

Business Report 2009



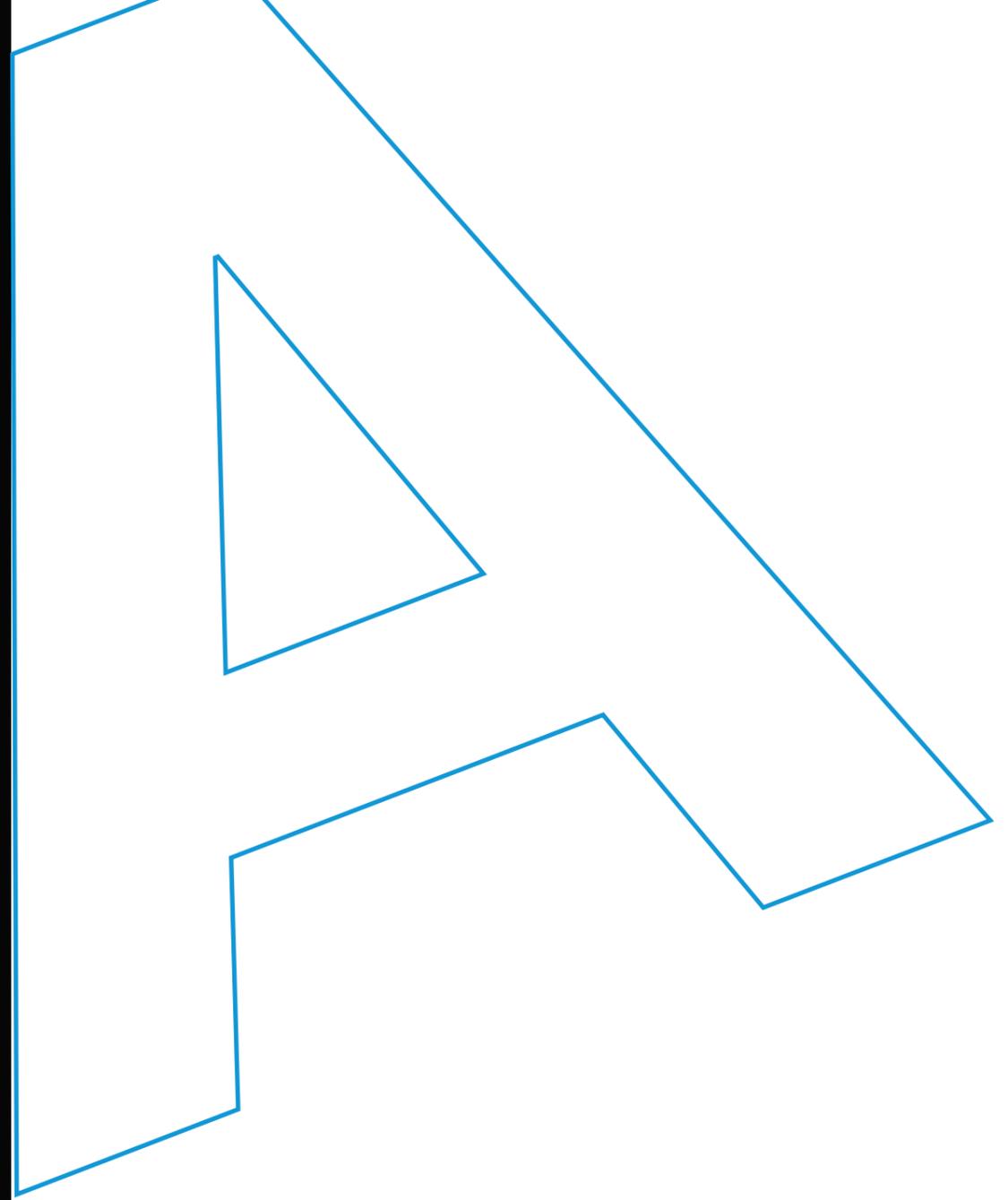
triglav*RE*

Business Report 2009

O

CONTENTS

1	OPERATING PERFORMANCE AND EVENTS IN 2009	8	8	FINANCIAL STATEMENTS	44	
1.1	BUSINESS HIGHLIGHTS	8		8.1	STATEMENT OF FINANCIAL POSITION	44
1.2	SIGNIFICANT EVENTS IN 2009	8		8.2	INCOME STATEMENT	45
1.3	SIGNIFICANT EVENTS AFTER YEAR-END 2009	9		8.3	STATEMENT OF COMPREHENSIVE INCOME	45
1.4	ADDRESS BY THE CHAIRMAN OF THE BOARD OF MANAGEMENT	9		8.4	STATEMENT OF CASH FLOWS	46
2	REPORT BY THE SUPERVISORY BOARD ON THE VERIFICATION OF THE ANNUAL REPORT OF TRIGLAV RE, REINSURANCE COMPANY LTD., FOR THE YEAR 2009	12		8.5	STATEMENT OF CHANGES IN EQUITY	47
3	COMPANY PROFILE	20		9	NOTES TO FINANCIAL STATEMENTS	50
3.1	PROFILE OF TRIGLAV RE, REINSURANCE COMPANY LTD.	20		9.1	REPORTING ENTITY	50
3.2	DEVELOPMENT OVERVIEW OF THE COMPANY	20		9.2	BASIS OF PREPARATION	50
3.3	INFORMATION ON THE TRIGLAV GROUP	21		9.3	SIGNIFICANT ACCOUNTING POLICIES	53
3.4	SHAREHOLDER'S EQUITY AND SHAREHOLDERS OF THE COMPANY	21		9.4	CHANGES IN ACCOUNTING POLICIES	61
3.5	CREDIT RATING OF THE COMPANY	21		9.5	ACCOUNTING ESTIMATES AND JUDGEMENTS	61
4	GENERAL ECONOMIC ENVIRONMENT	24		9.6	PRINCIPAL ASSUMPTIONS THAT HAVE THE GREATEST EFFECT ON NET RECOGNISED REINSURANCE ASSETS, LIABILITIES, INCOME AND EXPENSES	62
4.1	ECONOMIC ENVIRONMENT IN 2009	24		9.7	LIABILITY ADEQUACY TEST (LAT)	63
4.2	INSURANCE BUSINESS IN SLOVENIA	24		9.8	THE SENSITIVITY OF PRESENT VALUE OF FUTURE LIABILITIES TO CHANGES IN SIGNIFICANT VARIABLES	64
5	RISK MANAGEMENT	28		9.9	REINSURANCE CONTRACTS THAT HAVE MATERIAL EFFECT ON UNCERTAINTY OF FUTURE CASH FLOWS	64
5.1	CAPITAL AND CAPITAL REQUIREMENTS	28		10	DISCLOSURES TO THE STATEMENT OF FINANCIAL POSITION	68
5.2	TECHNICAL PROVISIONS	29		10.1	INTANGIBLE ASSETS	68
5.3	FINANCIAL ASSETS AND LIABILITIES FROM REINSURANCE CONTRACTS	29		10.2	PROPERTY, PLANT AND EQUIPMENT	69
5.4	RETROCESSION	29		10.3	DEFERRED TAX ASSETS AND LIABILITIES	69
5.5	OPERATIONAL RISKS	29		10.4	FINANCIAL ASSETS	70
5.6	FINANCIAL RISKS	30		10.5	REINSURERS' SHARE IN TECHNICAL PROVISIONS	71
6	FINANCIAL RESULT	34		10.6	RECEIVABLES	71
6.1	REINSURANCE PREMIUMS	34		10.7	EQUITY	72
6.2	REINSURANCE CLAIMS	35		10.8	LIABILITIES FROM REINSURANCE CONTRACTS	74
6.3	GROSS LOSS RATIO	36		10.9	OPERATING AND OTHER LIABILITIES	76
6.4	FEE AND COMMISSION INCOME AND EXPENSE	36		11	DISCLOSURES TO THE INCOME STATEMENT	80
6.5	FINANCIAL INCOME AND EXPENSES	36		11.1	NET REINSURANCE PREMIUMS EARNED	80
6.6	OPERATING EXPENSES	37		11.2	INCOME AND EXPENSES FROM FINANCIAL ASSETS	81
6.7	FINANCIAL RESULT RATIOS	37		11.3	COMMISSION INCOME AND EXPENSES	83
7	FINANCIAL POSITION	40		11.4	NET CLAIMS INCURRED	83
7.1	ASSETS	40		11.5	OPERATING EXPENSES	83
7.2	LIABILITIES	41		11.6	INCOME TAX EXPENSES	84
7.3	FINANCIAL POSITION RATIOS	41		11.7	RELATED PARTIES	84
				11.8	STATEMENT OF CASH FLOWS	86
				12	RISK MANAGEMENT	90
				12.1	CAPITAL AND CAPITAL REQUIREMENTS	91
				12.2	TECHNICAL PROVISIONS	91
				12.3	FINANCIAL ASSETS AND LIABILITIES FROM REINSURANCE CONTRACTS	92
				12.4	REINSURANCE RISKS	94
				12.5	FINANCIAL RISK MANAGEMENT	94



The company is heading the right way, as proven by having been rated A with a stable outlook by Standard & Poor's in august 2009.

1

OPERATING PERFORMANCE AND EVENTS IN 2009

1.1 Business highlights

in EUR

	YEAR 2009	YEAR 2008	INDEX
Gross reinsurance premium written	114,027,127	111,064,132	103
Gross claims paid	71,020,173	85,685,792	83
Gross operating expenses*	2,728,936	2,458,544	111
Technical provisions	91,103,518	93,981,989	97
Equity	31,370,343	21,935,430	143
Net profit	7,161,757	917,239	781
Number of employees at year-end	38	32	119

*Gross operating expenses by functional groups

1.2 Significant events in 2009

FEBRUARY

At the 34th meeting of the Supervisory Board of Triglav Re, Ltd. Andrej Slapar was appointed as a new member of the Board of Management due to the planned retirement of Milena Pirš, member of the Board of Management.

JUNE

M.Sc. Andrej Kocič irrevocably resigned as a member of the Supervisory Board of Triglav Re, Ltd.

AUGUST

Standard&Poor's upgraded Triglav Re, Ltd. from A- to A with a stable outlook.

SEPTEMBER

At the 44th meeting of the Supervisory Board of Triglav Re, Ltd. M.B.A. Gregor Stražar was appointed as a new member of the Board of Management.

DECEMBER

At the 17th Shareholders Assembly of Triglav Re, Ltd. the new Supervisory Board was appointed for a four year term, composed of: Andrej Slapar – Chairman, Ph.D. Mojca Piškurič – Deputy Chairman and Nadja Pivk – Member.

1.3 Significant events after year-end 2009

JANUAR 2010

On 18 January 2010, M.B.A. Gregor Stražar received the license for the position of a member of the Board of Management of Triglav Re, Ltd.

At its 2nd regular meeting held on 18 January 2010, the Supervisory Board of Triglav Re, Ltd. appointed Tomaž Rotar as a new member of the Board of Management.

1.4 Address by the Chairman of the Board of Management

Reinsurance companies stepped into 2009 with considerable concerns since the 2008 financial year was a most difficult year due to the global economic and financial crisis. The recession seriously weakened the capital strength of the majority of reinsurance companies. Problems continued in 2009, as great uncertainty about the way out of the crisis prevailed throughout the year.

In contrast to other financial institutions, reinsurance companies mainly did not ask governments for support, but rather concentrated on their primary activity and focused on better and more efficient risk management.

The 2009 financial year, however, was a more generous one worldwide, in terms of both weather conditions and incidence of natural disasters, so that most reinsurance companies could again raise their capital to the level of year-end 2007.

Triglav Re, Ltd., marked the 2009 financial year as an exceptional year, having generated a profit of EUR 7.1 million. Gross reinsurance premiums written increased by 2.7% as compared to the 2008 financial year, while gross claims paid decreased even by 17.1%. The high profit was partly attributable to net profit from investments in the amount of EUR 3.5 million. The Company is heading the right way, as proven by having been rated A with a stable outlook by Standard&Poor's in August 2009. In addition, the Company continues to operate cost efficiently, since the share of gross operating expenses compared to gross reinsurance premium only amounts to 2.6%.

Well motivated and competent staff is of key importance to the Company and therefore much attention is paid to their education and training. Aiming to increase the scope of operation and to attain the set strategic goals, the Company strengthened its staff in 2009.

In the years to come, the Company will continue to provide optimal reinsurance protection to the Triglav Group and it will do its best to maintain the existing credit rating. At the same time, the Company envisages profitable extension of its scope of operation to foreign markets, with greatest attention devoted to the improvement of the combined ratio.



2

REPORT BY THE SUPERVISORY BOARD ON THE VERIFICATION OF THE ANNUAL REPORT OF TRIGLAV RE, REINSURANCE COMPANY LTD., FOR THE YEAR 2009

In the past demanding financial year, the Supervisory Board could in spite of the changes in its composition responsibly verify and supervise the management of the company. It monitored the implementation of strategic goals and business plans, and promptly responded to current business developments with relevant recommendations and proposals. The Supervisory Board exercised its powers under the applicable legislation in force, following the adopted management policy of the Triglav Group and good governance and management practice.

Members of the Supervisory Board had sixteen sessions in total, four of them being corresponding sessions. The last session of the year was held on 17 December and was at the same time the first constitutive session of the new Supervisory Board of three members: Andrej Slapar, Chairman, and Ph.D. Mojca Piškurić, Deputy Chairperson, who both started their four year term on that day, and Nadja Pivk, Member.

The members of the Supervisory Board see the operating results of the Company having achieved 7.1 million EUR generated profit, gross claims paid reduced by nearly one fifth, and premiums written increased by 2.8 per cent as exceptionally good, particularly in view of the fierce economic conditions. In part, more favourable results were achieved thanks to better weather condition with less numerous natural disasters worldwide. But in the first place, the Company was operating well thanks to the professionally supported development of its core activity, and because of efficient risk management and growth of customers' trust.

The stability and good prospects of Triglav Re, Reinsurance Company Ltd. have also been confirmed by the Standard&Poor's upgrading from A- to A with a stable outlook.

Triglav Re, Reinsurance Company Ltd. has successfully strengthened its operations in foreign markets and in line with one of its key strategic goals realised 30.4 per cent of total gross premiums written with operations outside the Triglav Group.

Active supervision and monitoring of the Company's management

The Supervisory Board adopted in its sessions several important resolutions and decisions; among others it:

- agreed to the Strategic Plan of the Internal Audit of Triglav Re, Reinsurance Company Ltd. for the period 2009 – 2011 and approved its annual programme;
- adopted the Annual Report and quarterly reports on internal auditing in 2008;
- took note of periodic reports on liquidity management, solvency, capital adequacy and assets backing liabilities;
- gave the Maksima holding, Ltd the permission to pledge the shares of Triglav Re, Reinsurance Company Ltd. as collateral;

- appointed Andrej Slapar as a new member of the Board of Management due to the retirement of Milena Pirš, member of the Board; he took office on 15 April 2009 and resigned from it on 10 November 2009 since he was then appointed member of the Board of Management of Zavarovalnica Triglav, Ltd;
- took note of the report presented by the certified actuary for the year 2008 and of the opinion of the certified actuary to the Annual Report Of Triglav Re, Reinsurance Company Ltd. for the financial year 2008;
- approved the Operating Plan of Triglav Re, Reinsurance Company Ltd. for the financial year 2009,
- approved the proposed amendments to the internal document regulating the Board of Management;
- took note of the Auditor's report for the financial year 2008;
- adopted the Annual Report for the financial year 2008 and approved the Report of the Supervisory Board regarding the verification of the Annual report of Triglav Re, Reinsurance Company Ltd.;
- proposed to the General Meeting of Shareholders to pass the resolution on the distribution of the accumulated profit for the year 2008;
- approved the Operating Charter and Operating Programme of the Internal Audit Department of Triglav Re, Reinsurance Company Ltd.;
- approved the proposed amendments to the Company's Articles of Association regarding the share capital increase with the possibility to reject the approval of transfer of shares, and the number of Supervisory Board members to be reduced to three members (two representatives of shareholders, and one representative of employees);
- took note of the resignation of the Chairman of the Supervisory Board Of Triglav Re, Reinsurance Company Ltd., M.Sc. Andrej Kocič as of 29 May 2009;
- recalled the Supervisory Board member Mateja Perger with the effect of 27 August 2009, due to the reduced number of members of the Supervisory Board;
- recommended the Board of Management to observe the parent company orientation with regard to the remuneration policy;
- appointed Ph.D. Borut Eržen the Chairman of the Supervisory Board as of 10 July 2009; the appointed, however, resigned from the Supervisory Board on 28 September 2009;
- appointed Ph.D. Mojca Piškurić as Deputy Chairperson of the Supervisory Board for the period from 10 July to 30 September 2009, and thereafter as Chairperson for the period from 30 September to 17 December 2009; for the latter period, Ms Nadja Pivk, representative of employees, was appointed Deputy Chairperson;
- appointed M.B.A. Gregor Stražar as a member of the Board of Management; he started his term of office on 18 January 2010 after having received the relevant licence from the Insurance Supervisory Agency;
- took note of the information of the dispersion of reinsurance;
- proposed to the General Meeting of Shareholders to recall the representatives of shareholders in the Supervisory Board, and to appoint Ph.D. Mojca Piškurić in Andrej Slapar to that office with their term starting on 17 December 2009.

Reporting by the Board of Management

The Board of Management Of Triglav Re, Reinsurance Company Ltd. regularly and timely reported to the Supervisory Board on all essential aspects of the Company's operations. The Reports were prepared by segments, such as premiums, damages, provisions, costs and expenses, investments and their effects. They further contained comparisons to equivalents in previous period and to the budgeted figures. In this way, the Board of Management enabled the Supervisory Board to have a continuous and comprehensive survey over the Company's operations.

Verification of the Annual Report for 2009

The Supervisory Board verified the formal sides of the Annual Report and established that the report was drawn up within the statutory term. Based on an assurance given by the Board of Management, the auditor of the company KPMG Slovenija, Ltd., and the certified actuary Tina Lukančič, the Supervisory Board has established that the report comprises all components required by the Companies Act, the Insurance Act, and internal documents.

The Company set up technical provisions and other reserves from profit, and their adequacy was confirmed by both the certified actuary and the auditor. The notes to financial statements contain the information required by the Companies Act in Article 69, items 1 through 20.

The auditor, appointed for the 2009 financial year by the resolution of the General Meeting of Shareholders of Triglav Re, Reinsurance Company Ltd., performed the audit of the Company's financial statements for the 2009 financial year and of the Business Report prepared by the Board of Management; on 10 May 2010, the auditor drew up his report and issued an unqualified opinion.

Pursuant to the statutory requirements of the Insurance Act, certified actuary Tina Lukančič audited the Company's operations from the actuarial point of view. On 22 March 2010 she drew up the report of the certified actuary as at 31 December 2009, and on the same date, i.e. 22 March 2010, she submitted the Certified Actuary's Opinion to the Annual Report of Triglav Re, Reinsurance Company Ltd. for the year 2009.

In line with the provisions of Articles 54 and 282 of the Companies Act, and in connection with Article 158 of the Insurance Act, the Management Board submitted within the statutory prescribed deadline to the Supervisory Board of the Company the Annual Report together with the Auditor's Report and the Opinion by the Certified Actuary to the Annual Report of Triglav Re, Reinsurance Company Ltd. for the year 2009.

Approval of the Annual Report for the year 2009

The Supervisory Board adopted the Annual Report for the year 2009 within the prescribed deadline on 14 May 2010, i.e. prior to the expiry of one month after the Board of Management had presented it to the Supervisory Board. The Supervisory Board has no objections to the 2009 Annual Report and hereby approves it.

Auditor's Report

The Supervisory Board reviewed the auditor's report to the Supervisory Board of Triglav Re, Reinsurance Company Ltd., in which the auditor assures that the financial statements give, in any respect, a true and fair view of the financial position of the Company and have been prepared in conformity with the Slovenian Accounting Standards. The auditor presented his views and opinion to the Supervisory Board in his report.

Certified Actuary's Report

The certified actuary confirmed that the amount of premiums written by Triglav Re, Reinsurance Company Ltd. in 2009, and the amount of technical provisions set up by the Company as at 31 December 2009, are adequate and according to reasonable actuarial expectations provide for sustainable performance and fulfilment of the Company's obligations arising from reinsurance contracts. The assets backing liabilities exceed the amount of technical provisions and are invested and dispersed in accordance with regulations, while the Company meets the capital adequacy requirements. The actuary presented her views on the Company's operations in 2009 to the Supervisory Board in her report.

Proposal for the distribution of the accumulated profit recorded at 31 December 2009

The Supervisory Board reviewed the formal side of the Board of Management's proposal for the distribution of the accumulated profit recorded at 31 December 2009. It established that the distribution of profit proposal was prepared in line with Article 230 of the Companies Act. The proposal for the distribution of profit to be decided by the General Meeting of Shareholders is formulated in line with paragraph 4 of Article 282 of the Companies Act.

Based on paragraph 4 of Article 293 of the Companies Act, the Board of Management and the Supervisory Board of Triglav Re, Reinsurance Company Ltd. therefore submitted the

General Meeting of Shareholders the proposal to adopt its resolution on the distribution of the accumulated profit recorded at 31 December 2009 upon the proposal prepared by the Board of Management and the Supervisory Board.

In the opinion of the Supervisory Board of Triglav Re, Reinsurance Company Ltd., the professional competence and dedication of the Board of Management and of the Company's employees essentially contributed to the successful realisation of the set business objectives of Triglav Re. The Company has provided high reinsurance protection to companies within outside the Triglav Group by reliable risk management and assurance of safe operation. The assigned A rating has additionally confirmed the Company's reliability and strengthened its position of a trustworthy reinsurance partner both in Europe and beyond. Pursuing in the same direction, Triglav Re, Reinsurance Company Ltd., will continue to contribute significantly to the strength and stability of the Triglav Group as a whole and to its profitable operation.

Ljubljana, 21. 5. 2010

Chairman of the Supervisory Board of
Triglav Re, Reinsurance Company Ltd.
Andrej Slapar





Auditor's Report for Public Reporting Purposes

To the Users of the Business Report of Pozavarovalnica Triglav Re, d.d., Ljubljana

We have audited the financial statements of the insurance company Pozavarovalnica Triglav Re, d.d., Ljubljana in accordance with International Standards on Auditing and International Guidelines on Auditing, issued by the International Accounting Standards Board. These financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU. Summarised financial statements as included in the Business Report are derived from Company's audited financial statements and include the statement of financial position as at 31 December 2009, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the selected notes to the financial statements. As stated in our report of 10 May 2010, an unqualified opinion was issued on the financial statements from which the summarised financial statements as included in the Business Report originate. Without expressing qualification we draw attention to the note 15.7.4 to the audited financial statements which describes the inconsistency of the Insurance Act with the requirements of the International Financial Reporting Standards as adopted by EU.

In our opinion, the attached summarised financial statements as included in the Business Report comply, in all material aspects, with the financial statements from which they originate.

For a better understanding of the financial position of Pozavarovalnica Triglav Re, d.d. as at 31 December 2009, its financial performance, its cash flows for the year then ended, and the scope of our audit, it is necessary to read the summarised financial statements as included in the Business Report together with the financial statements from which they derive, and our audit report on these financial statements.

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

Simona Korošec Lavrič, M.Sc.Ec.

Certified Auditor

Katarina Sitar Šuštar, B.Sc.Ec.

Certified Auditor

Partner

Ljubljana, 21 May 2010

KPMG Slovenija, d.o.o.
1

A



3

COMPANY PROFILE

3.1 Profile of Triglav Re, Reinsurance Company Ltd.

Company name:	Triglav Re, Reinsurance Company Ltd.
Short name:	Triglav Re, Ltd.
Legal form:	Company limited by shares
Registered seat:	Miklošičeva 19, 1000 Ljubljana
Web site:	www.triglavre.si
E-mail:	mail@triglavre.si
Company identification number:	13 62 992
Tax number:	16465423
Entered in the Companies Register:	District Court in Ljubljana, Entry No. 1/31/403/00
Share capital:	EUR 3,129,694.54
The Chairman of the Board of Management:	Gojko Kavčič
The Chairman of the Supervisory Board:	Andrej Slapar
Activity according to the Standard Classification of Activities:	Reinsurance

3.2 Development overview of the Company

3.2.1 History of the Company

The beginnings of the Company date back into 1999. In its first year of operation the Company only reinsured the portfolio of Zavarovalnica Triglav, Ltd, and justified the founders' expectations since it operated well and generated profit, having at the same time important impact on risk equalisation and management on the Slovenian market. It was only in the 2000 financial year that the Company started to write business from international markets.

Employing a prudent and conservative approach to the acceptance of risks and taking into account all elements of risk management, the Company completed a capital increase procedure in 2001 and, in the following years, developed into a serious and reliable partner in the European reinsurance market. Its reputation has grown in particular in the region of Central Europe.

The year 2008 brought the Company to a turning point with regard to its future activities, since Standard&Poor's rating agency assigned it an A- rating with a stable outlook by. In 2009, the Company was upgraded to A with a stable outlook.

3.2.2 Anticipated development of the Company in 2010

In spite of fierce economic conditions in 2009, the Company expects favourable further development. The assigned good credit ratings have strengthened the Company's market position. In addition to thus confirmed financial stability of operation, the Company now has better access to reinsurance markets which in the past conditioned cooperation with a proper assigned rating, due to either the requirement of local regulators or internal rules of cedants.

In accordance with its business plan for 2010, the Company will, along with the realisation of its reinsurance programme within the Triglav Group in Slovenia and abroad, continue to focus on the acquisition of reinsurance business with cedants outside the Group. As in the past, its growth will be based on a conservative underwriting policy and the further preservation of a stable and profit-bearing portfolio.

3.3 Information on the Triglav Group

Triglav Re, Reinsurance Company Ltd. is a company controlled by Zavarovalnica Triglav, Ltd, Ljubljana, Miklošičeva 19.

In addition to Triglav Re, the following companies comprised the Triglav Group in 2009:

- Triglav, Zdravstvena zavarovalnica, d.d., Koper, Slovenia
- Triglav Osiguranje, d.d., Zagreb, Croatia,
- Triglav BH Osiguranje, d.d., Sarajevo, Bosnia and Herzegovina,
- Triglav Pojišť'ovna, a.s., Brno, Czech Republic,
- Lovćen Osiguranje, a.d., Podgorica, Montenegro,
- Triglav Kopaonik, a.d.o., Beograd, Serbia,
- Triglav Krajina Kopaonik, a.d., Banja Luka, Republic Srpska, Bosnia and Herzegovina,
- Vardar osiguruvanje, a.d., Skopje, Macedonia,
- Triglav DZU, d.d., Ljubljana, Slovenia,
- Triglav Naložbe, finančna družba, d.d., Ljubljana, Slovenia,
- Triglav Netherland, B.V., Amsterdam, the Netherlands,
- Triglav penzijski fondovi, a.d., Beograd, Serbia,
- TRI - PRO, d.d., Domžale, Slovenia,
- TRI - PRO BH, d.d., Sarajevo, Bosnia and Herzegovina,
- AS Triglav-servis in trgovina, d.d., Ljubljana, Slovenia,
- Zenit nepremičnine, inženiring in trženje, d.d., Ljubljana, Slovenia,
- Slovenijales, d.d., Ljubljana, Slovenia,
- Golf Arboretum, d.d., Radomlje, Slovenia,
- Gradis IPGI, d.d., Ljubljana, Slovenia.

3.4 Shareholder's equity and shareholders of the Company

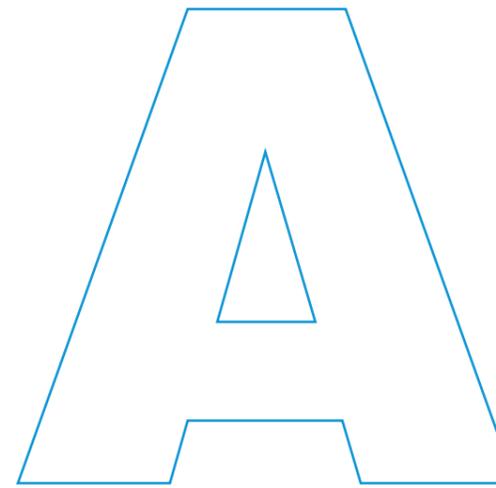
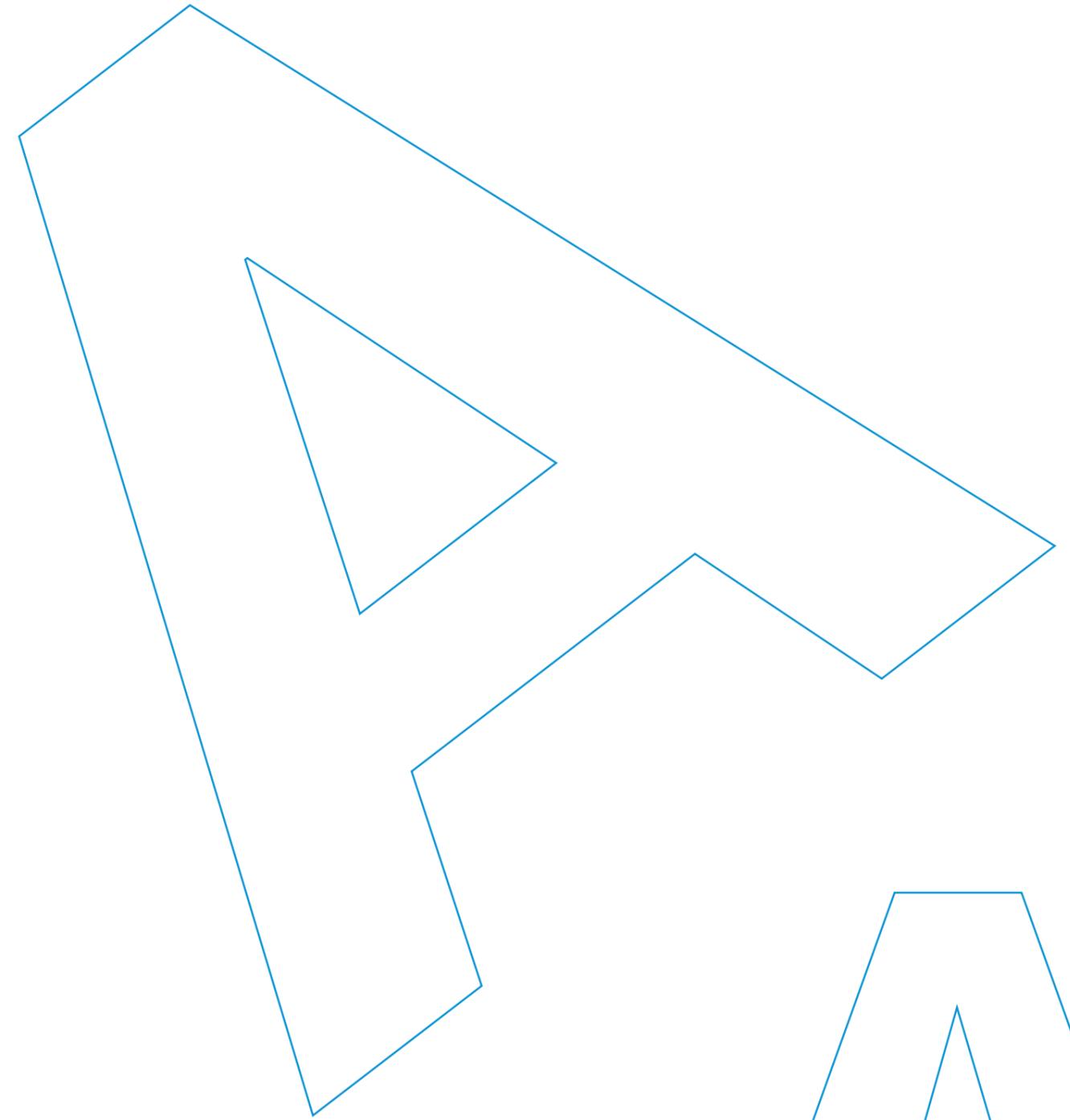
As at 31 December 2009, total equity of the Company amounted to EUR 31,370,343. The share capital in the amount of EUR 3,129,695 is divided into 15,000 ordinary registered no-par value shares. Each share representing an equal portion and corresponding amount in the share capital amounts to EUR 208.65.

As at 31 December 2009, the shareholder's equity is divided among the following shareholders:

	OWNERSHIP (in %)	NUMBER OF SHARES
Zavarovalnica Triglav, Ltd	87.00	13,050
Nova Ljubljanska banka, Ltd	5.00	750
Petrol, Ltd	2.00	300
Maksima Holding, Ltd	2.00	300
Sava, Ltd	2.00	300
FMR Ltd, Idrija	1.33	200
Helios Domžale, Ltd	0.67	100
TOTAL	100.00	15,000

3.5 Credit rating of the Company

On 25 August 2009, Standard&Poor's rating agency upgraded Triglav Re, Ltd. from A- to A with a stable outlook.



4

GENERAL ECONOMIC ENVIRONMENT

4.1 Economic environment in 2009

The world economic crisis which started already in the first half of 2008 continued deep into 2009. The first signs of recovery in the euro area started to show only in the second half of 2009. Slow economic recovery has been confirmed by trust ratios and economic activity indicators. However, the conditions on the labour market are still on the downturn and the number of unemployed continues to grow. The international economic and financial crisis has particularly weakened the public finance position in most EU member states, and according to the European Commission estimates any improvement can hardly be expected in 2010.

In Slovenia, slight improvement of activity indicators has been registered for the majority of activities since October 2009. Export of goods, for example, increased by 1%, while the volume of manufacturing industry output, though increasing in the third quarter of the year, fell by 3.6% in October. In contrast, the value of construction put in place grew by 3.7% in October after six months of considerable decline.

Following the stagnation in the third quarter of the year, total real turnover in retail trade increased, while nominal turnover in wholesale trade remained at a similar level as in previous months and while real turnover in hotels and restaurants continued to decline. In December, the value of the economic climate indicators remained unchanged.

As expected, the situation on the labour market continues to deteriorate, given that the number of employed persons declined further in October and the number of registered unemployed persons kept increasing in November and December. The average wage per employee increased in October, but its year-on-year growth continues to slow.

In Slovenia consumer prices grew by 1.8% in 2009, which was one of the highest rises in the euro area, and was mainly due to economic policy measures. In 2009, consumer price movements were largely affected by prices of oil, weak economic activity and higher services prices as a result of fiscal economic policy measures. Excise duty rises contributed as much as 1.0 percentage point to 1.8% inflation.

The year 2009 marked a slowdown in loan activities of domestic banks, with only net loans to households increasing. Liquidity on the intra-bank market was only modest and inflow of household deposits to banks was low, too.

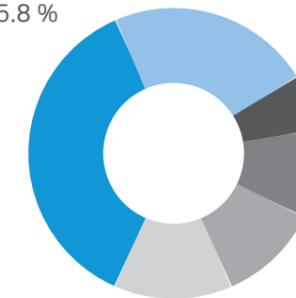
4.2 Insurance business in Slovenia

Insurance business holds next to banks the leading position in terms of total assets and represents the second most important market segment. In 2009, eighteen insurance and two reinsurance companies operated in the Slovenian insurance market. In total, insurance companies have written 2.1 billion premiums. The majority (69.6%) of it is non-life, and 30.4% makes life insurance.

The degree of concentration in the Slovenian insurance market is rather high, since in 2009 the four largest insurance companies controlled 73.2% of the market. Zavarovalnica Triglav, Ltd with a 35.8% market share continues to hold the leading market position among traditional insurance companies. In comparison to the previous year its market share shrank by 1.5 percentage points. However, the market share of Zavarovalnica Triglav together with Triglav, Zdravstvena zavarovalnica, Ltd has increased and amounted 39.0% at year-end 2009.

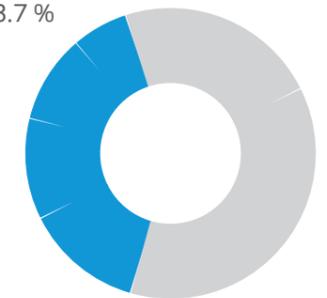
MARKET SHARES OF INSURANCE COMPANIES ON THE SLOVENIAN MARKET

Triglav Ltd
35.8 %



MARKET SHARES OF REINSURANCE COMPANIES ON THE SLOVENIAN MARKET

Triglav Re
43.7 %





A

A

5

RISK MANAGEMENT

In the Company's day-to-day operations as well as in planning and implementing the long-term goals of its business policy, the Board of Management, pursuant to the Insurance Act and in accordance with other implementing regulations, ensures that the Company:

- disposes with adequate capital based on the volume and class of reinsurance business being performed, and manages to a maximum extent the risks to which it is exposed in such classes of business (capital adequacy of the Company);
- duly meets its matured liabilities (operating liquidity) and is permanently capable of fulfilling all of its liabilities (operating solvency);
- manages the risks to which the Company is exposed in individual or all classes of reinsurance business and takes care that they do not exceed the legally prescribed limits.

In accordance with legal regulations and within the legally prescribed terms, the Company calculates and determines:

- the volume of capital and capital requirements;
- capital adequacy;
- the volume of technical provisions;
- the volume of the liability fund;
- the types, dispersion, adjustment and localisation of liability fund investments;
- other statistical insurance data.

Within the scope of risk management measures, the Board of Management of the Company is also responsible for implementing the programme for the reinsurance of accepted risks and for managing resources and investments in a manner guaranteeing the capital adequacy, solvency and liquidity of operations of the Company.

5.1 Capital and capital requirements

The Company carries out the calculation of capital and capital requirements in line with the Insurance Act, International Financial Reporting Standards, and other implementing regulations governing the method and scope of including individual items in the calculation of the Company's capital and capital adequacy, the more detailed characteristics and types of items to be considered in the calculation of capital and capital adequacy, the more detailed characteristics of subordinated debt instruments and illiquid assets, and the more detailed rules for the calculation of minimum capital of the Company.

The Company calculates capital adequacy only for the class of non-life insurance because it is not dealing with life insurance except to reinsure against the risk of death (excluding the savings part), and retrocedes the majority of accepted risks to foreign reinsurance companies.

Capital adequacy of the Company is also calculated within the Standard&Poor's requirements as part of the credit rating assignment and review process.

5.2 Technical provisions

The Company set up technical provisions, appropriate by substance and amount, for all assumed reinsurance business, both for reinsurance business assumed in the current year and for reinsurance business assumed for equalisation since the Company's establishment. Technical provisions were made for the purpose of covering future liabilities from reinsurance and any possible losses due to risks arising from implemented reinsurance business.

In line with the Insurance Act and implementing regulations on the more detailed rules and minimum standards for the calculation of technical provisions, the Company made provisions for unearned premiums, provisions for incurred but not reported claims (IBNR provision), equalisation provisions for credit insurance (recorded under equity), provisions for bonuses, rebates and cancellations, and other technical provisions, such as provisions for unexpired risks.

The adequacy of technical provisions set up in an amount guaranteeing the permanent fulfilment of all the Company's obligations arising from reinsurance contracts and their conformity with regulations was verified and confirmed by an appointed certified actuary of the Company.

5.3 Financial assets and liabilities from reinsurance contracts

The Company forms an appropriate liability fund for the purpose of meeting future liabilities from completed reinsurance business, on the basis of which the Company is required to set up technical provisions.

For the purpose of preserving and upgrading the value of its liability fund, the Company consistently observes the principles of safety, profitability and marketability of investments, and simultaneously provides for adequate maturity, diversity and dispersion of its investment portfolio. The Company intends to continue pursuing such an investment policy in future.

The Company has evaluated the liability fund in accordance with International Accounting Standards, the Insurance Act, and relevant implementing regulations governing this sphere of activity.

5.4 Retrocession

With an appropriate reinsurance programme the Company covers that portion of risks underwritten that exceeds its own shares in risk equalisation specified in the Company's tables of maximum coverage.

5.5 Operational risks

Constant attention was devoted in particular to the management of operational risks. The Company has an established system of basic guidelines for the reinsurance of risks and the monitoring of loss occurrences, and permanently monitors and supervises the accumulation of risks for individual perils in various geographic areas. For the purpose of protecting its own portfolio, the Company retrocedes the portion of risks above its own retention level.

Operational risks are divided into:

- organisation and business process risks (disturbances in the work process, lack of information, disruption in continuous operation, inappropriate cost management, poorly organised and controlled documentation, inadequate management of internal changes,...)
- staffing risk (inappropriate human resource management, inadequate staffing, unsuitable internal rules, ...)
- information technology risk (inappropriate IT applications and IT infrastructure, technical tools,...); and
- legal risk (changes in legislation, loss of credit rating, competition,...).

5.6 Financial risks

Liquidity risk

The Company ensures its liquidity with investments in a manner allowing it to meet, at any given moment, all of its matured liabilities. Within the scope of liquidity management, the Company provides for regular fulfilment of its obligations; the Company regularly monitors its liquidity position, and calculates the liquidity ratio on a weekly basis.

Credit risk

The Company manages its credit risks in compliance with the Insurance Act, implementing regulations issued by the Insurance Supervision Agency, and internal rules. The Company invests funds surplus in bank deposits and/or debt securities of companies with proper credit rating regularly monitored by the Company. The Company is exposed to credit risks from both financial institutions and contract partners.

Market risk

Market risk is the risk of possible loss resulting from unfavourable changes in market variables (price, interest rate, exchange rate). The Company devotes great attention to three types of market risk that may considerably affect the market value of investments.



A
A
A
A
A

A

A

6

FINANCIAL RESULT

In 2009, the Company generated profit in the amount of EUR 7,161,757. High profit resulted primarily from lower claims incurred due to relatively favourable claims developments and lower financial expenses thanks to improved situation on financial markets.

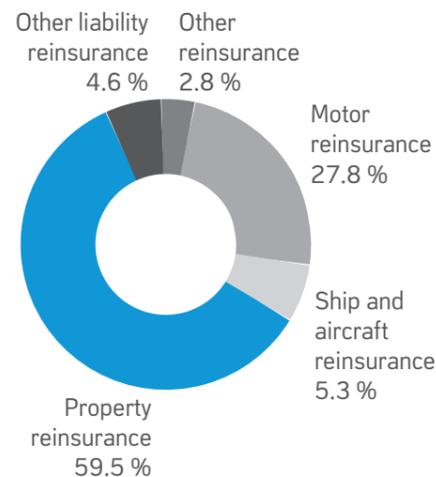
6.1 Reinsurance premiums

	in EUR				
	YEAR 2009	YEAR 2008	INDEX	PLAN 2009	INDEX TO PLAN
Gross premium - Triglav Group	79,349,576	78,025,694	101.7	73,806,209	107.5
Gross premium - outside the Group	34,677,551	33,038,438	105.0	41,717,001	83.1
TOTAL GROSS PREMIUM	114,027,127	111,064,132	102.7	115,523,210	98.7
TOTAL NET PREMIUM	60,655,081	63,029,573	96.2	68,963,653	88.0

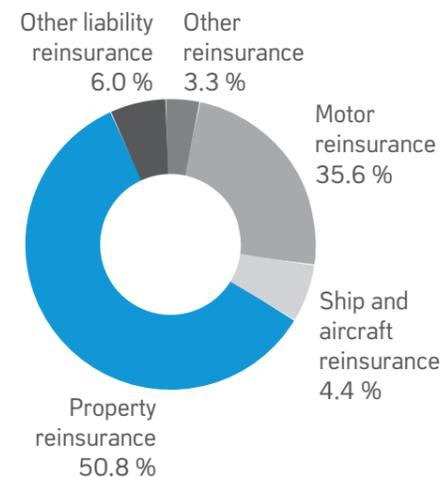
In 2009, gross reinsurance premium amounted to EUR 114,027,127 and increased by 2.7% compared to 2008. The Company received 30.4% of gross premium from cedants outside the Triglav Group.

However, in comparison to the preceding year, net premium decreased by 3.8% as a consequence of the increase in outward reinsurance in 2009.

STRUCTURE OF GROSS REINSURANCE PREMIUM IN 2009



STRUCTURE OF NET REINSURANCE PREMIUM IN 2009



The largest portion in the structure of gross reinsurance premiums represents non-life insurance. In 2009 it increased by 6.2% compared to 2008, while the share of motor insurance fell by 7.5% in 2009. Similar is true of net reinsurance premiums, where the share of net non-life reinsurance premiums increased by 10.7% in 2009, while the share of motor reinsurance fell by 12.0%.

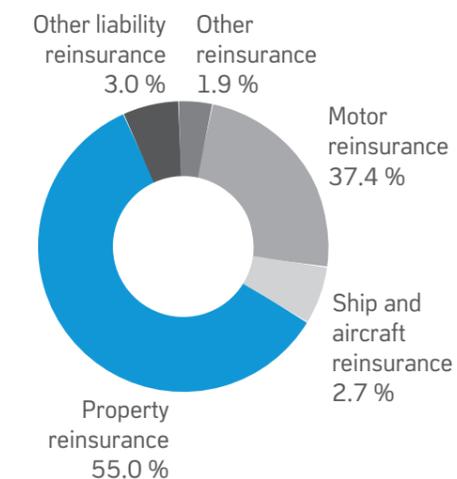
Net reinsurance premium income (calculated from gross reinsurance premiums, reduced by reinsurers' share and adjusted by the change in gross unearned premium corrected for the reinsurers' share in unearned premium) reached EUR 61,482,780 in 2009 and remained at the level of 2008.

6.2 Reinsurance claims

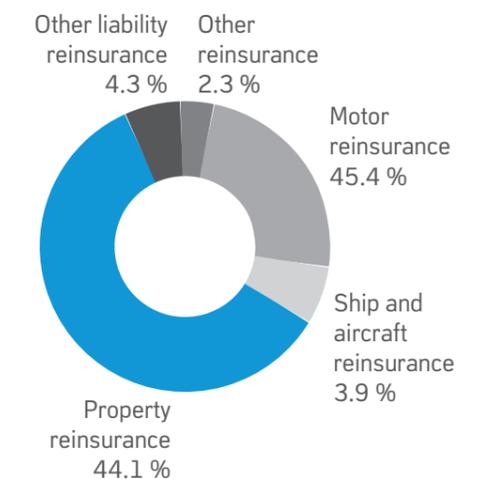
	in EUR				
	YEAR 2009	YEAR 2008	INDEX	PLAN 2009	INDEX TO PLAN
Gross claims - Triglav Group	53,255,856	68,516,408	77.7	47,344,992	112.5
Gross claims - outside the Group	17,764,317	17,169,385	103.5	22,320,200	79.6
TOTAL GROSS CLAIMS	71,020,173	85,685,792	82.9	69,665,192	101.9
TOTAL NET CLAIMS	36,183,566	34,551,951	104.7	38,680,920	93.5

With regard to the preceding year, gross claims fell by 17.1% in 2009 and amounted to EUR 71,020,173. Decrease in claims is primarily the consequence of fewer weather disasters both in the country and abroad. In 2009, gross claims are at the planned level, while net claims are by 6.5% below the planned value.

STRUCTURE OF GROSS REINSURANCE CLAIMS IN 2009



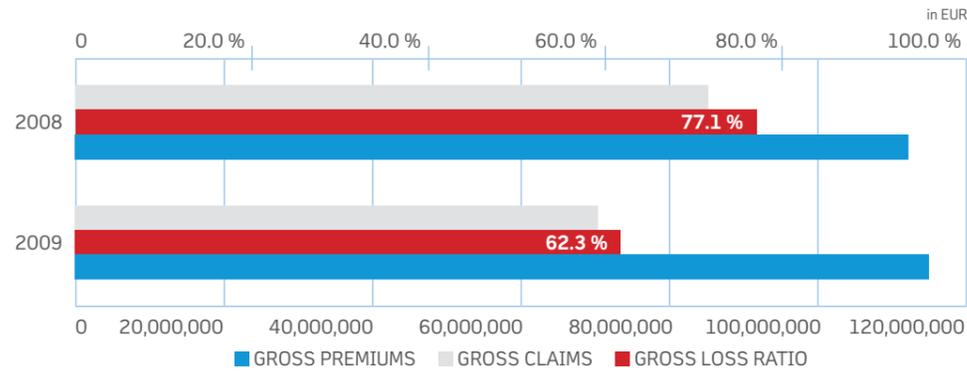
STRUCTURE OF NET REINSURANCE CLAIMS IN 2009



In 2009, the majority of gross claims are related to non-life and motor reinsurance. Compared to 2008 the highest increase in gross claims was recorded in motor reinsurance with 6.8 percentage points, while the share of gross claims in non-life insurance business fell by 8.4 percentage points. Somewhat different is the structure net claims in 2009, where the majority of net claims refers to motor reinsurance (45.4%), and 44.1% to non-life reinsurance.

Net claims incurred (gross claims incurred, reduced by reinsurers' share and adjusted by the change in gross provisions for claims corrected for the reinsurers' share in these provisions) are recorded in the amount of EUR 40,446,744 in 2009, and are by 11.9% below the net claims incurred in 2008.

6.3 Gross loss ratio



Gross loss ratio representing the relation between gross claims incurred and gross premiums, fell in 2009 by 14.8 percentage points on the account of lower claims incurred which are lower predominantly thanks to fewer weather disasters.

6.4 Fee and commission income and expense

Commission income amounted to EUR 9,181,518 in 2009 and decreased by 7.6% compared to the preceding year. On the other hand, however, commission expenses increased by 8.4% and amounted to EUR 21,823,779 in 2009, so that net commission expense amounted to EUR 12,642,261 in 2009.

6.5 Financial income and expenses

As at 31 December 2009, financial assets amounted to EUR 91,656,436, and grew by 17.2%, i.e. EUR 13,418,838 in comparison to the preceding year.

STRUCTURE OF FINANCIAL ASSETS OF THE COMPANY AS AT 31 DECEMBER 2009

	in EUR				
	31. 12. 2009	STR. 2009	31. 12. 2008	STR. 2008	INDEX
Shares and other variable yield securities	2,593,500	3%	3,339,803	4%	77.7
Debt securities and other fixed yield securities	58,674,538	64%	56,709,946	72%	103.5
Shares in investment funds	2,997,594	3%	3,614,009	5%	82.9
Bank deposits	24,314,478	27%	12,339,802	16%	197.0
Other financial investments	93,190	0%	10,000	0%	931.9
Reinsurer's investments from reinsurance contracts	2,983,136	3%	2,224,038	3%	134.1
TOTAL FINANCIAL INVESTMENTS	91,656,436	100%	78,237,598	100%	117.2

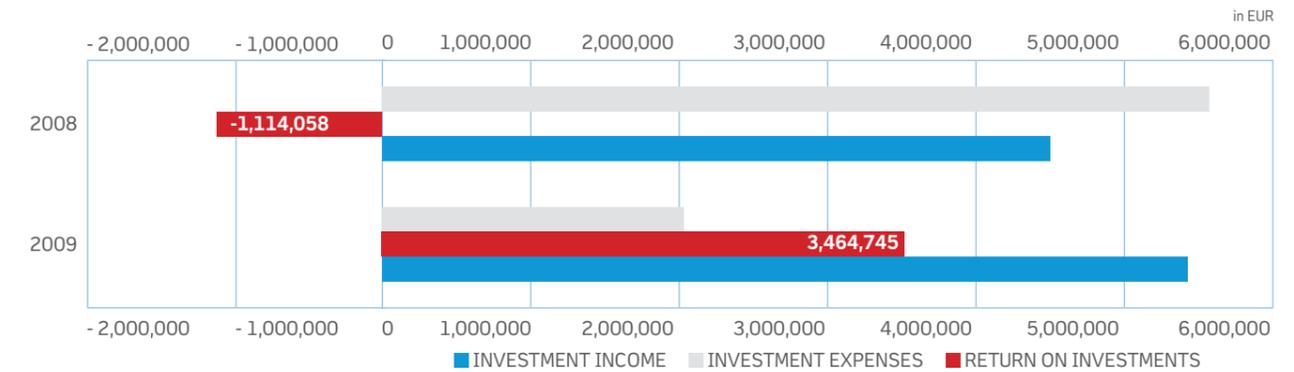
As at 31 December 2009, the Company discloses the following state of investments, classified by maturity:

- long-term financial investments in the amount of EUR 73,032,057;
- short-term financial investments in the amount of EUR 10,405,405;
- financial investments in associated companies of Triglav Group in the amount of EUR 5,235,838;
- retained premiums with cedants, which the Company holds from reinsurance contracts, in the amount of EUR 2,983,136.

Debt securities represent the largest share of all investments, followed by bank deposits, while shares and interests in investment funds take the smallest share in the investment structure. Compared to the preceding year, the share of bank deposits marked the highest increase, which results from specific circumstances on financial markets. The share of debt securities

marked a relative decline in comparison to the preceding year, while the shares and interests in investment funds remained at an approximately equal level.

The rate of return on the entire investment portfolio amounted to 4.8% in 2009, while in the preceding year we had marked a negative rate of return amounting to -1.8%.



In 2009, the Company pursued a rather conservative investment policy. Taking into consideration the principles of security, profitability and marketability, the structure of the investment portfolio was optimised with adequate maturity, diversity and dispersion of investments of assets backing liabilities and of own funds. In 2010, the Company will continue to carefully monitor the uncertain financial situation and will, accordingly, invest funds in less risky and yet reasonably profitable investments.

6.6 Operating expenses

In 2009 the operating expenses of the Company, classified by their nature amounted to EUR 2,914,907. In comparison to the preceding year, they grew by 12.0%. Nevertheless, the share of operating expenses in gross premiums only amounted to 2.6%, which shows that the Company economically manages its costs and expenses.

The increase in operating expenses was mostly caused by higher cost of labour due to new employments, and increase in other operating expenses in consequence of higher rent and lease costs, and due to higher jubilee and termination benefits.

	in EUR		
	YEAR 2009	YEAR 2008	INDEX
Available capital surplus (capital adequacy)	125,871	100,621	125.1
Labour costs (staff expenses)	1,974,744	1,783,429	110.7
Costs of services provided by individuals not engaged in business activity, including contributions	21,157	30,593	69.2
Other operating costs and expenses	793,135	677,665	117.0
TOTAL OPERATING EXPENSES	2,914,907	2,592,307	112.4

6.7 Financial result ratios

	YEAR 2009	YEAR 2008
Rate of retention	53.2%	56.8%
Share of gross premium outside the Group in total gross premium	30.4%	29.7%
Share of net operating expenses in gross premium	2.6%	2.3%
Loss ratio	65.8%	74.7%
Expense ratio	25.2%	20.7%
Combined ratio	91.0%	95.5%



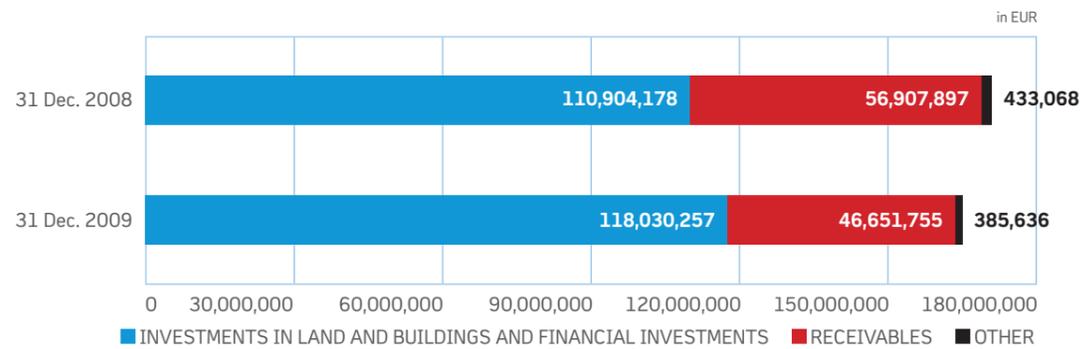
7

FINANCIAL POSITION

As at 31 December 2009, the balance sheet total of the Company amounts to EUR 165,067,648 and is in comparison to 2008 lower by 1.6%.

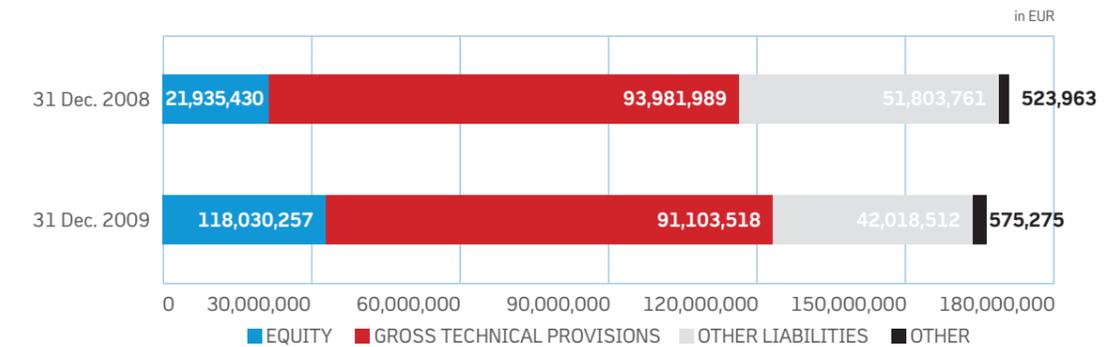
7.1 Assets

Regarding the assets, the greatest increase, i.e. by 6.4% compared to the preceding year was registered in financial investments which account for 71.3% of all assets. Other items on the assets side (intangible assets, receivables, other assets and prepayments and accrued income) are even somewhat lower. Another important part of assets constitute receivables that as at 31 December 2009 amounted to EUR 47,140,563 and accounted for 28.5% of all assets. Receivables from reinsurance business represent the largest share.



7.2 Liabilities

The largest portion of liabilities represent gross technical provisions amounting even to 55.0%. As at 31 December 2009, total equity of the Company amounts to EUR 31,370,343 and increased by 43.0% in comparison to 31 December 2008. A material share of liabilities (25.7%) represent other liabilities which as at 31 December 2009 amount to EUR 42,507,320 and are mainly related to liabilities from reinsurance business.



7.3 Financial position ratios

	YEAR 2009	YEAR 2008
Share of equity in total equity and liabilities	19.0%	13.0%
Return on equity	26.9%	3.6%
Share of gross technical provisions in total liabilities and equity	55.2%	55.9%
Available capital surplus (capital adequacy)	55.5%	46.5%
Excess of available capital	11,511,596 EUR	16,023,777 EUR

ACCOUNTING REPORT



8

FINANCIAL STATEMENTS

8.1 Statement of financial position

in EUR

	Note	BALANCE AS AT 31 Dec. 2009	BALANCE AS AT 31 Dec. 2008	BALANCE AS AT 1 January 2008
ASSETS		165,067,648	167,820,044	128,791,978
Intangible assets	10.1	132,228	158,854	151,506
Property, plant and equipment	10.2	180,275	134,311	72,470
Deferred tax assets	10.3	0	2,025,402	0
Financial investment:	10.4	91,656,436	78,237,597	73,441,408
- loans and deposits		34,673,674	21,883,171	5,570,913
- available for sale		54,649,338	54,403,585	64,627,982
- recognised at fair value		2,333,423	1,950,841	3,242,513
Reinsurer's share of technical provisions	10.5	26,373,821	32,666,581	19,817,216
Receivables	10.6	46,651,755	54,457,396	35,235,970
- receivables from reinsurance and coinsurance		45,578,535	54,283,514	35,217,830
- current tax assets		1,047,652	81,248	0
- other receivables		25,568	92,634	18,140
Other assets		14,976	17,199	16,480
Cash and cash equivalents		58,157	122,704	56,928
EQUITY AND LIABILITIES		165,067,648	167,820,044	128,791,978
Equity	10.7	31,370,343	21,935,430	28,399,147
- share capital		3,129,695	3,129,695	3,129,695
- share premium		1,146,704	1,146,704	1,146,704
- reserves from profit		2,298,253	2,093,407	1,952,087
- fair value reserve		2,154,562	-243,844	5,909,332
- retained earnings		15,684,218	15,033,550	16,261,329
- net profit for the year		6,956,911	775,918	0
Technical provisions	10.8	91,103,518	93,981,989	68,087,174
- unearned premiums		19,888,205	20,169,527	17,438,616
- provisions for claims outstanding		70,982,811	73,558,789	50,504,038
- other technical provisions		232,502	253,673	144,519
Other provisions		64,829	89,043	81,092
Deferred tax liabilities	10.3	49,832	0	438,181
Other financial liabilities		2,189	2,189	5,310
Operating liabilities	10.9	41,966,490	51,376,473	31,378,499
- liabilities from reinsurance and coinsurance		41,966,490	51,376,473	31,017,854
- current tax liabilities		0	0	360,645
Other liabilities	10.9	510,445	434,920	402,575

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.2 Income statement

in EUR

	Note	YEAR 2009	YEAR 2008
NET PREMIUMS EARNED	11.1	61,482,800	61,469,047
- gross reinsurance premiums written		114,027,127	111,064,132
- premiums written ceded for retrocession		-53,372,046	-48,034,559
- change in unearned premiums		827,719	-1,560,526
TOTAL INCOME FROM FINANCIAL ASSETS	11.2	5,492,120	4,444,313
OTHER REINSURANCE INCOME	11.3	9,181,518	9,933,202
- fee and commission income		9,181,518	9,933,202
OTHER INCOME		6,476	489
NET CLAIMS INCURRED	11.4	-40,446,745	-45,927,722
- gross claims paid		-71,020,173	-85,685,792
- retrocessionaires' share of claims paid		34,836,607	51,133,841
- change in provision for outstanding claims		-4,263,179	-11,375,770
CHANGE IN OTHER TECHNICAL PROVISIONS		15,557	-108,689
EXPENSES FOR BONUSES AND REBATES		5,614	-465
OPERATING EXPENSES	11.5	-2,728,936	-2,458,544
- insurance acquisition costs		-1,225,427	-976,263
- other operating expenses		-1,503,509	-1,482,281
EXPENSES FROM FINANCIAL ASSETS AND LIABILITIES	11.2	-2,027,375	-5,558,859
- impairment of financial assets other than recognised at fair value through profit or loss		-378,627	-2,713,215
- interest expenses		-315,793	-112,602
- losses on disposal of investments		-309,911	-1,257,618
- other financial expenses		-1,023,044	-1,475,424
OTHER REINSURANCE EXPENSES		-21,940,738	-20,228,161
- fee and commission expenses	11.3	-21,823,779	-20,136,972
- other expenses		-116,959	-91,189
OTHER EXPENSES		0	-1,267
PROFIT/LOSS BEFORE TAX		9,040,292	1,563,344
TAX EXPENSE	11.6	-1,878,535	-646,105
NET PROFIT FOR THE PERIOD		7,161,757	917,239
Basic net earnings per share		477 euro/share	61 euro/share
Diluted net earnings per share		477 euro/share	61 euro/share

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.3 Statement of comprehensive income

in EUR

	YEAR 2009	YEAR 2008
Net profit/loss for the year after tax	7,161,757	917,239
Other comprehensive income after tax	2,398,406	-6,153,176
Net gains/losses from the remeasurement of available-for-sale financial asset	3,001,866	-7,600,679
Gains/losses recognised in revaluation reserve	2,193,664	-5,249,596
Transfer of gains/losses from revaluation reserve to profit or loss	808,202	-2,351,084
Tax on other comprehensive income	-603,460	1,447,504
Comprehensive income for the year after tax	9,560,163	-5,235,937

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.4 Statement of cash flows

in EUR

	YEAR 2009	YEAR 2008
CASH FLOW FROM OPERATING ACTIVITIES		
Income statement items	12,502,208	10,137,812
Net written premium for the period	60,655,081	58,959,560
Investment income (excluding financial income), arising from:	5,090,702	3,108,564
- technical provisions	4,803,513	2,486,730
- other sources	287,189	621,834
Other operating income (excluding revaluation and provisions reductions) and financial income from operating receivables	6,476	489
Net claims for the period	-36,183,566	-34,551,951
Net operating expenses excluding depreciation charges and accrued acquisition expenses	-15,253,356	-11,533,261
Investment expenses (excluding amortisation and financial expenses), financed from:	-1,289,410	-4,536,291
- technical sources	-1,196,034	-1,767,707
- other sources	-93,376	-2,768,584
Other operating expenses excluding depreciation charge (except for revaluation and without increasing provisions)	-116,959	-92,456
Income tax and other taxes excluded from operating expenses	-406,760	-1,216,843
Changes in net operating assets (insurance receivables, other receivables, other assets and deferred tax assets and liabilities) - operating items from the statement of financial position	42,346	-1,359,715
- opening less closing reinsurance receivables	8,704,978	-14,995,670
- opening less closing other receivables and assets	69,288	-719
- opening less closing deferred tax assets	1,961,693	-635,557
- closing less opening reinsurance liabilities	-9,409,985	16,103,934
- closing less opening other operating liabilities	75,525	-3,677
- closing less opening deferred tax liabilities	-1,359,153	-1,828,026
Net cash from operating activities	12,544,554	8,778,097
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	1,054,032	6,606,524
Interest received from investing activities	532,774	367,412
- investments financed from technical provisions	532,774	367,412
Proceeds from disposal of property, plant and equipment items financed from:	57,417	0
- other sources	57,417	0
Proceeds from disposal of long-term financial investments, financed from:	463,841	6,239,112
- other sources	463,841	6,239,112
Cash outflows from investing activities	-13,537,883	-14,091,066
Payments for acquisition of intangible assets	-60,590	-62,142
Payments for acquisition of property, plant and equipments financed from:	-176,272	-107,668
- other sources	-176,272	-107,668
Payments for acquisition of non-current investments, financed from:	-11,783,917	-13,921,256
- technical provisions	-11,783,917	-13,921,256
Payments for acquisition of current investments, financed from:	-1,517,104	0
- technical provisions	-1,517,104	0
Net cash from investing activities	-12,483,851	-7,484,542
CASH FLOW FROM FINANCING ACTIVITIES		
Cash outflows from financing activities	-125,250	-1,227,779
Dividends and other shares in profit	-125,250	-1,227,779
Net cash from financing activities	-125,250	-1,227,779
Closing balance of cash and cash equivalents	58,157	122,704
x) Net cash for the period	-64,547	65,776
y) Opening balance of cash and cash equivalents	122,704	56,928

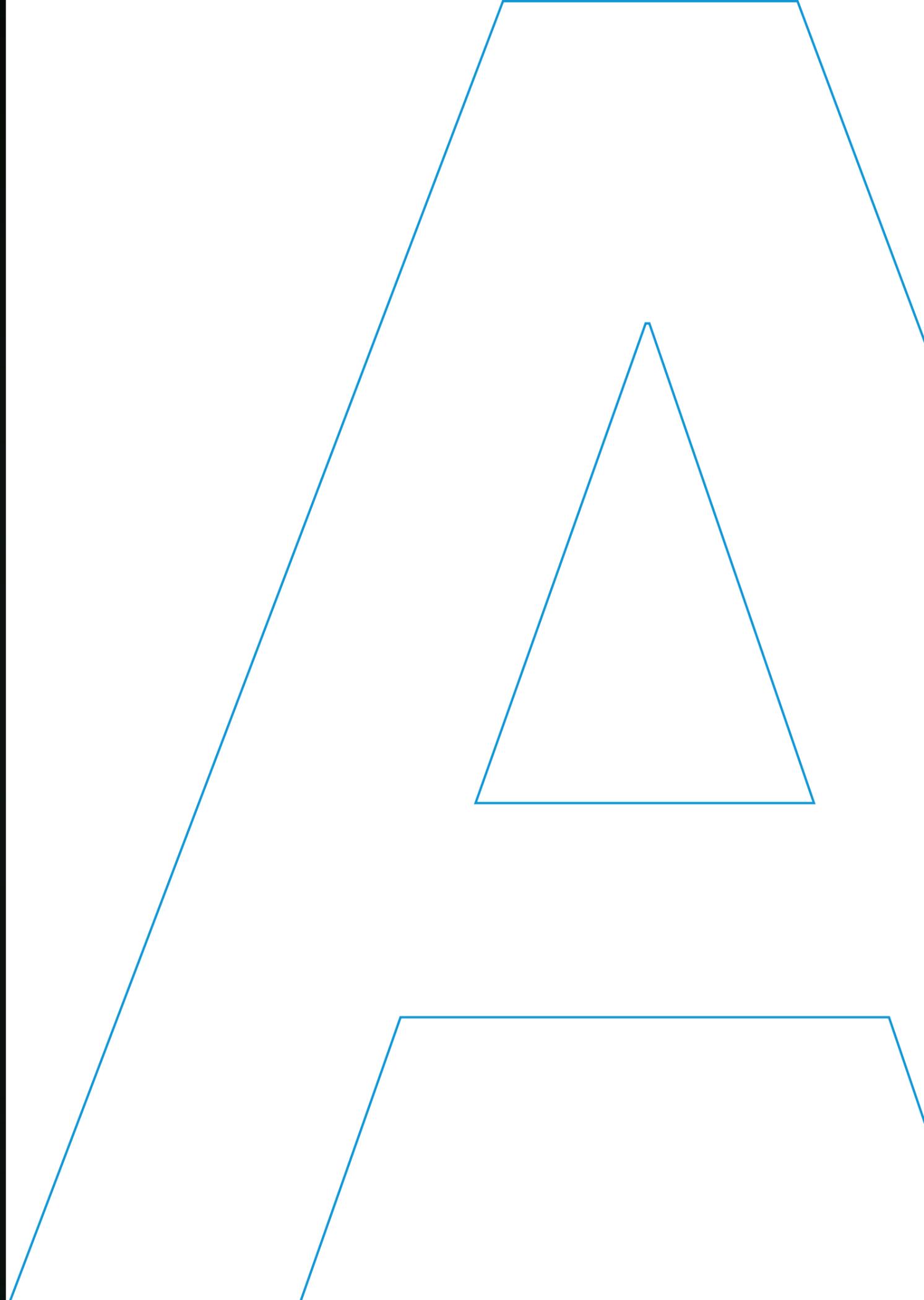
Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.

8.5 Statement of changes in equity

in EUR

	I. Share capital	II. Share premium	III. Reserves from profit			IV. Revaluation surplus	V. Retained earnings	VI. Net profit/loss	TOTAL EQUITY
			Legal and statutory	Credit risk reserves	Other reserves			Net profit/loss for the year	
Closing balance 31 December 2007	3,129,695	1,146,704	519,762	812,364	619,961	5,909,332	17,631,559	4,044,559	33,813,935
Effect of the change in accounting policy							-5,414,789		
Opening balance 1 January 2008	3,129,695	1,146,704	519,762	812,364	619,961	5,909,332	12,216,770	4,044,559	28,399,147
Comprehensive income for the year after tax						-6,153,176		917,239	-5,235,937
Payment of dividends							-1,227,779		-1,227,779
Net profit allocation to reserves from profit				141,320				-141,320	0
Other							4,044,559	-4,044,559	0
Closing balance 31 December 2008	3,129,695	1,146,704	519,762	953,684	619,961	-243,844	15,033,550	775,918	21,935,430
Opening balance 1 January 2009	3,129,695	1,146,704	519,762	953,684	619,961	-243,844	15,033,550	775,918	21,935,430
Comprehensive income for the year after tax						2,398,406		7,161,757	9,560,163
Payment of dividends							-125,250		-125,250
Net profit allocation to reserves from profit				204,846				-204,846	0
Other							775,919	-775,919	0
Closing balance 31 December 2009	3,129,695	1,146,704	519,762	1,158,530	619,961	2,154,562	15,684,218	6,956,911	31,370,343
Accumulated profit at 31 December 2008							15,033,550	775,918	15,809,468
Accumulated profit at 31 December 2009							15,684,218	6,956,911	22,641,129

Notes to financial statements form an integral part of financial statements and shall be read in conjunction with them.



9

NOTES TO FINANCIAL STATEMENTS

9.1 Reporting entity

Triglav Re, Reinsurance Company Ltd. (the "Company") is a joint stock company incorporated and domiciled in Ljubljana, Miklošičeva 19. The Company is a reinsurance company reinsuring non-life and life (only death risk) insurance in compliance with the provisions of the Insurance Act.

The Company's major shareholder (87% of voting rights) and ultimate controlling company is Zavarovalnica Triglav, Ltd with the registered office at Miklošičeva 19 in Ljubljana, Slovenia.

The Company is a member company of the Triglav Group. The consolidated annual report for the Triglav Group is prepared Zavarovalnica Triglav, Ltd The annual report of the Triglav Group is available for inspection in the registered office of Zavarovalnica Triglav, Ltd, Miklošičeva c. 19, Ljubljana, Slovenia.

9.2 Basis of preparation

9.2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, however Business Report presented does not contain all disclosures required by IFRS. The 2009 financial statements were authorised for issue by the Company's Board of Management on 17 March 2010.

The audited 2009 financial statements are adopted by the Supervisory Board of the Company in compliance with the Articles of Association, the Companies Act and IAS 10, and together with the Report of the Supervisory Board presented to the General Meeting of Shareholders of the Company for information.

Financial statements of the Company consist of individual financial statements.

9.2.2 Functional and presentation currency

The financial statements are presented in euro, which is the currency of the primary economic environment in which the Company operates, i.e. the Republic of Slovenia. In the financial statements, the amounts are rounded to one euro.

9.2.3 Basis for measurement

The financial statements have been prepared on the historical cost basis and adequately adjusted for the measurement of financial assets at fair value.

9.2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and information available at the date of preparation of the financial statements, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Such estimates may change the profit or loss.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

The estimates and judgements are mostly used in the measurement premiums, commissions and provision for reinsurance contracts.

9.2.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied and preparing these financial statements. These are the following:

- **IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009)**
The scope of the amended Standards has been expanded and the definition of a business has been widened. The amended Standard comprises several other important changes, including:
 - o all items of consideration transferred by the acquirer are recognised and measured at fair value as at the acquisition date, including the amount of consideration which depends on future events (contingent consideration);
 - o subsequent changes in contingent consideration is recognised in profit or loss;
 - o transaction costs, other than share and debt issuance costs, are expensed as incurred;
 - o the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquirer, on a transaction-by-transaction basis.

Revised IFRS 3 will not have a material impact on the financial statements of the Company as the Company has no shares and interests subsidiaries that could be affected by this amendment.

- **IAS 27 Consolidated and separate financial statements (effective for annual periods beginning on or after 1 July 2009)**

The amendment of the standard concerns the term "minority holding" and replaces it with the term "non-controlling interest", which is defined as "equity interest" in a subsidiary that is not owned, directly or indirectly through subsidiaries, by the parent. The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

- **Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)**

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

Amendments to IAS 32 are not relevant to the Company's financial statements as the Company has not issued such instruments at any time in the past.

- **Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2010)**

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

The Company has not yet completed its analysis of the impact of the amendment to the Standard.

- **IFRIC 12 Service Concession Arrangements (effective for first annual reporting period beginning on or after 1 April 2009)**

The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.

IFRIC 12 is not relevant to the Company's operations as the Company has not entered into any service concession arrangements.

- **IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2010)**

IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

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

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).

IFRIC 15 is not relevant to the Company's financial statements as the Company does not provide real estate construction services or develop real estate for sale.

- **IFRIC 16 Hedges of a net investment in a foreign operation (effective for annual periods beginning on or after 1 July 2009)**

The Interpretation explains the type of exposure that need to be hedged and where in the Group the hedged item may be held. It also explains whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.

IFRIC 16 will not affect the financial statements the Company, since the Company has no net financial investments in operations abroad.

- **IFRIC 17 Distributions of non-cash assets to owners (effective for annual periods beginning on or after 1 November 2009)**

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

As the Interpretation is applicable only from the date of application, it will not impact the financial statements for periods prior to the date of its adoption. Further, since it relates to future dividends that will be at the discretion of the Board of Management/ shareholders it is not possible to determine the effects of its application.

- **IFRIC 18 Transfers of Assets from Customers (effective for annual periods beginning on or after 1 November 2009)**

This Interpretation clarifies the requirement that an entity has to recognise any transferred asset at fair value, if such assets meet the definition of property, plant and equipment under IAS 16. The entity is also required to recognise the amount of transfer as revenue. The time framework for the recognition depends on the facts and circumstances of individual agreements.

IFRIC 18 is irrelevant for the financial statements of the Company, since the Company normally receives no assets from customers.

9.3 Significant accounting policies

9.3.1 Property plant and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Estimated useful lives are as follows:

- Equipment 4 years
- Fixtures, fittings and motor vehicles 8 years

Depreciation methods and useful lives are reassessed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the income statement.

9.3.2 Intangible assets

Recognition and measurement

Intangible assets that are acquired by the Company, and have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are as follows:

- Software 5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the income statement.

9.3.3 Financial instruments

Classification and recognition

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. The Board of Management determines the classification of financial assets and financial liabilities at initial recognition.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial assets which are classified as held for trading or on initial recognition designated by the Company as at fair value through profit or loss. Derivative financial instruments are always classified as financial instruments held for trading.

As stated above, financial assets and financial liabilities at fair value through profit or loss are classified in two sub-categories: financial instruments held for trading, and those designated by management as at fair value through profit or loss at inception. Assets held for trading are those assets that the Company acquires or takes over principally for the purpose of selling or repurchasing in the near term, or holds as a part of a portfolio that is managed together for short-term profit or position taking.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Company provides money to a debtor with no intention of trading with the receivable, and include loans to customers, deposits with banks, and debt securities for which no active market exists and have been reclassified into this category pursuant to IAS 39.50E.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale financial assets or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt securities and equity securities.

Recognition and derecognition

Purchases and sales of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised on the trade date which is the date when the Company commits to purchase or sell the instrument. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Company derecognises financial assets (in full or part) when the contractual rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Company transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Company derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Company will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Company measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment, unless their value exceeds 500 thousand EUR. The total value of such assets is lower than 1% of the Company's investment in securities.

Loans and receivables and held-to-maturity investments are measured at amortised cost less impairment losses, if any.

Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

Gains and losses from a change in the fair value of available-for-sale assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method, on available-for-sale monetary assets are recognised in the income statement.

Upon disposal or other derecognition of available-for-sale assets, any accumulated gains or losses are recognised in the income statement.

Losses on financial instruments carried at amortised cost are recognised in the income statement, when their value is impaired.

Fair value measurement principles

The fair value of financial assets and liabilities at fair value through profit or loss, and financial assets available for sale, is their quoted bid market price at the balance sheet date without any deductions for selling costs. If the market for a financial asset is not active, the Company establishes fair value by using various valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Company would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. The fair value is determined on the basis of the latest transactions or by using another pricing model (discounting of expected cash flow, the Black-Scholes option pricing model).

Impairment of financial assets

The Company quarterly assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Impairment of financial assets carried at amortised cost – loans and receivables

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are individually assessed for impairment at the date of the statement of financial position. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the date of the statement of financial position.

In assessing collective impairment the Company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost (debt securities and loans) are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rates. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Income is recognised at effective interest rate in the income statement. When a subsequent event causes the amount of impairment loss on a debt security to decrease, the impairment loss is reversed through profit or loss.

Impairment of financial assets classified as available-for sale

The Company impairs the available-for-sale financial assets the fair value of which decreased below their value at cost or has remained lower for a period of 9 months. A decrease of 40 per cent (or more) in the fair value of a financial asset compared to its initial cost is considered substantial. Reversal through profit or loss of impairment losses for equity securities is not possible.

Debt securities classified as available-for-sale are impaired in case that their issuer violates contractual provisions and fails to meet its coupon liabilities on time or in case of the debtor's bankruptcy. Impairment is carried out through profit or loss. Impairment loss may be reversed if it can be objectively linked to an event after the impairment has been recognised. The impairment loss is reversed through profit or loss.

Grouping of financial assets measured at fair value into levels by reference to published price quotations in an active market in determining their fair value

The Company groups financial assets measured at fair value (financial assets at fair value through profit or loss and available-for-sale financial assets) into three levels regarding the determination of their fair value:

- Level 1: financial assets valued by applying the unadjusted published price quotations in an active market for the relevant financial instrument;
- Level 2: financial assets valued by applying the valuation models that take into consideration known market parameters and
- Level 3: financial assets valued by applying the valuation models that take into consideration significant non-market parameters, including known market parameters that require significant adjustments.

9.3.4 Trade and other liabilities

Recognition and measurement

Trade and other liabilities are initially recognised at fair value and then subsequently at amortised cost.

9.3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank balances.

9.3.6 Employee benefits

Employee benefits are all forms of compensation that are provided to the employees in return for their contribution to the Company.

Employee benefits include:

- 1) Short-term employee benefits, which are payable within 12 months after the end of the period of the employee's service, such as salaries and social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as cars).
- 2) Other employee benefits, such as jubilee benefits and termination benefits upon retirement. The calculation of liabilities to employees arising from jubilee benefits and termination benefits upon retirement is based on the actuarial calculations using the following assumptions:
 - The development of mortality or survivorship will be in accordance with average life expectancy set out in the mortality tables (mortality of Slovene population has been taken into account, and the corrected 2002 Slovene Mortality Tables applied).
 - The retirement age and pensionable employment of men and women are in agreement with Articles 36, 52, and 396.a of the amended Pension and Disability Insurance Act (ZPIZ-1).

- The average salary of an individual.
- The growth of salaries in the following years is estimated at an average of 4.7 % per annum.
- The amount of termination benefit upon retirement is either equal to three average salaries of the employee or, in compliance with the law, equal to the amount of two average salaries of an employee in the Company or two average salaries in the Republic of Slovenia, whichever is higher.
- The amount of jubilee benefits is in compliance with the internal regulations of the Company.
- The discount rate remains at the level of the preceding year and is 4.1%.

9.3.7 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, taking into consideration the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted and are classified as non-current.

9.3.8 Other provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation. The policies for the recognition of employee benefit provisions have been explained in Item 9.3.6 Employee benefits. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

9.3.9 Equity

Share capital

Share capital comprises no par value shares. The shares are ordinary shares and give the holder the voting right and, based on the resolution of the General Meeting of Shareholders, the right to dividends. The Company does not record any subscribed shares not paid-in.

Reserve

The Company records share premium, comprising other capital paid in under the Articles of Association.

Reserves from profit comprise legal reserve and other reserve from profit, which are set up in accordance with the resolution of the Board of Management of the Company, and resolution by the General Meeting of Shareholders, and strengthen the capital adequacy of the Company. Reserve from profit comprises statutory reserves in credit insurance equalisation reserves.

Statutory reserves represent accumulated appropriations from retained earnings in accordance with the Articles of Association and the Companies Act (ZGD-1).

Legal and statutory reserves may be used:

- to cover net loss for the period if it cannot be covered by charging it against retained earnings or other reserve from profit;
- to cover retained loss if it cannot be covered by charging it against net profit for the period or other reserve from profit.

In compliance with IFRS, the Company does not set up equalisation provision as part of insurance contract provisions. In accordance with the Insurance Act, however, the Company is liable to make equalisation provision for its credit insurance business. To comply with the statutory requirements, the Company thus records this provision as revenue reserve under credit risk equalisation reserve. Such reserves are charged against profit and equity.

Fair value reserve

The fair value reserve represents unrealised net gains and losses arising from a change in the fair value of available-for-sale financial assets.

9.3.10 Income

Net reinsurance premiums earned

Premiums on reinsurance assumed are recognised as income and accounted as if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance premium related to life assurance contracts is accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

Gross written reinsurance premiums from cessions or retrocessions assumed in the observed period are reinsurance premiums written in the observed period on the basis of reinsurance contracts concluded with cedants and retrocedants. The retroceded portion of gross written reinsurance premiums from assumed cessions or retrocessions is ceded for reinsurance in accordance with the retrocession contracts concluded with the Company's retrocessionaires. Net written reinsurance premium from cessions or retrocessions assumed in the reporting period is the amount of gross written reinsurance premium from assumed cessions or retrocessions less the amount of gross written reinsurance premium of assumed cessions or retrocessions ceded for retrocession of assumed cessions or retrocessions. The criterion for recognition of income is the premium written on the basis of cedants' or retrocedants' statements of account with partners within the Triglav Group. The criterion for recognition of income with other partners, however, is the estimated premium on the basis of reinsurance contracts made with cedants.

Financial income

Interest income is recognised in the income statement as it accrues. Dividend income is recognised in the income statement on the date that the dividend is declared. The accounting policy in relation to capital gains recognition is disclosed in Item 9.3.3 under "Gains and losses".

9.3.11 Costs and expenses

The Company's expenses are recorded by their nature when incurred. In the financial statements, expenses are classified by functional group. These are: appraisal costs, asset management costs, policy acquisition costs, and other operating expenses. Due to the manner of claims handling in the Company, no costs arise in connection with the assessment of the entitlement to the amount of claim therefore they are not classified under the functional group of appraisal costs. A portion of costs by nature may be directly classified to a functional group, while other costs are classified to a functional group on the key basis. The key represents the consumption of working time by employees for a separate function and accordingly allocated costs of wages and salaries of the respective employees. Based on such a structure of wages and salaries, other operating costs are allocated to a functional group.

9.3.12 Classification of contracts

Reinsurance contract is a contract under which the Company or a reinsurer accepts a part or the whole of reinsurance risk from another party (cedant or retrocedant) by agreeing to

compensate the cedant or retrocedant if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as reinsurance contracts. Reinsurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Reinsurance contracts may also transfer some financial risk.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. All reinsurance contracts of the Company are classified as insurance contracts.

The Company has no contracts with discretionary participation features.

9.3.13 Liabilities from reinsurance contracts

Non-life insurance provision

The Company's insurance contract provisions comprise unearned premium provision, provision for incurred and reported but not settled claims (RBNS provision), provision for incurred but not reported claims (IBNR provision), provision for bonuses, rebates and cancellations, unexpired risk provision, and equalisation provision.

Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written in the reinsurance period after the end of the financial year under review. Unearned premium is computed using pro-rata temporis method or fraction method adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Gross unearned premiums were set on the basis of notifications made by cedants. Unearned premium provision was made for retrocession business and for retrocedants that failed to present the statement of account of unearned premium, in compliance with the Company's rules and regulations and by use of the fraction method.

Unexpired risk provision

Provision for unexpired risks is made on the basis and in compliance with Article 6 of the Decision on Detailed Rules and Minimum Standards to be applied in the calculation of technical provisions (Official Gazette of RS, No. 3/2001). The provision is defined as the difference between the actual amount required to cover unexpired risks and the unearned premiums. The provision for unexpired risks is made for those classes of business in which the average combined ratio in the last three years (current year and two previous years) exceeded 100%. When computing the unexpired risk provision and testing the adequacy of unearned premiums, the Company takes into account that net unearned premium multiplied by the average combined ratio has to contain a portion needed to cover future or expected expenses; therefore, net unearned premiums are increased by a cost margin for the current year.

Provisions for claims outstanding

Provision for incurred and reported claims is made on the basis of lists submitted by cedants and notifications made by retrocedants. Provision for incurred but not reported claims (IBNR provision) and provision for incurred but not enough reported claims (IBNER provision) were made on the basis of notifications made by cedants. A part of provisions (IBNER and IBNR) was made on the basis of the Company's own calculations. A part of claims provision for contracts with cedants outside the Triglav Group is foreseen on the basis of estimated loss ratios of reinsurance contracts, while the provision for business within the Triglav Group is made on the basis of the using the triangle method for cumulative ultimately settled net claims by class of business, or by group of classes of business when the volume of premiums or claims is too small. When preparing the triangles with data on claims settled, by contract year, for the projection of future payments of claims incurred, extremely high claims are eliminated. To supplement the underdeveloped years, the Company supplements the chain ladder method with the Bornhueter-Ferguson method at the level of separate class of business or separate group of classes of business. The IBNR claims thus computed by class of business or by group of classes of insurance are then compared with the IBNR claims computed on the basis of data submitted by cedants. As the final result for the class of business or the group of classes of insurance, the Company considers the higher result.

Provision for bonuses and rebates

Provision for bonuses and rebates was made on the basis of the notification presented by the cedant with whom the Company concluded a contract on export credit reinsurance.

Equalisation provisions

Pursuant to Article 54 of the Companies Act, insurance companies shall prepare their financial statements in compliance with International Financial Reporting Standards as adopted by the EU. Pursuant to Article 155 of the Insurance Act, insurance companies shall observe the provisions of the Companies Act when accounting. Pursuant to Article 133 of the Companies Act, technical provisions also include equalisation provisions. The provisions defined under Article 113 and Article 118 of the Insurance Act are in contradiction with the requirements of International Financial Reporting Standards as adopted by European Union. In compliance with International Financial Reporting Standards as adopted by European Union, the Company presents equalisation provisions under reserves in the item of equity.

Life reinsurance provision

The Company makes no life reinsurance provisions because the classes of business classified in items 20 to 24 under Article 2, paragraph 2, of the Insurance Act (marriage assurance or birth assurance, life assurance related to investment fund units, tontine, capital redemption insurance, insurance of loss of income due to accident or illness) are not recorded in the Company's insurance portfolio. The Company's life reinsurance portfolio includes only the type of life reinsurance classified in item 19 under Article 2, paragraph 2, of the Insurance Act (life assurance). Pure endowment risk, however, is not reinsured. Only death risk, critical illness risk and supplementary accident insurance are reinsured. For this reason, only unearned premium provision and claims provision for death risk, critical illness risk and supplementary accident insurance are made.

9.3.14 Outward reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of dispersion of its risks and limitation of its net loss potential. However, reinsurance arrangements do not relieve the Company from its direct obligations to its cedants and retrocedants.

Premiums ceded and reimbursement claims are presented in the income statement and balance sheet on a gross basis.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Amounts recoverable under reinsurance contracts are assessed in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of reinsurance contract provisions. Reinsurance assets relating to reinsurance contract provision are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Company records an allowance for estimated irrecoverable reinsurance assets, if any.

9.3.15 Liabilities and related assets under liability adequacy test

Reinsurance contracts are tested for liability adequacy. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in the income statement.

The assumptions of the liability adequacy test and the test itself are described in detail in Note 9.7.

9.4 Changes in accounting policies

In order to meet the need of transition to the recording of business transactions with cedants outside the Triglav Group on the basis of estimates of individual insurance contracts, the accounting policies changed in 2009, so that the amounts of premiums, commissions, claims and unearned premiums of reinsurance contracts with cedants outside the Triglav are now estimated. Because of these new policies, a comparative income statement for 2008 had to be prepared, and the effects of the transition were recorded as a change in the opening balance at 1 January 2009. Changes in opening balances were made in the following items:

- increase in receivables for reinsurance premiums amounting to EUR 4,896,682,
- increase in deferred tax assets amounting to EUR 1,797,886,
- increase in commission liabilities amounting to EUR 1,210,683,
- increase in the balance of gross unearned premiums amounting to EUR 3,233,591,
- increase in the balance of gross claims provisions amounting to EUR 9,013,771.

9.5 Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Note 12.5) and reinsurance risk management (Note 12.4).

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant impact on financial statements are discussed below.

9.5.1 Key sources of estimation uncertainty**Impairment of financial assets**

Impairment of loans and receivables is evaluated individually on the basis of the best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, the Board of Management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed separately.

Equity and debt securities classified as available-for-sale are impaired if their fair value has fallen below their value at cost or remained below that value for a period of at least 9 months. A decrease of 40 per cent (or more) in the fair value of a financial asset compared to its initial cost is considered substantial. Such impairment is recognised in the income statement.

Determining fair values for non-marketable financial assets and liabilities

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 9.3.3. For financial instruments that are not traded on the organised market, determination of fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Estimation of uncertainty in relation to recognition of income and expenses from reinsurance contracts

The most significant estimates in relation to the Company's financial statements relate to the recognition of income and expenses from reinsurance contracts with cedants outside the Triglav Group. In 2009, the Company changed its accounting policy and started to estimate a part of income and expenses on the basis of concluded reinsurance contracts with cedants outside the Triglav Group, because reinsurance statements of accounts submitted on the part of cedants or retrocedants arrive to the Company with a certain time lag. The amount of individual accounting items, i. e. gross premium, commission paid, amount of claims incurred and provision for claims outstanding, and the amount of unearned premiums are estimated from underlying contracts made with cedants outside the Triglav Group. Income and expenses are recognised in the accounting period to which the reinsurance contract relates, and no longer depend on the time lag in reporting from business partners. Reinsurance risk management is discussed in detail in Note 12.4, while reinsurance contract provisions are analysed in Note 12.2.

Estimation of uncertainty in relation to recognising liabilities for reinsurance contracts

The most significant estimates in relation to the Company's financial statements relate to provisioning for reinsurance contracts and to the estimation of the amounts of reserve for reinsurance business with cedants outside the Triglav Group. In setting up its reserve for liabilities from reinsurance contracts the Company applies the regulations issued by the Insurance Supervision Agency. The Company employs a certified actuary. The Board of Management of the Company believes that the present amount of provisions for liabilities from reinsurance contracts is sufficient. Reinsurance risk management is discussed in detail in Note 12.4, while reinsurance contract provisions are analysed in Note 12.2.

Tax

The Company provides for tax liabilities in accordance with the tax laws of the Republic of Slovenia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

9.5.2 Critical accounting judgements in applying the Company's accounting policies

Critical accounting judgements made in applying the Company's accounting policies include:

Classification and reclassification of financial assets and liabilities

The Company's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories of assets and liabilities in certain circumstances. In classifying financial assets or liabilities as "trading", the Company has determined that it meets the description of trading assets and liabilities set out in accounting policy 9.3.3. In designating financial assets or liabilities at fair value through profit or loss, the Company has determined that it has met one of the criteria for this designation set out in accounting policy 9.3.3. In designating financial assets or liabilities classified under loans and receivables, the Company has decided on such classification if the financial instrument meets one of the criteria set out in accounting policy 9.3.3.

9.6 Principal assumptions that have the greatest effect on net recognised reinsurance assets, liabilities, income and expenses

9.6.1 Non-life reinsurance

At the date of the statement of financial position provision is made for claims reported but not settled. In addition, the Company made provisions for claims incurred but not reported (IBNR provisions).

The liability for claims reported but not settled (RBNS provisions) is recorded separately on a case-by-case basis, and based on the statement of account. Case reserves are monitored regularly and are updated as and when new information arises.

In 2009, the Company introduced the estimation of claims incurred but not reported (IBNR provisions) on the basis of specific data or estimates for reinsurance contracts with cedants outside the Triglav Group; in addition, the Company created an adequate amount of IBNR provisions for business within the Triglav Group, as assessed by the Company's certified actuary.

The chain ladder method and the Bornhuetter-Ferguson method use settled claims development information and assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by deducting major settled claims, arising from catastrophe or irregular events and not expected to recur from year to year, from settled claims taken into account as they developed. The assumption which has the greatest effect on the measurement of non-life reinsurance liabilities is the expected claims ratio.

The expected claims ratio represents the ratio of expected claims incurred to reinsurance premiums earned. The assumptions in respect of expected claims ratios for the most recent accident year, per class of business, have the most influence on the level of IBNR provisions.

The ultimate loss ratio, on the other hand, has the most influence on the estimate of provisioned claims in the assessment of reinsurance business abroad. Further impact, in addition to claims ratio, is the result of expense ratio (which affects the commission amount) and the amount of estimated gross reinsurance premiums for reinsurance contracts with cedants outside the Triglav Group.

9.6.2 Life reinsurance

Because so far the Company has not assumed for reinsurance any risks which would require the setting-up of mathematical provisions, any information relating to life reinsurance is stated together with the information on non-life reinsurance.

9.7 Liability adequacy test (LAT)

9.7.1 Non-life insurance

The Company makes provisions for unexpired risks, thus complying among other things with the criteria of the liability adequacy test (LAT). For non-life insurance, the liabilities are subject to a liability adequacy test only for unearned premium provisions, while the provisions for claims outstanding and the provisions for bonuses and rebates are deemed to be made in the adequate amount, and therefore the application of the liability adequacy test is not needed. Equalisation provisions are used as a buffer in adverse cases and are not a liability under the reinsurance contracts in force in compliance with IFRS 4. Unexpired risk provisions are made on the basis of the liability adequacy test for unearned premium liability, since additional provisions are higher than unearned premium provisions by the amount set aside with respect to risks to be borne after the end of the accounting period and to provide for all claims and expenses in connection with reinsurance contracts in force.

The liability adequacy test for unearned premium provisions is undertaken to determine the difference between the sum of expected claims and the expected expense, i.e. in our case between the combined ratio and unearned premium provisions. Unexpired risk provisions are calculated in compliance with the internal Regulations on Establishing Other Technical Provisions. In line with these Regulations, provisions are made for those classes of business with an average combined ratio in the last three years (the current period and the previous two periods are taken into account) exceeding 100%. The combined ratio consists of the claims ratio and the expense ratio; therefore it is a relevant indicator of a possible inadequacy of provisioning. When computing the unexpired risk provision and carrying out the liability adequacy test for unearned premiums in 2009, the Company took into account that net unearned premium multiplied by the average combined ratio has to contain a portion needed to cover future or expected expenses; therefore, net unearned premiums are increased by a cost margin for the year 2009. In addition, when computing the unexpired risks in 2009, the Company took into account the fact that in the calculation for 2009 the adjusted (input) data of the financial year 2008 were considered due to the transition to the new methods used in the estimation of accounting items.

The actual unexpired risk provision at 31 December 2009 amounts to EUR 226,564. Thus, the Company takes the liability adequacy test as the calculation of the unexpired risk provision, and the deficit is recognised as an increase in liabilities (provisions) in the profit or loss for the current accounting period. IFRS 4.16 does not specify that the test shall be performed on net liabilities therefore a liability adequacy test for unearned premium provisions based on gross items has been carried out to provide for an additional control or comparison. The calculation shows that a lower provision in the amount of EUR 170,439 is required, which means that the actual unexpired risk provision at 31 December 2009 is made in an adequate amount, therefore the calculation based on net items, which gives a higher amount, has been taken into account in the statement of financial position.

9.7.2 Life reinsurance

The test of adequacy of life reinsurance provision was carried out within the Company's non-life reinsurance. It was found that there was no need for setting up any additional life reinsurance provisions.

9.8 The sensitivity of present value of future liabilities to changes in significant variables

9.8.1 Non-life reinsurance

In non-life the insurance variables which would have the greatest impact on insurance liabilities relate to motor liability court claims. Court claims related liabilities are sensitive to legal, judicial, political, economic and social trends. Management believes it is not practical to quantify the sensitivity of non-life provisions to changes in these variables.

9.8.2 Life reinsurance

The sensitivity of present value of future liabilities to changes in significant variables of life reinsurance has not been calculated because none of the classes of business set out under items 20 through 24, of Article 2, paragraph 2, of the Insurance Act is recorded in the Company's portfolio. Only life reinsurance set out under Item 19 of Article 2, Paragraph 2, of the Insurance Act is recorded in the life reinsurance portfolio. Pure endowment risk is not reinsured. Only death risk, critical illness risk and supplementary accident insurance are reinsured.

9.9 Reinsurance contracts that have material effect on uncertainty of future cash flows

9.9.1 Non-life reinsurance

The Company offers all types of non-life reinsurance: motor, property, liability, marine, aviation, transport, and accident reinsurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel at 3 months' notice. The Company is therefore able to re-price the risk under a contract at intervals of not more than one year. Reinsurance claims are the main source of uncertainty which influences the amount and the timing of future cash flows. The amount of particular claim payments is limited by limit of coverage which is defined in the reinsurance contract.

A special attention is paid to motor reinsurance and liability reinsurance as described below.

Motor reinsurance

The Company motor reinsurance portfolio comprises both motor third party liability reinsurance and motor (casco) reinsurance. Motor third party liability reinsurance covers bodily injury claims and property claims in the cedant's country (i.e. domestic claims) as well as claims caused abroad by insured party (Green Card system).

Property damage (e.g. on a vehicle) is generally reported and settled within a short period of the accident occurring. Reporting and payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

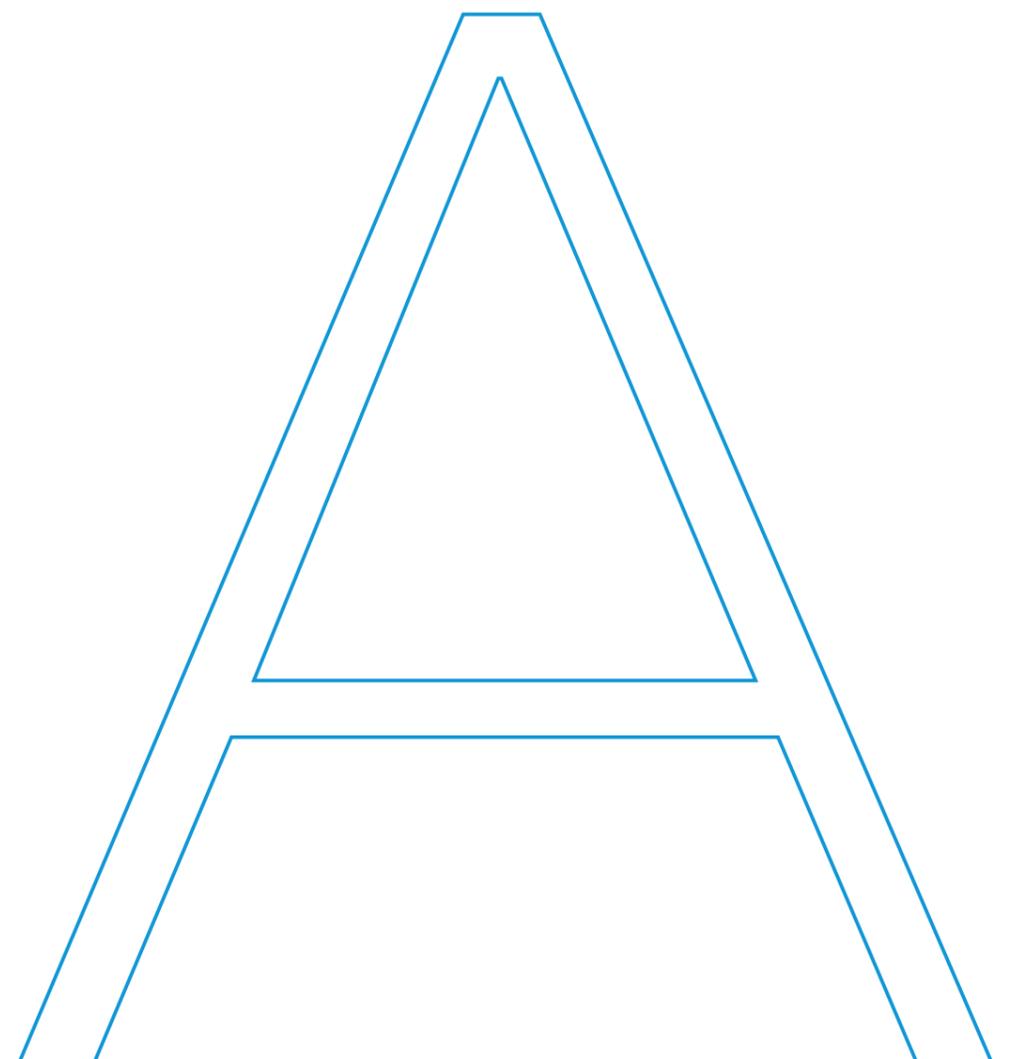
Liability reinsurance

Liability reinsurance covers all types of liability insurance: general and producer's liability insurance, liability insurance of members of the Board of Management and members of the Supervisory Board, and professional liability insurance.

9.9.2 Life reinsurance

The Company sets up no mathematical provisions for life reinsurance because it has in its portfolio none of the classes of business classified in items 20 to 24 under Article 2, paragraph 2, of the Insurance Act in its portfolio none of the classes of business classified in items 20 to 24 under Article 2, paragraph 2, of the Insurance Act (marriage assurance or birth assurance, life assurance related to investment fund units, tontine, capital redemption insurance, insurance of loss of income due to accident or illness). The Company's life reinsurance portfolio includes only the type of life reinsurance classified in item 19 under Article 2, paragraph 2, of the Insurance Act (life assurance), but endowment risk is not reinsured. Only death risk, critical

illness risk and supplementary accident insurance are reinsured. For this reason, only unearned premium provision and claims provision for death risk, critical illness risk and supplementary accident insurance are made.



10

DISCLOSURES TO THE STATEMENT OF FINANCIAL POSITION

10.1 Intangible assets

in EUR

	SOFTWARE	TOTAL
COST		
Balance at 1 January 2008	422.082	422.082
- additions	61.260	61.260
- other	0	0
Balance at 31 December 2008	483.342	483.342
- additions	58.209	58.209
- disposals	-128.248	-128.248
- other	2.380	2.380
Balance at 31 December 2009	415.683	415.683
ACCUMULATED AMORTISATION		
Balance at 1 January 2008	270.576	270.576
- increase	53.912	53.912
Balance at 31 December 2008	324.488	324.488
- increase	60.979	60.979
- disposals	-102.013	-102.013
Balance at 31 December 2009	283.454	283.454
CARRYING AMOUNT		
Balance at 31 December 2008	158.854	158.854
Balance at 31 December 2009	132.228	132.228

The amortisation charge is recognised under operating expenses in the income statement. Liabilities arising from acquired intangible assets are not recorded under liabilities.

10.2 Property, plant and equipment

in EUR

	MOTOR VEHICLES	EQUIPMENT AND FURNITURE	TOTAL
COST			
Balance at 1 January 2008	86.402	195.791	282.193
- acquisitions	23.977	83.691	107.668
- disposals	-23.464	-62.844	-86.308
- other	0	0	0
Balance at 31 December 2008	86.915	216.638	303.553
- acquisitions	164.139	12.132	176.271
- disposals	-71.998	-9.505	-81.503
- other	0	0	0
Balance at 31 December 2009	179.056	219.265	398.321
ACCUMULATED DEPRECIATION			
Balance at 1 January 2008	31.102	178.621	209.723
- increase	8.367	37.460	45.827
- disposals	-23.464	-62.844	-86.308
Balance at 31 December 2008	16.005	153.237	169.242
- increase	18.188	46.704	64.892
- disposals	-6.582	-9.505	-16.086
Balance at 31 December 2009	27.611	190.435	218.046
CARRYING AMOUNT			
Balance at 31 December 2008	70.910	63.401	134.311
Balance at 31 December 2009	151.445	28.830	180.275

The depreciation charge is recognised under operating expenses in the income statement. Liabilities arising from acquired property and equipment are not recorded under liabilities.

10.3 Deferred tax assets and liabilities

in EUR

	YEAR 2008	Changes	YEAR 2009
DEFERRED TAX ASSETS			
Recognised in income statement	2,385,682	-1,896,873	488,808
Recognised in equity	64,819	-64,819	0
BALANCE at 31 December	2,450,501	-1,961,692	488,808
DEFERRED TAX LIABILITIES			
Recognised in income statement	425,099	-425,099	0
Recognised in equity	0	538,641	538,641
BALANCE at 31 December	425,099	113,542	538,641
OFFSET OF ASSETS/LIABILITIES			
DEFERRED TAX ASSETS	2,025,402	0	0
DEFERRED TAX LIABILITIES	0	2,075,234	49,832

In 2009, the Company set up deferred tax assets for non-deductible investment impairments recognised during 2009 in the amount of EUR 482,325 and for the provisions for jubilee and termination benefits in the amount of EUR 6,483. Due to changes in accounting policies in 2009, the Company set up deferred tax assets in the amount of EUR 1,797,886 at 1 January 2008, the amount which was used for or offset with current income tax liabilities in the reported year.

In 2009, the Company set up deferred tax liability for the revaluation surplus in investments in the amount of EUR 538,641.

In 2009, the Company settled all its deferred tax liabilities in the amount of EUR 425,099 related to the reversal of nuclear risk provision and equalisation provisions which the company reversed in the financial year 2007.

10.4 Financial assets

in EUR

	YEAR 2009	YEAR 2008
Available for sale	54,649,338	54,403,585
At fair value through profit or loss	2,333,423	1,950,841
Loans and receivables	34,673,674	21,883,171
TOTAL	91,656,436	78,237,597

in EUR

YEAR 2009	AVAILABLE FOR SALE	AT FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	TOTAL
Equity securities	2,593,500	0	0	2,593,500
- listed	2,025,438	0	0	2,025,438
- unlisted	568,062	0	0	568,062
Debt securities	49,058,245	2,250,234	7,366,060	58,674,539
- government bonds	33,287,687	0	0	33,287,687
- corporate bonds	15,770,558	2,250,234	7,366,060	25,386,852
Investment funds	2,997,594	0	0	2,997,594
- open ended	655,379	0	0	655,379
- closed ended	2,342,215	0	0	2,342,215
Loans and receivables	0	0	27,297,614	27,297,614
- deposits with banks	0	0	24,314,478	24,314,478
- financial investments under reinsurance contracts with cedants	0	0	2,983,136	2,983,136
Derivative financial instruments	0	83,190	0	83,190
Other investments	0	0	10,000	10,000
TOTAL	54,649,338	2,333,423	34,673,674	91,656,436

in EUR

YEAR 2008	AVAILABLE FOR SALE	AT FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	TOTAL
Equity securities	3,339,803	0	0	3,339,803
- listed	2,142,150	0	0	2,142,150
- unlisted	1,197,653	0	0	1,197,653
Debt securities	47,449,774	1,950,841	7,309,331	56,709,946
- government bonds	29,392,392	0	0	29,392,392
- corporate bonds	18,057,382	1,950,841	7,309,331	27,317,554
Investment funds	3,614,009	0	0	3,614,009
- open ended	2,037,938	0	0	2,037,938
- closed ended	1,576,071	0	0	1,576,071
Loans and receivables	0	0	14,563,840	14,563,840
- deposits with banks	0	0	12,339,802	12,339,802
- financial investments under reinsurance contracts with cedants	0	0	2,224,038	2,224,038
Derivative financial instruments	0	0	0	0
Other investments	0	0	10,000	10,000
TOTAL	54,403,585	1,950,841	21,883,171	78,237,597

Financial assets at fair value through profit or loss were classified into the group when acquired. In compliance with the accounting policy described in Item 9.3.3, the amount of EUR 378,627 was transferred from the provision for change in fair value into the income statement in 2009 (2008: EUR 2,713,215) due to impairment of available-for-sale financial assets.

The carrying amount represents fair value at the balance sheet date of the available-for-sale financial assets and at fair value through profit or loss.

Loans and receivables comprise all debt securities reclassified into this category in 2008 in compliance with Articles 50E and 54 of IAS 39; in 2009 two further debt securities were classified into this category upon acquisition. The carrying value of these reclassified assets that were transferred from the available-for-sale into the loans and receivables category in 2008 amounted in total to EUR 7,211,989 on 1 July 2008 when the reclassification was made, and at 31 December 2009 their value amounted to EUR 6,327,811. Their carrying value represented fair value of those assets at the date of their reclassification. The fair value of these securities as at 31 December 2009, and for the comparative year, has not been disclosed because in our opinion the published market price does not reflect the fair value of the securities, since there is no liquid market or market is simply not existent, and therefore it is impossible to present their value or effect on 31 December 2009. The revaluation surplus of the reclassified assets amounted to negative EUR 85,828 as at the reclassification date, i.e. on 1 July 2008. Effective interest rate for the reclassified assets was 5.87 % on the reclassification date.

No reclassifications of securities in other groups were made in 2009.

In accordance with IFRS 7 we disclose market price levels for assets classified as available for sale and assets recognised at fair value through profit or loss.

YEAR 2009	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
- available for sale	50,018,818	0	4,630,520	54,649,338
- recognized at fair value	86,549	2,246,874	0	2,333,423
TOTAL	50,105,367	2,246,874	4,630,520	56,982,761
YEAR 2008	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
- available for sale	53,172,700	0	1,230,885	54,403,585
- recognized at fair value	38,726	1,912,115	0	1,950,841
TOTAL	53,211,425	1,912,115	1,230,885	56,354,425

10.5 Reinsurers' share in technical provisions

v EUR

	YEAR 2009	YEAR 2008
Share in unearned premiums reserve	6,372,859	5,826,463
Share in reported but not settled claims provision	15,955,548	25,665,116
Share in claims incurred but not reported provision	4,045,413	1,175,002
TOTAL	26,373,821	32,666,581

Changes in reinsurers' shares are presented in Item 10.8.

10.6 Receivables

in EUR

	YEAR 2009	YEAR 2008
Receivables from reinsurance and coinsurance	45,578,535	54,283,514
Current tax assets	1,047,652	81,248
Other receivables	25,568	92,634
TOTAL	46,651,755	54,457,396

The Company assesses the need for the impairment of receivables on the basis of separate estimates of the financial position and solvency of debtors from which the receivable is due. The Company impaired no receivables in 2009.

Current tax assets in the amount of EUR 1,047,652 (2008: EUR 81,248) have increased due to the changes in accounting policies, which resulted in lower tax base for the year 2009.

Maturity structure of receivables is presented in Item 12.5.5.

10.7 Equity

in EUR

	YEAR 2009	YEAR 2008
Share capital	3,129,695	3,129,695
Share premium	1,146,704	1,146,704
Reserves from profit	2,298,253	2,093,407
Revaluation surplus	2,154,562	-243,844
Retained earnings	15,684,218	15,033,550
Net profit for the year	6,956,911	775,918
TOTAL	31,370,343	21,935,430

10.7.1 Share capital

Share capital of the Company is denominated in EUR. Share capital is divided into 15,000 no-par value shares. No new shares were issued in 2009. All shares have been fully paid. The ownership structure is presented in Item 3.4 of the business report.

Dividend per share for 2008, paid out in 2009, amounted to 4% of the Company's equity, i.e. EUR 8.35 per share. Total amount of dividends paid was EUR 125,250. The resolution on the amount of dividends paid was passed by the Company's General Meeting of Shareholders who will also decide on the amount of dividends to be paid for the financial year 2009.

10.7.2 Change in fair value reserve

in EUR

	YEAR 2009	YEAR 2008
BALANCE at 1 January	-243,844	5,909,332
Increase/decrease due to revaluation	2,193,664	-5,249,596
Increase/decrease due to disposal	808,202	-2,351,084
Tax	-603,460	1,447,504
BALANCE at 31 December	2,154,562	-243,844

Fair value reserve also includes the reserve arising from change in fair value of available-for-sale financial assets measured at fair value. In 2009, the amount of EUR 378,627 (2008: EUR 2,713,215) was transferred from reserves for the change in fair value to the income statement due to impairment of financial assets.

Gains and proceeds from available-for-sale financial assets are upon the disposal of such assets transferred from revaluation surplus in equity and recognised in profit or loss in the amount of EUR 808,202.

Effects of net gains from remeasurement of available-for-sale financial assets, i.e. of fair value reserves are disclosed in the statement of comprehensive income.

10.7.3 Share premium

in EUR

	YEAR 2009	YEAR 2008
Paid in share premium	543,044	543,044
Other paid-in capital under the Articles of Association	603,661	603,661
TOTAL	1,146,704	1,146,704

10.7.4 Reserves from profit

in EUR

	YEAR 2009	YEAR 2008
Legal reserves	261,598	261,598
Statutory reserves	258,164	258,164
Credit risk equalisation reserves	1,158,530	953,384
Other reserves from profit	619,961	619,961
TOTAL	2,298,253	2,093,107

In accordance with International Financial Reporting Standards as adopted by the EU, equalisation provisions are recorded in the financial statements under reserves in the item of equity. The Insurance Act, however, prescribes that equalisation reserves shall be part of technical provisions. This represents inconsistency between the requirements of the Insurance Act and the International Financial Reporting Standards.

If the financial statements had been prepared in compliance with the requirements of the Insurance Act, net profit or loss for 2009 would have been lower by EUR 204,846 (2008: EUR 141,320) and would have amounted to EUR 6,956,911 (2008: EUR 2,124,606). The amounts of credit insurance equalisation reserves recorded under equity would not have been a part of equity in the financial statements prepared in compliance with the requirements of the Insurance Act, but would have increased gross technical provisions for reinsurance contracts. These would have amounted to EUR 92,262,048 as at 31 December 2009 (31 December 2008: EUR 94,935,373), if they had included credit risk equalisation provision.

10.7.5 Earnings per share

To calculate the earnings per share, earnings are computed as net profit for the year attributable to equity shareholders of the Company. For 2009, the earnings per share amount to EUR 477 (2008: EUR 61). The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The number of ordinary shares used for basic earnings per share was 15,000 (2008: 15,000). Given that there is no effect of options, convertible bonds or similar effect, the diluted earnings per share are the same as basic earnings per share.

ACCUMULATED PROFIT PRESENTED IN LINE WITH THE DECISION ISSUED BY THE INSURANCE SUPERVISION AGENCY

in EUR

	31 December 2009	31 December 2008
Net profit or loss for the period	7,161,757	917,239
Retained earning(+)/loss from previous period(-)	15,684,218	15,033,549
- profit/loss for the period according to effective standards	15,684,218	15,033,549
- adjustment to new accounting standards	0	0
Decrease in reserves from profit	0	0
Increase of reserves from profit by decision of management	204,846	141,320
- increase in security reserves	0	0
- increase in legal reserves	204,846	141,320
- increase in reserves for treasury shares and own interests	0	0
- increase in statutory reserves	0	0
Increase in other reserves by decision of management and supervisory board	0	0
Accumulated profit appropriated by the general meeting of shareholders	22,641,129	15,809,468
- distribution to shareholders	0	125,250
- allocated to other reserves	0	0
- carried forward to the following period	0	15,684,218
- appropriated for other purposes	0	0

The general Meeting of the Shareholders of the Company will decide on the appropriation of the accumulated profit of 2009.

10.8 Liabilities from reinsurance contracts

in EUR

	GROSS AMOUNT	REINSURER'S SHARE	NET AMOUNT
PROVISION FOR UNEARNED PREMIUMS			
Balance at 1 January 2008	17,438,616	4,656,078	12,782,538
Changes in 2008	2,730,911	1,170,384	1,560,526
Balance at 31 December 2008	20,169,527	5,826,463	14,343,064
Changes in 2009	-281,322	546,397	-827,719
Balance at 31 December 2009	19,888,205	6,372,859	13,515,346
PROVISION FOR CLAIMS REPORTED BUT NOT SETTLED			
Balance at 1 January 2008	26,335,294	14,212,010	12,123,284
Changes in 2008	16,462,338	11,453,106	5,009,232
Balance at 31 December 2008	42,797,632	25,665,116	17,132,516
Changes in 2009	-5,295,789	-9,709,568	4,413,778
Balance at 31 December 2009	37,501,842	15,955,548	21,546,294
PROVISION FOR CLAIMS INCURRED BUT NOT REPORTED			
Balance at 1 January 2008	24,168,745	949,128	23,219,616
Changes in 2008	6,592,413	225,874	6,366,539
Balance at 31 December 2008	30,761,158	1,175,002	29,586,156
Changes in 2009	2,719,811	2,870,411	-150,600
Balance at 31 December 2009	33,480,969	4,045,413	29,435,555
OTHER PROVISIONS			
Balance at 1 January 2008	144,519	0	144,519
Changes in 2008	109,154	0	109,154
Balance at 31 December 2008	253,673	0	253,673
Changes in 2009	-21,171	0	-21,171
Balance at 31 December 2009	232,502	0	232,502

Retrocessionaires' shares in provisions for reinsurance contracts are presented in Item 10.5 of this report.

Due to the specific nature of reinsurance business, the changes in provisions for unearned premiums, provisions for claims reported but not settled and provisions for claims incurred but not reported (IBNR) are disclosed as change (positive or negative) in separate provisions and not as increase or decrease of each item separately.

10.8.1 Development of reinsurance claims settled

Shown below is the development of claims settled because the development of claims reported by policyholders is not directly presented by the Company as a reinsurance company. Shown below is the adequacy of gross and net provisions for 2009. Originally assessed provisions shown in the tables below comprise claims reserve (including IBNR provision) and unearned premiums. Considering the specifics of reinsurance business, the Company cannot base its actuarial estimate of provisions for claims outstanding on the triangle of claims settled prepared on the basis of occurrence, but rather prepares data on claims settled by contract years, and then, by applying appropriate actuarial techniques, estimates potential liabilities by contract years in the future. For this reason provision for unearned premiums is also disclosed in this report.

The table below gives a survey in the triangle format of adequacy of gross and net provisions for claims as at 31 December 2009 for the past 5 years.

GROSS PROVISIONS FOR CLAIMS AND UNEARNED PREMIUMS

in EUR

	YEAR 2004	YEAR 2005	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009
Originally assessed	34,252,825	39,913,479	47,327,069	67,942,654	93,728,316	90,871,016
Reassessed after 1 year	30,610,087	39,296,280	49,278,475	69,067,871	87,558,641	
Reassessed after 2 years	28,926,252	40,130,179	46,439,586	57,954,011		
Reassessed after 3 years	31,524,544	39,336,303	41,626,208			
Reassessed after 4 years	30,526,039	36,298,117				
Reassessed after 5 years	27,497,332					
CUMULATIVE EXCESS	6,755,493	3,615,362	5,700,861	9,988,643	6,169,675	

CUMULATIVE GROSS CLAIMS PAID

in EUR

	YEAR 2004	YEAR 2005	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009
1 year later	12,783,190	17,282,898	20,482,757	28,432,591	48,342,004	
2 years later	17,308,703	22,514,854	27,134,727	36,414,993		
3 years later	18,580,002	25,983,243	29,631,337			
4 years later	20,827,312	27,473,195				
5 years later	21,674,943					

NET PROVISIONS FOR CLAIMS AND UNEARNED PREMIUMS

v EUR

	YEAR 2004	YEAR 2005	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009
Originally assessed	22,697,893	28,263,168	34,035,479	48,125,438	61,061,735	64,497,195
Reassessed after 1 year	20,750,525	26,378,682	34,167,393	47,829,673	55,229,598	
Reassessed after 2 years	16,788,412	24,526,221	30,380,732	38,053,396		
Reassessed after 3 years	16,849,908	23,174,664	27,043,999			
Reassessed after 4 years	16,272,326	21,768,529				
Reassessed after 5 years	15,073,873					
CUMULATIVE EXCESS	7,624,020	6,494,639	6,991,480	10,072,042	5,832,138	

CUMULATIVE PAID NET CLAIMS

in EUR

	YEAR 2004	YEAR 2005	YEAR 2006	YEAR 2007	YEAR 2008	YEAR 2009
1 year later	9,140,774	11,989,917	16,340,032	20,388,598	28,538,723	
2 years later	11,370,989	15,998,481	19,614,040	25,269,705		
3 years later	11,994,424	17,310,514	20,724,212			
4 years later	12,559,594	17,867,829				
5 years later	12,878,300					

The table above shows the adequacy test of gross and net provisions for the Company's reinsurance contracts, including unearned premiums; assessed liabilities of reinsurance companies are normally arranged by contract years and, thus, also include liabilities to be settled with the unearned premiums. The upper triangle in the table shows the originally assessed provision by financial years, and its reassessment (up to 5 years later). The lower triangle in the table shows the amount of cumulative settled or paid claims. The cumulative excess in provisions (computed by deducting the last known assessment of provision from the original assessment of provisions) amounted to EUR 5.8 million in 2009.

10.9 Operating and other liabilities

in EUR

	YEAR 2009	YEAR 2008
Reinsurance contract liabilities	41,966,490	51,376,473
- of which liabilities to related companies	21,299,483	34,852,404
Other liabilities	510,446	434,920
Provisions for bonuses to employees	267,983	207,000
Liabilities for salaries	121,683	99,100
Other liabilities and accrued expenses	120,780	128,820
- of which liabilities to related companies	32,688	34,198
TOTAL	42,476,936	51,811,393

Reinsurance contract liabilities are of current nature. They include liabilities to insurance companies arising from reinsurance share in claims and commissions. Liabilities are stated at historical cost which equals to fair value. As at 31 December 2009, the sum of all due liabilities from current operations amounted to EUR 5,125,582. By 18 January 2010 we have settled due liabilities in the amount of EUR 4,309,029.



11

DISCLOSURES TO THE INCOME STATEMENT

11.1 Net reinsurance premiums earned

in EUR

	LETO 2009	LETO 2008
Gross reinsurance premiums written	114,027,127	111,064,132
- premium from insurance companies for reinsurance assumed	79,355,396	77,492,310
- premium from reinsurance companies for reinsurance assumed	34,671,731	33,571,822
Reinsurance premiums ceded to retrocessionaires	-53,372,046	-48,034,559
Change in the gross provision for unearned premiums	281,322	-2,730,911
Retrocessionaires' share of change in the provision for unearned premiums	546,397	1,170,384
TOTAL	61,482,800	61,469,047

Analysis of reinsurance premiums, claims incurred and operating expenses by class of business

An analysis of gross reinsurance premiums written and gross claims settled by class of business is set out below.

in EUR

YEAR 2009	Gross reinsurance premiums	Gross premiums earned	Gross claims paid	Gross claims incurred	Insurance acquisition costs and other operating expenses
Accident insurance	2,472,023	2,291,882	748,333	898,711	59,161
Health insurance	166,120	228,256	55,636	-7,636	3,976
Land motor vehicle insurance	14,822,634	15,026,006	17,776,909	8,823,078	354,740
Railway rolling stock insurance	639,202	639,202	173	534	15,298
Aircraft insurance	2,046,462	1,667,432	320,041	1,032,564	48,977
Ships insurance	544,991	481,997	587,518	387,159	13,043
Goods in transit insurance	2,400,537	2,388,989	605,716	1,086,341	57,450
Fire and natural forces insurance	41,419,274	41,170,689	18,329,366	19,910,291	991,260
Insurance of other damage to property	23,909,967	23,329,155	19,011,464	20,798,320	572,221
Liability insurance for motor vehicles	16,851,894	18,613,195	8,810,672	11,027,914	403,305
Liability insurance for aircraft	920,056	917,440	339,463	736,987	22,019
Liability insurance for ships	141,668	139,256	32,020	25,875	3,390
General liability insurance	2,577,828	2,495,469	1,361,729	1,097,200	61,693
Credit insurance	1,707,053	1,645,603	802,303	1,005,977	40,854
Suretyship insurance	735,410	675,549	23,601	81,463	17,600
Miscellaneous financial loss insurance	1,870,988	1,875,855	1,711,923	936,517	44,777
Legal expense insurance	58,440	58,027	283	688	1,399
Assistance insurance	551,925	470,861	448,953	561,498	13,209
Life assurance	190,656	193,585	54,069	40,714	4,563
TOTAL	114,027,127	114,308,449	71,020,173	68,444,195	2,728,936

in EUR

YEAR 2008	Gross reinsurance premiums	Gross premiums earned	Gross claims paid	Gross claims incurred	Insurance acquisition costs and other operating expenses
Accident insurance	2,181,289	2,124,694	846,644	1,368,467	76,946
Health insurance	35,488	25,975	25,246	71,028	1,426
Land motor vehicle insurance	19,239,055	18,842,430	18,119,449	22,561,116	521,378
Railway rolling stock insurance	642,599	642,599	180	180	178
Aircraft insurance	1,115,627	1,077,691	83,075	195,342	13,538
Ships insurance	1,081,345	1,077,496	564,222	802,083	42,301
Goods in transit insurance	1,627,215	1,576,344	354,091	594,972	35,178
Fire and natural forces insurance	35,267,844	34,604,106	36,553,660	42,097,684	558,835
Insurance of other damage to property	21,011,348	20,651,169	17,249,650	19,184,993	403,837
Liability insurance for motor vehicles	19,906,615	19,142,650	8,108,293	14,657,690	649,082
Liability insurance for aircraft	691,711	667,274	504,337	727,478	3,638
Liability insurance for ships	220,305	218,404	42,861	156,560	7,695
General liability insurance	2,754,723	2,679,932	1,580,783	3,202,661	52,204
Credit insurance	1,863,596	1,658,969	822,629	990,121	49,107
Surety ship insurance	503,484	449,035	8,615	137,449	4,645
Miscellaneous financial loss insurance	2,247,328	2,240,048	484,087	1,601,030	23,199
Legal expense insurance	58,566	55,931	334	1,110	2,353
Assistance insurance	455,891	439,052	269,511	307,545	12,931
Life assurance	160,103	159,420	68,124	83,036	72
TOTAL	111,064,132	108,333,221	85,685,792	108,740,544	2,458,544

Profit/loss from retroceded premiums and claims

in EUR

	YEAR 2009	YEAR 2008
Reinsurance premiums ceded to retrocession	53,372,046	48,034,559
Retrocessionaires' share in the change in provisions for unearned premiums	-546,397	-1,170,384
RETROCEDED PREMIUMS EARNED	52,825,649	46,864,174
Retrocessionaires' share of claims paid	34,836,607	51,133,841
Change in retroceded provisions for claims reported but not settled	-9,709,568	11,453,106
Change in retroceded provisions for claims incurred but not reported	2,870,411	225,874
RETROCEDED EXPENSES FOR CLAIMS	27,997,450	62,812,821
PROFIT/LOSS FROM RETROCESSION	24,828,199	-15,948,647

11.2 Income and expenses from financial assets

11.2.1 Income from financial assets

in EUR

	YEAR 2009	YEAR 2008
Interest income	3,516,394	3,091,046
- available-for-sale financial assets	2,605,395	2,420,960
- financial assets recognised at fair value through profit or loss	138,223	193,606
- loans and receivables	772,776	476,481
Dividend income	121,955	360,185
- available-for-sale financial assets	121,995	360,185
Realised gains	1,449,341	6,771
- available-for-sale financial assets	1,350,817	6,771
- financial assets recognised at fair value through profit or loss	98,524	0
Other financial income	404,430	986,309
TOTAL	5,492,120	4,444,313

Upon disposal of assets, net realised gains from available-for-sale assets were transferred from the reserve for change in fair value under equity and recognised in profit or loss in the amount of EUR 1,350,817 (2008: EUR 6,771); other realised gains in the amount of EUR 98,524 (2008: EUR 0) relate to financial assets recognised at fair value through profit or loss.

11.2.2 Expenses from financial assets

in EUR

	YEAR 2009	YEAR 2008
Interest expenses	315,793	112,602
- available-for-sale financial assets	300,980	112,602
- financial assets recognised at fair value through profit or loss	14,813	0
Losses at the disposal of financial asset	309,911	1,257,618
- available-for-sale financial assets	594,389	4,992
- financial assets recognised at fair value through profit or loss	-284,478	1,252,626
Impairment expenses from financial assets	378,627	2,713,215
- available-for-sale financial assets	378,627	2,713,215
Other financial expenses	1,023,044	1,475,424
TOTAL	2,027,376	5,558,860

In compliance with its accounting policy, the Company impaired financial assets for the amount of EUR 378,627 (see item 9.3.3). Other financial expenses amounting to EUR 1,023,044 (2008: EUR 1,475,424), which account for the highest amount among expenses from financial assets include revaluation operational expenses in the amount of EUR 319,355 (2008: EUR 323,683), foreign exchange losses in the amount of EUR 517,717 (2008: EUR 1,017,978) and operating expenses related to assets management in the amount of EUR 185,972 (2008: EUR 133,763).

NET INCOME/(EXPENSES) FROM FINANCIAL ASSETS

in EUR

YEAR 2008	Assets available for sale	Loans and receivables	Fin. assets at fair value through profit or loss	Derivative financial instruments	TOTAL
Interest income	2,420,960	476,482	193,606	0	3,091,048
Income from dividends and shares	360,185	0	0	0	360,185
Realised gains	0	0	6,771	0	6,771
Other financial income	986,309	0	0	0	986,309
TOTAL INCOME	3,767,454	476,482	200,377	0	4,444,313
Interest expense	-112,602	0	0	0	-112,602
Realised leases	-4,992	0	-1,252,626	0	-1,257,618
Impairment losses	-2,713,215	0	0	0	-2,713,215
Other financial expenses	-1,475,424	0	0	0	-1,475,424
TOTAL EXPENSE	-4,306,233	0	-1,252,626	0	-5,558,860
TOTAL NET INCOME/(EXPENSES) FOR 2008	-538,779	476,482	-1,052,249	0	-1,114,547
YEAR 2009					
Interest income	2,605,395	772,776	117,633	20,590	3,516,394
Income from dividends and shares	121,955	0	0	0	121,955
Realised gains	1,350,817	0	10,700	87,824	1,449,341
Other financial income	404,430	0	0	0	404,430
TOTAL INCOME	4,482,597	772,776	128,333	108,414	5,492,120
Interest expense	-300,980	0	0	-14,813	-315,793
Realised leases	-594,389	0	284,478	0	-309,911
Impairment losses	-378,627	0	0	0	-378,627
Other financial expenses	-1,023,044	0	0	0	-1,023,044
TOTAL EXPENSE	-2,297,040	0	284,478	-14,813	-2,027,375
TOTAL NET INCOME/(EXPENSES) FOR 2009	2,185,557	772,776	412,811	93,601	3,464,745

11.3 Commission income and expenses

in EUR

	YEAR 2009	YEAR 2008
Commission income	9,181,518	9,933,202
Commission expense	21,823,779	20,136,972
DIFFERENCE	-12,642,261	-10,203,770

The reinsurance commission income is accounted for in connection with outward reinsurance business (i.e. reinsurance business retroceded to other reinsurance companies) and represents the Company's income, while the reinsurance commission expense is accounted for in connection with inwards reinsurance business (i.e. reinsurance business ceded to the Company by cedents and retrocedants) and represents the Company's expense. The reinsurance commission expense exceeds the reinsurance commission income and, thus, has a negative impact on the result, i.e. it increases the Company's operating costs.

11.4 Net claims incurred

in EUR

	LETO 2009	LETO 2008
Gross claims paid	71,020,173	85,685,792
Retrocessionaires' share of claims paid	-34,836,607	-51,133,841
Change in provisions for gross claims reported but not settled	-5,295,789	16,462,338
Change in retroceded provisions for claims reported but not settled	9,709,568	-11,453,106
Change in provisions for gross claims incurred but not reported	2,719,811	6,592,413
Change in retroceded provisions for claims incurred but not reported	-2,870,411	-225,874
TOTAL	40,446,745	45,927,722

11.5 Operating expenses

The table below presents operating costs and expenses by their nature and by functional groups:

in EUR

YEAR 2009	INSURANCE ACQUISITION COSTS	ASSETS MANAGEMENT COST	OTHER OPERATING EXPENSES	TOTAL
Depreciation and amortisation charge	52,916	8,031	64,924	125,871
Staff expenses	830,183	125,988	1,018,573	1,974,743
- gross salaries	607,209	92,150	745,001	1,444,359
- social security and pension insurance costs	113,166	17,174	138,846	269,186
- other labour costs	109,808	16,664	134,726	261,198
Other operating expenses	342,328	51,952	420,012	814,292
TOTAL	1,225,427	185,972	1,503,509	2,914,907

in EUR

YEAR 2008	INSURANCE ACQUISITION COSTS	ASSETS MANAGEMENT COST	OTHER OPERATING EXPENSES	TOTAL
Depreciation and amortisation charge	37,894	5,192	57,535	100,621
Staff expenses	671,639	92,025	1,019,765	1,783,429
- gross salaries	483,105	66,193	733,509	1,282,807
- social security and pension insurance costs.	84,202	11,537	127,846	223,585
- other labour costs	104,332	14,295	158,410	277,037
Other operating expenses	266,730	36,546	404,982	708,258
TOTAL	976,263	133,763	1,482,282	2,592,308

The Company presents costs and expenses in the income statement by functional groups.

Asset management costs for the year 2009 amount to EUR 185,971 (2008: EUR 133,763) and are in the income statement included in financial expenses.

11.6 Income tax expenses

in EUR

	YEAR 2009	YEAR 2008
Current income tax expense	406,760	1,216,843
Deferred income tax expense	1,471,775	-570,738
TOTAL	1,878,535	646,105

Deferred income tax expense in the amount of EUR 1,471,775 (2008: EUR -570,738) contains the change in provisions for termination and jubilee benefits, change in impairment of financial investments, reversal of deferred taxes for 2008 due to the transition to the new method of accounting, and the reversal of deferred taxes due to transition to IFRS in 2007.

RECONCILIATION OF ACCOUNTING PROFIT FOR THE PERIOD TO INCOME TAX EXPENSE

in EUR

	YEAR 2009	YEAR 2008
Accounting profit for the period before income taxes	9,040,291	2,912,031
Income tax at the rate of 21% for 2009 and 22% for 2008	1,898,461	640,647
Differences:		
Non-deductible expenses	102,962	628,737
Tax exempt income	-1,394,754	-7,877
Income that increases taxable base	1,098	394
Tax reliefs	-70,707	-45,057
Changes in temporary differences	1,471,775	-570,738
Deferred tax expenses arising from the write-down of a previously recognised deferred tax asset	-130,301	0
TOTAL	1,878,535	646,106

In accordance with the Income Tax Act, corporate taxation decreases by gradual reduction in tax rates. The effective income tax rate in 2008 was 22%. For 2009, income tax rate of 21% applies, while in 2010 and onwards the tax rate will be 20%.

In 2009 the Company recorded deferred income tax assets in the amount of EUR 1,047,652 (2008: EUR 81,248).

11.7 Related parties

The key shareholder of the Company is Zavarovalnica Triglav Ltd with the holding of 87% of the Company's share capital at year end. The Company has an immediate related party relationship with the ultimate parent of its key shareholder and its subsidiaries; the Supervisory Board members, Management Board members and other executive management (together: key management personnel); entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (IAS 24).

Contracts concluded between the Company and Zavarovalnica Triglav Ltd in force in 2009:

- the major business concluded between the Company and Zavarovalnica Triglav Ltd is a reinsurance contract for 2009 which incorporates an overall specification of the reinsurance programme for Zavarovalnica Triglav Ltd, both in respect of proportional and non-proportional reinsurance of the assumed non-life insurance and life assurance portfolios of Zavarovalnica Triglav Ltd;
- various facultative reinsurance contracts;
- accident insurance and pension insurance contracts for the Company's employees;
- a property insurance contract for electronic equipment owned by the Company;
- motor insurance contracts (motor third-party liability and motor hull insurance) for motor vehicles owned by the Company;
- management contract for assets backing liabilities and investments from own funds;
- a lease contract for business premises at Miklošičeva 19, including the lease of equipment and two car parking lots.

All business transactions between the Company and its parent company are at arm's length and are not secured; the same applies to transactions between related parties and the Company.

TRANSACTIONS OF THE COMPANY WITH THE PARENT COMPANY AND OTHER COMPANIES IN THE TRIGLAV GROUP

v EUR

YEAR 2009	Zavarovalnica Triglav	Triglav osiguranja	Triglav BH osiguranja	Triglav pojištovne	Triglav Lovčen Re	Triglav Lovčen Osiguranje	Vardar Osiguruvanje	Krajina Kopaonik Osiguranje
Earned premium income	66,863,758	2,589,081	12,622	6,357,728	65,587	1,958,167	1,385,521	117,113
Fee and commission expense	10,152,760	357,938	0	1,444,167	0	503,581	110,214	24,712
Claims incurred	47,209,005	920,648	0	4,601,736	169,131	326,415	28,921	0
Change in unearned premiums	317,105	132,778	0	-1,515,217	0	4,874	289,574	25,077
Change in the provision for claims outstanding	-6,090,334	45,032	0	60,669	-156,658	88,015	-211,372	0
Rental costs	129,315	0	0	0	0	0	0	0
Asset management costs	102,817	0	0	0	0	0	0	0
Costs of property, accident and pension insurance premiums	46,166	0	0	0	0	0	0	0
Receivables from reinsurance premiums	12,789,929	309,514	0	1,287,963	0	968,851	205,338	92,056
Commission liabilities	2,205,131	50,898	0	331,082	0	276,724	23,705	22,521
Liabilities for shares in claims	16,226,366	391,735	0	1,414,291	22,132	305,977	28,921	0
Other current liabilities	32,688	0	0	0	0	0	0	0

v EUR

YEAR 2008	Zavarovalnica Triglav	Triglav osiguranja	Triglav BH osiguranja	Triglav pojištovne	Triglav Lovčen Re	Triglav Lovčen Osiguranje	Vardar Osiguruvanje	Krajina Kopaonik Osiguranje
Earned premium income	63,852,126	1,997,295	13,539	11,085,734	617,606	12,997	436,397	10,000
Fee and commission expense	9,859,975	244,189	0	2,801,239	109,553	1,300	31,978	0
Claims incurred	62,522,476	902,727	0	5,063,162	0	0	28,043	0
Change in unearned premiums	1,416,483	-9,830	0	809,551	0	0	23,665	0
Change in the provision for claims outstanding	12,884,079	-6,094	0	1,140,839	156,658	0	553,375	0
Rental costs	64,221	0	0	0	0	0	0	0
Asset management costs	99,970	0	0	0	0	0	0	0
Costs of property, accident and pension insurance premiums	63,020	0	0	0	0	0	0	0
Receivables from reinsurance premiums	12,749,544	1,509,175	0	2,449,008	98,928	12,997	148,826	5,000
Commission liabilities	2,259,198	237,991	0	573,246	20,974	1,300	31,778	0
Liabilities for shares in claims	29,820,404	901,617	0	977,854	0	0	28,043	0
Other current liabilities	34,198	0	0	0	0	0	0	0

Transactions with Abanka Vipa, Ltd, Ljubljana, whose partial owner is Zavarovalnica Triglav Ltd as the controlling/parent company of the Company:

- three short-term deposits in the total amount of EUR 4,170,494 deposited in 2009,
- bonds issued by Abanka which mature on 1 December 2010, amounting to EUR 1,045,754,
- an interest rate swap contract in the amount of EUR 19,590.

Legal transactions that were concluded in 2009 with other above mentioned related entities of the controlling company Triglav Insurance Company Ltd. were entered into for a consideration therefore no direct decrease in the Company's assets was recorded. The Company did not commit any act or omission that would in any way, directly or indirectly, have an impact on a decrease in assets or profit of the Company.

11.8 Statement of cash flows

Cash flows from operating and investing activities have been prepared on the basis of data from the statement of financial position and adequately adjusted for accounting items that constitute now cash flow (impairments and changes in provisions for claims incurred and other provisions). Income and expenses regarding intangible assets and property, plant and equipment were computed on the basis of changes in their carrying amounts and adjusted for amortisation and depreciation, and increased or decreased for gains or losses upon disposal. Cash flows from financing activities are recorded on the basis of actual payments.

MATCHING OF CASH FLOWS FROM OPERATING ACTIVITIES

in EUR

	YEAR 2009	YEAR 2008
Profit/loss before tax	9,040,292	1,563,344
Depreciation/Amortisation	125,871	100,621
Change in receivables	8,774,266	-14,996,389
Change in deferred tax assets	1,961,034	-635,557
Change in liabilities	-6,950,149	23,962,921
Income tax payment	-14,974,580	-7,506,536
Income tax asset	-406,760	-1,216,843
NET CASH FROM OPERATING ACTIVITIES	12,544,554	8,778,097



12

RISK MANAGEMENT

The Company aims to implement a comprehensive risk management system as a key component of good management and effective yield management. It incorporates: the awareness that risk is an essential part of the corporate and business planning as well as the work of individual departments; the compliance with the requirements of Solvency II; the advancement of well-thought-out and responsible risk exposure as a legitimate answer to opportunity and uncertainty; the attainment of better operating results by assessment of challenges, in real terms, faced by the Company, by improved decision-making and planned risk management and control system management; the establishment, strengthening and replication of good business practices in respect of risk management; and the quality risk management, both at the level of the Company and at the level of the Triglav Group, coordinated by the Risk Management Department of Zavarovalnica Triglav.

The Company is exposed to risks arising from all lines of business, such as insurance risk (reinsurance business), operational risk and financial risk. The Company as a dynamic entity generates, by the nature of things, new risks that are to be controlled and managed. The Company aims to proactively identify, understand and manage risks arising from the operation of divisions and services and associated with the Company's plans and strategy to advance well-thought-out and responsible risk exposure. The Company does not support a reckless risk exposure, but rather applies the table of retentions for any assumed insurance or reinsurance business, detailing the maximum limit of liability in any one category of risk which the Company covers by itself (own share).

The Company defines the risk in its risk management policy as "the danger or probability that an act or event could have a negative or a positive impact on the Company's ability to attain its goals." Risk management is a carefully planned and systematic approach to identification, assessment, management and control of risks. Risk management includes assessment of measures applied by the Company with a view to manage identified risks, and recommendation of actions to be implemented by the Company in order to efficiently manage these risks. Risk management may reduce the probability of a risk event occurring or limit its consequence by implementation of control mechanisms.

The Company concludes outwards reinsurance agreements (retrocession agreements) for a portion of the risks it reinsures in order to control its exposure to losses and protect capital resources. The Company buys a combination of proportionate and non-proportionate retrocession agreements to reduce its exposure so as to comply with the amounts in the table of retentions. To hedge against the accumulation of a greater number of losses arising out of one occurrence (e.g. natural disaster), the Company buys non-proportionate catastrophe cover.

Retroceded reinsurance contains credit risk which occurs if the reinsurer fails to meet contractual obligations. The Company monitors the financial conditions of reinsurers and, as a rule, enters into retrocession reinsurance agreements only with A graded reinsurers in case of liability reinsurance, and with BBB+ graded reinsurers in case of other classes of reinsurance.

12.1 Capital and capital requirements

In compliance with the Insurance Act and other implementing regulations, the Company is liable to ensure capital adequacy with regard to the volume and class of its reinsurance business.

The prescribed methodology for the computing of minimum capital requirement for 2009 was not changed as compared to the preceding year. Minimum capital for 2009 was calculated pursuant to Article 110, paragraph 12, and Article 112 of the Insurance Act, providing that the sum of insurance premiums earned in the last financial year up to total amount of EUR 50 million shall be multiplied by 0.18, whilst the amount of insurance premiums exceeding EUR 50 million shall be multiplied by 0.16. In addition, the annual sum claims regarding payment of indemnities up to EUR 35 million shall be multiplied by 0.26, whilst the amount of such claims exceeding EUR 35 million shall be multiplied by 0.23. The Decision on the amendment of the amounts for the calculation of minimum capital and amounts of the guarantee fund for the insurance undertakings (Official Gazette of the Republic of Slovenia No. 9 of 2 February 2007) further prescribes that the guaranteed capital of reinsurance companies may never fall below the amount of EUR 3.2 million.

As at 31 December 2009, the required minimum capital of the Company amounted to EUR 10,303,607 (in 2008: EUR 9,824,398), and the available capital to EUR 21,815,203 (in 2008: EUR 25,848,175). The excess of available capital over the required minimum capital was high (EUR 11,511,596 as at 31 December 2009 and EUR 16,023,777 as at 31 December 2008) and, therefore, we can state that the risk of capital inadequacy effectively minimised.

We may establish, however, that the excess of available capital over the required minimum capital decreased in 2009 due to changes in accounting policies and, consequently, due to recording of transactions with cedants outside the Triglav Group in estimation basis, which resulted in lower profit brought forward from previous years. Despite of that, available capital exceeds the required minimum capital by more than 63%, which means that the Company adequately manages the capital adequacy risk.

The Company was meeting the requirements of capital adequacy during the entire year 2009.

12.2 Technical provisions

As at 31 December 2009, the Company records technical provision in total amount of EUR 64,729,697. Net technical provisions of the Company as at the last day of the 2009 financial year comprise the following types of provisions:

	in EUR	
	YEAR 2009	YEAR 2008
Provision for unearned premiums	13,515,346	14,343,064
Net provision for bonuses, rebates and cancellations	5,938	11,552
Net provision for claims outstanding	50,981,849	46,718,671
Provision for unexpired risks	226,564	242,121
TOTAL	64,729,697	61,315,408

In comparison to balance at 1 January 2009 net technical provisions increased by 5.6% and are fully covered with investments of assets backing liabilities at 31 December 2009. Credit risk equalisation provisions in the amount of EUR 1,158,530 have been due to the transition to IFRS considered in the 2009 statement of financial position (under equity) and are for that reason not separately recorded under technical provisions.

12.3 Financial assets and liabilities from reinsurance contracts

12.3.1 Asset/liability matching

The Company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the after-tax, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. Due attention is given to the compliance with the rules established by the law.

The structure of assets by cash flow and the structure of liabilities by maturity are presented in the tables below:

Structure of assets

STRUCTURE OF FINANCIAL ASSETS BY CLASS AND MATURITY OF CASH FLOWS

in EUR

YEAR 2009	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
Financial assets	5,601,094	23,664,769	32,560,177	21,645,607	8,184,788	91,656,436
Debt securities	0	4,600,918	24,306,824	21,645,607	8,121,189	58,674,538
- held to maturity	0	0	0	0	0	0
- at fair value through profit or loss	0	0	1,273,497	419,239	557,498	2,250,234
- available for sale	0	3,555,164	17,516,585	20,734,500	7,251,995	49,058,245
- loans and receivables	0	1,045,754	5,516,741	491,869	311,696	7,366,060
Equity securities	5,591,094	0	0	0	0	5,591,094
- at fair value through profit or loss	0	0	0	0	0	0
- available for sale	5,591,094	0	0	0	0	5,591,094
Derivative financial instruments	0	0	19,590	0	63,600	83,190
Loans and receivables	10,000	19,063,850	8,233,764	0	0	27,307,615

in EUR

YEAR 2008	NOT DEFINED	LESS THAN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
Financial assets	6,963,811	17,904,227	28,038,850	21,904,730	3,425,979	78,237,598
Debt securities	0	3,340,387	28,038,850	21,904,730	3,425,979	56,709,946
- held to maturity	0	0	0	0	0	0
- at fair value through profit or loss	0	0	989,772	295,876	665,193	1,950,841
- available for sale	0	3,340,387	22,069,998	19,590,885	2,448,504	47,449,774
- loans and receivables	0	0	4,979,080	2,017,969	312,282	7,309,331
Equity securities	6,953,811	0	0	0	0	6,953,811
- at fair value through profit or loss	0	0	0	0	0	0
- available for sale	6,953,811	0	0	0	0	6,953,811
Derivative financial instruments	0	0	0	0	0	0
Loans and receivables	10,000	14,563,840	0	0	0	14,573,840

Six debt securities are redeemable prior to maturity; their total carrying amount at the date of the statement of financial position amounts to EUR 2,104,743 (in 2008: EUR 1,466,000).

Structure of liabilities

Gross liabilities for reinsurance contracts are estimated based on the maturity of up to 1 year, the maturity from 1 to 5 years, and the maturity of more than 5 years. The liabilities are not discounted; they are estimated as the sum of expected future cash flows.

The Company maintains partial mismatch of asset and liability maturities, generating part of its returns on the basis of that mismatch. Current liabilities are settled out of current income; the possibility to dispose of some financial instruments also exists.

GROSS LIABILITIES FROM REINSURANCE CONTRACTS

in EUR

YEAR 2009	LESS THAN 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Provisions for unearned premiums	15,848,091	3,257,794	782,320	19,888,205
Provisions for claims outstanding	44,089,196	22,117,615	4,776,001	70,982,811
Other liabilities from reinsurance contracts	232,502	0	0	232,502
TOTAL	60,169,789	25,375,409	5,558,320	91,103,518

* Other liabilities from reinsurance contracts do not comprise equalisation provisions amounting to EUR 1,158,530 because they are not recorded in the statement of financial position under the item of liabilities from reinsurance contracts, but constitute a part of equity. Gross (net) provisions for reinsurance contracts including the equalisation provisions would have amounted to EUR 92,262,048 (EUR 65,888,227).

in EUR

YEAR 2008	LESS THAN 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Provisions for unearned premiums	16,681,912	2,871,161	616,454	20,169,527
Provisions for claims outstanding	47,915,191	20,237,350	5,406,248	73,558,789
Other liabilities from reinsurance contracts	253,673	0	0	253,673
TOTAL	64,850,776	23,108,511	6,022,702	93,981,989

NET LIABILITIES FROM REINSURANCE CONTRACTS

in EUR

YEAR 2009	LESS THAN 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Provisions for unearned premiums	11,709,643	1,520,973	284,730	13,515,346
Provisions for claims outstanding	36,404,479	11,902,236	2,675,135	50,981,849
Other liabilities from reinsurance contracts	232,502	0	0	232,502
TOTAL	48,346,624	13,423,208	2,959,865	64,729,697

* Other liabilities from reinsurance contracts do not comprise equalisation provisions amounting to EUR 1,158,530 because they are not recorded in the statement of financial position under the item of liabilities from reinsurance contracts, but constitute a part of equity. Gross (net) provisions for reinsurance contracts including the equalisation provisions would have amounted to EUR 94,935,673 (EUR 62,269,092).

in EUR

YEAR 2008	LESS THAN 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Provisions for unearned premiums	12,818,520	1,308,586	215,958	14,343,064
Provisions for claims outstanding	32,247,979	10,847,683	3,623,009	46,718,671
Other liabilities from reinsurance contracts	253,673	0	0	253,673
TOTAL	45,320,172	12,156,269	3,838,967	61,315,408

STRUCTURE OF OTHER LIABILITIES

in EUR

YEAR 2009	LESS THAN 1 YEAR	1 TO 5 YEARS	TOTAL
Deferred tax liabilities	0	538,641	538,641
Other financial liabilities	2,189	0	2,189
Liabilities from operating activities	41,966,490	0	41,966,490
- liabilities from direct insurance business	0	0	0
- liabilities from reinsurance and coinsurance	41,966,490	0	41,966,490
- current tax liabilities	0	0	0
Other liabilities	510,445	0	510,445

in EUR

YEAR 2008	LESS THAN 1 YEAR	1 TO 5 YEARS	TOTAL
Deferred tax liabilities	0	425,099	425,099
Other financial liabilities	2,189	0	2,189
Liabilities from operating activities	51,376,473	0	51,376,473
- liabilities from direct insurance business	0	0	0
- liabilities from reinsurance and coinsurance	51,376,473	0	51,376,473
- current tax liabilities	0	0	0
Other liabilities	434,920	0	434,920

12.4 Reinsurance risks

A key aspect of the reinsurance risk faced by the Company is the concentration of reinsurance risk arising from a particular event or series of events. Such concentration may arise through a number of reinsurance contracts with the same territorial scope of cover. It could also arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low frequency loss events (such as natural disasters), in situations where the Company is exposed to unexpected changes in trends (e.g. unexpected changes in human mortality) or unexpected changes in legislation which could have an impact on policy proceeds or damages.

The greatest likelihood of significant losses to the Company arises from catastrophe events. The risks are controlled by measurement of geographical accumulations and assessment of probable maximum losses caused by a natural disaster. Based on the analysis of observations, the Company buys retrocession reinsurance cover for net claims paid on net premium.

12.4.1 Reinsurance contract reserving risk

Reinsurance contract reserving risk is the risk that reinsurance contract provisions might be below requirement. The Company manages such risk by consistent observance of all laws and regulations and decisions regarding technical provisions and, in addition, by applying actuarial methods in annual provisioning for incurred but not reported claims (IBNR provision). Considering the specifics of reinsurance business, the Company cannot base its actuarial estimate of provisions for claims outstanding on the triangle of claims settled prepared on the basis of occurrence, but rather prepares data on claims settled by contract years, and then, by applying appropriate actuarial techniques, estimates potential liabilities by contract years in the future. Provisions for claims outstanding are not discounted. The cumulative excess in provisions for all contract years is positive, which proves that the reserving risk was successfully managed also in 2009.

Test was made on the assumption that estimated provisions for claims outstanding for transactions outside the Triglav Group, which are determined by estimates, were set up at a sufficient or adequate level. Should for example the provisions for claims outstanding be estimated by 10% higher or lower, then the adequacy of provisions for claims outstanding would be higher or lower by exactly the same volume (in the same absolute amount).

12.4.2 Outward retrocession programme

The Company retrocedes a portion of its business through outward retrocession contracts in order to manage its reinsurance risks.

Incurred loss ratio including commissions amounted to 64.1% in 2009 compared to 170.1% in 2008. However, incurred loss ratio excluding commissions was more favourable and amounted to 53.0% in 2009 and 134.0% in 2008. The fluctuation of these results and the substantial fall in loss ratio in comparison to the preceding year does not increase the Company's risk exposure because the differences are due to emergence of large claims or catastrophe claims. In 2009, there were no such natural disasters as in the year before, and hence the outward reinsurance result is much more favourable in 2009.

12.5 Financial risk management

Transactions with financial instruments result in the Company assuming financial risks. These include market risk, credit risk (including reinsurance credit risk) and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Company manages these risks.

12.5.1 Market risk

The Company's investment portfolio is exposed to market variables in which the Company has no influence. These market variables are market interest rates and with them related prices of debt instruments, prices of equity securities and investment funds, foreign currency exchange rates, and other factors having direct or indirect impact on the valuation of investments in the portfolio.

The Company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the after-tax, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. Due attention is given to the compliance with the rules established by the law.

12.5.2 Interest rate risk

	in EUR	
	YEAR 2009	YEAR 2008
DEBT SECURITIES	58,674,539	56,709,946
- government securities	33,528,973	30,947,571
- securities of financial instruments	15,716,630	15,716,982
- securities of corporations	7,178,702	8,094,552
- combined securities	2,250,234	1,950,841
Derivative financial instruments	83,190	0
TOTAL EXPOSED ASSETS	58,757,727	56,709,946
TOTAL OTHER ASSETS	32,898,708	21,527,652
TOTAL ASSETS	91,656,436	78,237,597

Interest rate risk is the risk that the value of an investment will fluctuate because of changes in market interest rate. Interest rate risk is defined as a sensitivity of the value of an investment to changes in market interest rates. Investment duration is the measure of risk. The interest rate risk is managed on a global level by strategic diversification of investments into fixed-return investments (debt securities), variable-return investments (shares and other investments) and provisions covering these investments. The Company also controls the interest rate risk by derivative financial instruments, i.e. swap contracts. The Company is presently contractually committed to hedge against interest rate risk on two bond investments in the contract amount of EUR 347,800 and EUR 5,000,000, respectively.

The Company's exposure to market risk for changes in interest rates is concentrated in its investment portfolio. The Company's operations are subject to the risk of interest rate fluctuation to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. In 2009 cash was deposited at the interest rate ranging from 1.00% to 5.05%. The interest rate was subject to the amount and maturity of time deposits. All deposits carried a fixed interest rate.

The Company is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. The Company does not have any debt obligations and interest rate changes also do not influence the level of non-life provisions.

The Company monitors this exposure through periodic reviews of its asset and liability positions. In addition, estimates of cash flows, as well as the impact of interest rate fluctuations relating to investment portfolio and insurance reserves, are modelled and reviewed regularly. The overall objective of these strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements.

Sensitivity analysis of financial assets to interest risk

Sensitivity of financial assets to interest rate is expressed as an effect of parallel shift of interest rate curve by +/- 100 base points on the fair value of all interest sensitive financial assets that are not valued by the amortised cost method, i.e. the debt instruments classified as available for sale and at fair value through profit or loss.

in EUR

	YEAR 2009		YEAR 2008	
	+100bp	-100bp	+100bp	-100bp
Government securities	-1,746,815	1,746,815	-1,389,295	1,389,295
Securities of financial instruments	-257,234	257,234	-342,488	342,488
Securities of corporations	-359,604	359,604	-261,069	261,069
Combined securities	-65,869	65,869	-126,905	126,905
Other	511,892	-511,892	0	0
TOTAL	-1,917,630	1,917,630	-2,119,757	2,119,757
Impact on equity	-2,363,653	2,363,653	-1,992,852	1,992,852
Impact on profit or loss	446,023	-446,023	-126,905	126,905

12.5.3 Equity price risk

in EUR

	LETO 2009	LETO 2008
Equity securities and investment funds	5,591,094	6,953,811
Shares in EU	2,760,852	3,577,429
Shares in Asia	0	267,840
Shares on emerging markets	1,924,448	2,196,499
Global shares*	905,793	912,043
TOTAL EXPOSED ASSETS	5,591,094	6,953,812
TOTAL OTHER ASSETS	86,065,343	71,283,786
TOTAL ASSETS	91,656,436	78,237,597

The Company's portfolio of marketable equity securities carried in the balance sheet at fair value gives exposure to price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company's objective is to earn competitive returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements.

Sensitivity analysis of financial assets to equity price risk:

in EUR

	YEAR 2009		YEAR 2008	
	+10%	-10%	+10%	-10%
Shares in EU	276,085	-276,085	357,743	-357,743
Shares in USA	0	0	0	0
Shares in Asia**	0	0	26,784	-26,784
Shares on emerging markets	192,445	-192,445	219,650	-219,650
Global shares*	90,579	-90,579	91,204	-91,204
TOTAL	559,109	-559,109	695,381	-695,381
Impact on equity	559,109	-559,109	695,381	-695,381
Impact on profit or loss	0	0	0	0

* Investments in equity dispersed all over the world

** Equity investments in the developed part of Asia (Japan, Hong Kong)

12.5.4 Foreign exchange risk

Business transactions in foreign currencies are translated to EUR at exchange rates of the Bank of Slovenia published on the NLB web sites, effective on the date of settlement. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated

to EUR at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to euro at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss or in equity depending on the classification of separate non-monetary asset.

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency exposure arises mainly from investment activities. The Company manages foreign currency risk by trying to ensure matching of investments and liabilities or technical provisions linked to foreign currency. The structure of investments as at 31 December 2008 reflects matching of investments and liabilities within the statutory limitations. Due to the floating of foreign exchange rates, the Company is exposed to currency risk through liabilities and receivables, particularly those arising from reinsurance abroad. Foreign currency exposure arising from receivables and liabilities is reduced by ensuring currency matching of receivables due from and liabilities due to the same partners.

Currency structure of invested financial assets presented below comprises all investments, including the financial investments of the Company under reinsurance contracts with cedants:

v EUR

YEAR 2009	INVESTMENTS	in %	AMOUNT OF PROVISIONS CEDED TO REINSURERS	in %
EUR	87,906,432	95.9%	23,463,468	89.0%
USD	88,003	0.1%	2,281,163	8.6%
RSD	716,356	0.8%	0	0.0%
BAM	56,180	0.1%	0	0.0%
CZK	0	0.0%	217,492	0.8%
OTHER	2,889,466	3.2%	411,698	1.6%
TOTAL	91,656,435	100.0%	26,373,821	100.0%

v EUR

YEAR 2008	INVESTMENTS	in %	AMOUNT OF PROVISIONS CEDED TO REINSURERS	in %
EUR	75,017,724	98.7%	31,267,767	95.7%
USD	0	0.0%	1,045,933	3.2%
HRK	117,975	0.2%	0	0.0%
RSD	636,386	0.8%	0	0.0%
BAM	241,474	0.3%	0	0.0%
CZK	0	0.0%	199,747	0.6%
OTHER	0	0.0%	153,133	0.5%
TOTAL	76,013,560	100.0%	32,666,581	100.0%

Currency structure of net provisions comprises all technical provisions, including equalisation provisions.

in EUR

Currency	Net provisions 2009	in %	Net provisions 2008	in %
EUR	59,441,536	90.2%	58,495,298	93.9%
USD	2,071,663	3.1%	948,750	1.5%
KRW	1,300,728	2.0%	477,266	0.8%
HKD	720,251	1.1%	556,762	0.9%
Other	2,354,050	3.6%	1,791,016	2.9%
TOTAL	65,888,228	100.0%	62,269,092	100.0%
technical provisions	64,729,697	98.2%	61,315,408	98.5%
equalization provisions	1,158,531	1.8%	953,684	1.5%

12.5.5 Credit risk

in EUR

Class of asset	YEAR 2009	YEAR 2008
Equity securities	2,593,500	3,339,803
Debt securities	58,674,539	56,709,946
Investment funds	2,997,594	3,614,009
Loans and receivables	27,297,614	14,563,840
Derivative financial instruments	83,190	0
Receivables	46,651,755	54,457,396
TOTAL EXPOSED ASSETS	138,298,192	132,684,994

The credit risk is the risk that a party to a financial instrument contract will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk arises in connection with investment in equity securities, debt securities, loans, and deposits and receivables.

Credit risk of debt securities portfolio:

in EUR

CREDIT RATING	YEAR 2009	in %	YEAR 2008	in %
AAA	247,683	0.4%	1,269,591	2.2%
AA	34,772,011	59.3%	29,931,419	52.8%
A	4,884,097	8.3%	13,334,844	23.5%
BBB	9,025,085	15.4%	3,587,806	6.3%
BB	0	0.0%	38,726	0.1%
Without rating	9,745,662	16.6%	8,547,561	15.1%
TOTAL	58,674,538	100.0%	56,709,946	100%

In the above table, the carrying amounts of bonds are taken as the base value.

in EUR

YEAR 2009	NOT PAST DUE	DUE UP TO 180 DAYS	DUE OVER 180 DAYS	TOTAL
Receivables from coinsurance and reinsurance	37,105,357	4,416,305	4,056,873	45,578,535
- receivables for premium from reinsurance assumed	22,246,201	4,003,830	3,628,380	29,878,411
- receivables for premium from reinsurance assumed	12,357,853	330,028	443,441	13,131,321
- other receivables from coinsurance and reinsurance	2,501,304	82,447	-14,948	2,568,803
Current tax assets	1,047,652	0	0	1,047,652
Other receivables	21,284	4,284	0	25,568
TOTAL	38,174,293	4,420,589	4,056,873	46,651,755

in EUR

YEAR 2008	NOT PAST DUE	DUE UP TO 180 DAYS	DUE OVER 180 DAYS	TOTAL
Receivables from coinsurance and reinsurance	45,977,744	6,976,772	1,328,998	54,283,514
- receivables for premium from reinsurance assumed	22,526,124	4,401,922	626,324	27,554,370
- receivables for premium from reinsurance assumed	20,977,698	2,098,863	695,945	23,772,506
- other receivables from coinsurance and reinsurance	2,473,922	475,987	6,728	2,956,638
Current tax assets	81,248	0	0	81,248
Other receivables	92,634	0	0	92,634
TOTAL	46,151,626	6,976,772	1,328,998	54,457,396

The Company manages the credit risk in accordance with the principle of diversification of investments. The greatest total investment in a single financial organisation as at 31 December 2009 amounts to EUR 8,739,991. The investments in domestic securities make up, due to statutory limitations, by far the greatest portion of the portfolio. Owing to the principle of diversification of investments, however, the share of investments in foreign securities increases. Presently, the investments in foreign securities amount to EUR 20,450,920. In the international markets, the Company mainly invests in securities with AA rating.

Domestic securities are largely guaranteed by the Republic of Slovenia, which was assigned the AA rating by the Moody's rating agency as at 31 December 2009. Investments in the securities of the Republic of Slovenia represent 37% of the Company's liability fund.

Receivables and liabilities are also subject to credit risk. The Company manages this risk by mutual offset of receivables and liabilities relating to the same reinsurer (offset of premium receivable and claims and commission payable in the inwards reinsurance, and offset of claims and commission receivable and premium payable in the outwards reinsurance).

The risks retroceded to a reinsurer include the credit risk which occurs if the reinsurer fails to meet contractual obligations. To mitigate the risk of reinsurance counterparties not paying amounts due, business and financial standards for reinsurer approval are established, incorporating ratings by major rating agencies and considering current market information. The Company monitors the financial conditions of reinsurers and, as a rule, enters into retrocession reinsurance contracts only with reinsurers rated at least A- in case of liability reinsurance, and with reinsurers rated BBB+ in case of other classes of reinsurance.

The Table below shows past due and offset receivables from retrocession, classified by retrocedant's rating at 31 December 2009. From the point of view of a credit risk, the rating of the reinsurer, to whom the reinsurance business has been mediated, is important.

in EUR

Reinsurer's rating (S&P's)	AMOUNT 2009
AAA	45,101
AA	9,596
AA-	65,985
A+	116,449
A-	155,362
A	23,082
NR	166,575
TOTAL	582,150

12.5.6 Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe. Maturity structure of receivables is presented in Item 12.5.5, and age structure of liabilities is shown in Item 12.3.1.

The Company holds a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuous operations and compliance with the legal requirements.

The Company's liquidity position is good and all statutory requirements for claims settlement were met in time during the year.

