,879
Net change transferred from fair value reserve to profit or loss	942,943	-194,920
Tax on other comprehensive income	-1,254,751	669,360
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX (I +	11,524,462	4,414,591

11.4 Unaudited statement of changes in equity for the nine months to 30 September 2012

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	VII. Treasury shares (contra account)	Total (1–10)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risks	Catastrophe equalisation reserve	Other					
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
Opening balance in the financial period	39,069,099	33,003,752	14,986,525	1,774	745,290	6,998,007	64,825,254	-9,088,908	3,596,862	4,318,646	-1,774	158,454,527
Comprehensive income for the period, net of tax	0	0	0	0	0	0	0	4,453,737	0	7,070,725	0	11,524,462
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-9,260	0	0	0	0	9,260	0	0
Transfer of profit/loss	0	0	0	0	0	0	0	0	4,318,646	-4,318,646	0	0
Closing balance in the financial period	39,069,099	33,003,752	14,986,525	1,774	736,030	6,998,007	64,825,254	-4,635,171	7,915,508	7,079,985	-1,774	169,978,989
Distributable profit	0	0	0	0	0	0	0	0	7,915,508	7,079,985	0	14,995,493

11.5 Unaudited statement of changes in equity for the nine months to 30 September 2011

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	VII. Treasury shares (contra account)	Total (1–10)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risks	Catastrophe equalisation reserve	Other					
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
Opening balance in the financial period	39,069,099	33,003,752	14,986,525	1,774	1,261,187	6,126,333	60,862,385	-2,767,816	0	3,596,862	-1,774	156,138,328
Comprehensive income for the period net of tax	0	0	0	0	0	0	0	-2,677,440	0	7,092,030	0	4,414,591
Allocation of net profit to profit reserve	0	0	0	0	0	0	0	0	0	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-243,569	0	0	0	0	243,569	0	0
Settlement of loss	0	0	0	0	0	0	0	0	0	0	0	0
Prenos rezultata	0	0	0	0	0	0	0	0	3,596,862	-3,596,862	0	0
Closing balance in the financial period	39,069,099	33,003,752	14,986,525	1,774	1,017,618	6,126,333	60,862,385	-5,445,255	3,596,862	7,335,599	-1,774	160,552,919
Distributable profit	0	0	0	0	0	0	0	0	3,596,862	7,335,599	0	10,932,461

11.6 Unaudited consolidated statement of cash flows

(EUR)		1-9/2012	1-9/2011
A. Cash flows from operating activities			
a.)	Items of the income statement	24,192,236	11,839,211
	Net premiums written	109,022,365	94,189,567
	Investment income (other than financial income), financed from:	1,519,985	667,252
	- technical provisions	1,477,025	268,647
	- other sources	42,960	398,605
	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	3,424,779	2,650,136
	Net claims paid	-50,273,571	-46,560,851
	Expenses for bonuses and rebates	3,013	-11,147
	Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	-32,124,652	-29,402,179
	Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:	-3,576,641	-6,237,901
	- technical sources	-2,700,715	-1,210,007
	- other sources	-875,927	-5,027,894
	Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	-1,737,112	-1,323,542
	Tax on profit and other taxes not included in operating expenses	-2,065,931	-2,132,125
	Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax receivables/liabilities) of operating items of the statement		
b.)	of financial position	-16,809,200	-1,310,881
	Change in receivables from primary insurance	0	0
	Change in receivables from reinsurance	-9,917,287	5,761,774
	Change in other receivables from re/insurance business	0	5,607
	Change in receivables and assets	-938,198	491,041
	Change in deferred tax assets	1,493,358	-561,593
	Change in liabilities arising out of reinsurance business	-5,710,645	-7,105,111
	Change in other operating liabilities	-1,793,271	217,404
	Change in other liabilities (except unearned premiums)	56,843	-33,841
	Change in deferred tax liabilities	0	-86,161
c.)	Net cash from/used in operating activities (a + b)	7,383,035	10,528,330
B. Cash flows from investing activities			
a.)	Cash receipts from investing activities	193,452,919	287,580,082
	Interest received from investing activities relating to:	5,955,471	5,341,975
	- investments financed from technical provisions	4,849,238	3,813,824
	- other investments	1,106,233	1,528,152
	Cash receipts from dividends and from participation in the profit of others, relating to:	3,493,291	4,718,216
	- investments financed from technical provisions	81,908	70,429
	- other investments	3,411,384	4,647,787
	Proceeds from sale of property and equipment, financed from:	1,010	824
	- other sources	1,010	824
	Proceeds from sale of long-term financial investments, financed from:	81,384,460	50,266,217
	- technical provisions	69,944,491	25,510,209
	- other sources	11,439,969	24,756,008
	Proceeds from sale of short-term financial investments, financed from:	102,618,686	227,252,849
	- zavarovalno-tehničnih rezervacij	72,908,643	142,021,972
	- other sources	29,710,043	85,230,877
b.)	Cash disbursements in investing activities	-193,670,739	-293,137,019
	Purchase of intangible assets	-34,844	-68,640
	Purchase of property and equipment, financed from:	-214,370	-45,255
	- other sources	-214,370	-45,255
	Purchase of long-term financial investments, financed from:	-93,354,828	-94,541,773
	- technical provisions	-78,310,606	-73,411,649
	- other sources	-15,044,222	-21,130,124
	Purchase of short-term financial investments, financed from:	-100,066,697	-198,481,351
	- technical provisions	-69,564,597	-112,337,958
	- other sources	-30,502,100	-86,143,393
c.)	Net cash from/used in investing activities (a + b)	-217,820	-5,556,937
C. Cash flows from financing activities			
b.)	Cash disbursements in financing activities	-6,948,742	-5,062,395
	Interest paid	-1,128,668	-1,304,637
	Redemption of equity	0	0
	Repayment of long-term financial liabilities	0	0
	Repayment of short-term financial liabilities	-5,820,074	-3,757,758
c.)	Net cash from/used in financing activities (a + b)	-6,948,742	-5,062,395
C2	Closing balance of cash and cash equivalents	370,386	78,190
x.)	Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)	216,473	-91,002
D.	Opening balance of cash and cash equivalents	153,913	169,193

11.7 Earnings per share

The weighted average number of shares outstanding in the financial period was 9,362,309.

Net earnings/loss per share

(EUR)	30. 9. 2012	30. 9. 2011
Net earnings/losses for the period	7,070,725	7,092,030
Weighted number of shares	9,362,309	9,362,309
Net earnings/loss per share	0.76	0.76

Comprehensive income per share

(EUR)	30. 9. 2012	30. 9. 2011
Comprehensive income	11,524,462	4,414,591
Weighted number of shares	9,362,309	9,362,309
Comprehensive income per share	1.23	0.47

APPENDIX

Appendix – Glossary of selected terms and calculation methodologies for indicators

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

Affiliate

An entity in which the investor has significant influence (through ownership of 20–100 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 = $\text{net claims incurred} + \text{operating expenses} - (\text{reinsurance}) \text{ commission income} / \text{net premiums earned}$.

Composite insurer

Insurer that writes both life and non-life business.

Excess of loss reinsurance

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

Expense ratio

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

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 = $\text{operating expenses} / \text{gross premiums written}$

Gross/net

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

IBNR – provision for claims that are **Incurred But Not Reported**

IBNER – provision for claims that are **Incurred But Not Enough Reported**

RBNS – provision for claims that are **Reported But Not Settled**

IBNS – provision for claims that are **Incurred But Not Settled**

IBNS = **RBNS** + **IBNR**

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

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

Liability fund

Assets supporting technical provisions.

Life insurance liability fund

Assets supporting mathematical provisions.

Loss ratio (Incurred loss ratio)

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

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

Non-proportional reinsurance (excess reinsurance)

A reinsurance arrangement whereby the reinsurer indemnifies a ceding company above a specified level

(usually a monetary amount) of losses that the ceding company has underwritten. A deductible amount is set and any loss exceeding that amount is paid by the reinsurer.

Paid loss ratio

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.

Return on equity (ROE) = net profit for the period / average equity in the period

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.

Strategic shares

Shares of subsidiary and associate companies.

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.

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.

DECLARATION OF THE MANAGEMENT BOARD

"To the best of our knowledge, and in accordance with the International Financial Reporting Standards, the summary financial report gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group, and the business report includes a fair review of transactions with related parties for the nine months to 30 September 2012."

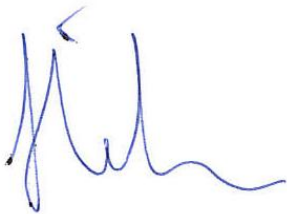
Zvonko Ivanušič, Chairman of the Management Board



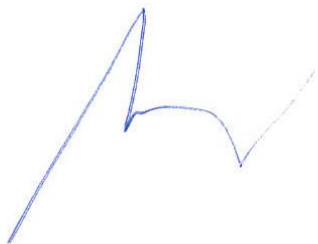
Jošt Dolničar, Member of the Management Board



Srečko Čebren, Member of the Management Board



Mateja Treven, Member of the Management Board



Ljubljana, 20 November 2012