Business Report 2008

triglavRE

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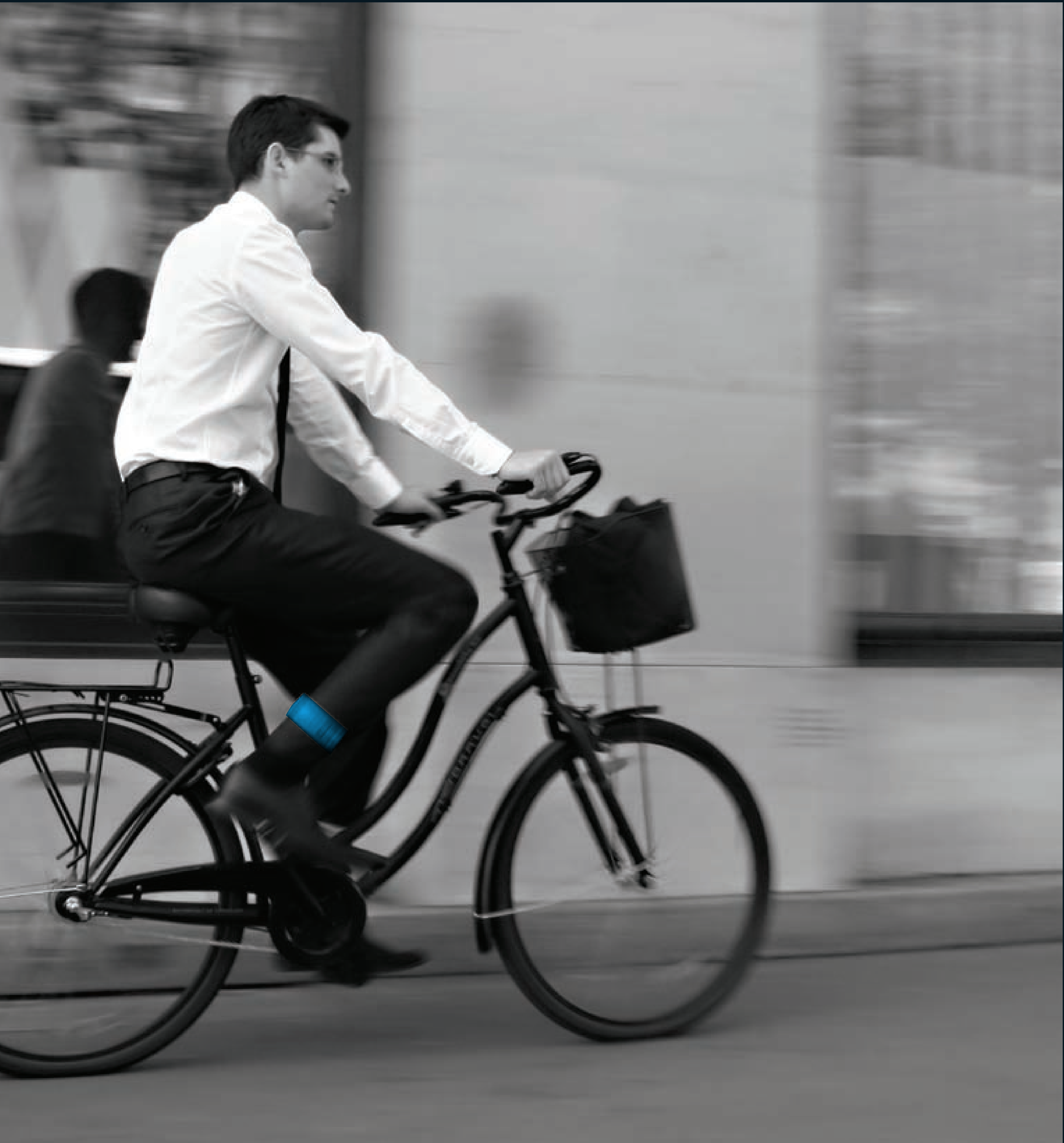
Contents

Highlights

(EUR)

Item	2008	2007	Index 08/07
Gross premium	106,994,118	87,625,291	122
Net premium	58,959,560	50,317,442	117
Gross losses	85,685,792	44,833,529	191
Net losses	34,551,951	28,155,302	123
Net technical provisions*	49,068,046	40,407,672	121
Profit before tax	2,912,032	6,098,416	48
Operating expenses in % of gross premium	2.42 %	2.48 %	98

* Equalisation provisions for credit insurance (953,684 €) are not included in this amount.



Chairman´s Message

Dear Friends, dear Partners,

The year 2008 was a year without precedence. We have found ourselves in a deteriorating external environment of the insurance industry, crisis of financial markets and turbulent global economic conditions. The events have compelled all financial players to rethink and critically review economic and financial models that had been in common use. Credit institutions have, one after the other, been refinanced, recapitalized and bailed out throughout the year, with massive intervention from national monetary authorities and treasuries. I am very pleased that Triglav Re entered the times of economic recession with our team of motivated, well qualified and experienced employees, whom I would explicitly like to mention in this year's Business Report.

Our results were also affected by the new circumstances, fortunately to a limited extent. We had traditionally avoided the lines of business that appeared to be the most vulnerable, such as credit and surety or alternative risk reinsurance, and had not been involved in transactions related to the sub-prime market.

The brightest point of 2008 and perhaps of the entire first decade of Triglav Re, was the recognition that was received in September, when Standard & Poor's Ratings Services assigned its 'A-' long-term insurer financial strength rating with a stable outlook. On the same day, Standard & Poor's assigned an 'A' rating with a stable outlook to Triglav Re's mother company, Triglav Insurance Company Ltd. The rating certainly reflects strong financial and competitive position of our company and the whole group, as well as a tradition of good management and high-quality employees.

Despite a competitive market environment with declining rate levels and some large losses, especially on the portfolio from Triglav Group companies, we are proud to have achieved an enviable combined ratio of 93%, a result that shows stable development when compared to the past few years. In light of the above mentioned, the year 2008 can be assessed as good. We collected EUR 106,9 million of gross written premium (an increase of 22% compared to previous year) and made a profit before tax of EUR 2,9 million (half of the figure of the previous year). The result was to a large extent impacted by the turmoil on the financial markets, however, in addition to that we experienced several large losses. Over the period July to August 2008 three major storms occurred in Slovenia each leading to a substantial loss to the Slovenian insurance market. While the occurrence of storms over Slovenia, characterized by heavy precipitation, large hail and severe winds during the summer period is not unusual, the 2008 events were certainly unusually severe. The total gross loss figure for Triglav Re reached almost EUR 70 million.

In addition to domestic losses, Triglav Re was involved in some of the large scale international loss events, such as earthquake in Sichuan province (China), snowstorms in China earlier in the year and European Winter storm Emma (Germany and Austria). The 2008 Atlantic hurricane season also produced a record number of consecutive storms in the United States, however, in line with our selective underwriting policy, they had not affected our results.

January 1, 2009, was a promising renewal for Triglav Re continuing with business growth both on group and non-group side. The softening pricing tendencies observed for quite some time were not sustained in the major reinsurance markets. In some areas positive price trends have been observed, although underpriced business can still be seen in certain business segments. The turmoil in the financial markets created market opportunities as capacities for catastrophe exposures reduced notably, and as reinsurance buyers are now trying to put more importance on diversification of their reinsurance programmes.

With hard work, determination and a conservative approach, Triglav Re has the people and capacities to achieve stable expected result even in a difficult year - the year 2008 has surely provided proof that we shall continue in the desired path.

Gojko Kavčič

Chairman of the Board of Management
Triglav Re, Reinsurance Company Ltd.

Report by the President of the Supervisory Board

During the past year of the intense economic conditions and extensive loss events on account of multiple storm events in Slovenia, the Supervisory Board actively monitored and supervised the operation of Triglav Re, Reinsurance Company Ltd. It responded to each business event in the company. Activities of the Supervisory Board were based on the current legislation and recommendations by the Association of Supervisory Board members.

Verification and supervision of company management were carried out through constant familiarization with the company operation. During the year, the Supervisory Board discussed business plans and other key documents and their implementation, gave recommendations with regard to this, and monitored the realization of the company's strategic objectives.

The Members of the Supervisory Board have established with satisfaction that Triglav Re, Reinsurance Company Ltd. realized the fundamental strategic objective of increasing the share of the gross premium paid in companies outside the Triglav Group.

In 2008 the total gross reinsurance premium written reached the value of 107 million euros. The share of the reinsurance premium written not originating from transactions related to the parent company significantly contributed to its 22-percent growth compared to the previous year. It reached 40.3 percent of the total gross premium written, while the premium totaled 37.5 percent a year earlier.
Despite huge storm events, which required a significant 91-percent growth of gross reinsurances, and the deepening of the financial crisis, which resulted in impairment of investment, the company ended the year in positive figures and we estimate the achieved result as successful.
In 2008 Triglav Re, Reinsurance Company Ltd., was, together with the parent company, awarded as the first among the Triglav Group subsidiaries to obtain a credit rating by an internationally recognized credit agency. Standard & Poor`s credit agency awarded it the ˝A-˝ credit rating with stable medium-term prognosis.

Constructive realization of the supervisory function

The Supervisory Board realized its supervisory function at eleven Supervisory Board sessions, one of which was a correspondence session in 2008. Along with active and constant monitoring of the company's operation, the Board devoted special attention to reporting and functioning of the internal auditing, external auditors and opinion of a certified actuary. According to intense conditions on financial and capital market, the Board instructed the Management Board, at its first October session to inform it on the current state of liquidity, solvency, capital adequacy, and the coverage of the technical provisions at every session, where the Management Board was required to report on strategies and various scenarios of balancing these categories.
Other more important decisions and activities at the Supervisory Board sessions were the following:

- Adoption of consent to the Triglav Re, Reinsurance Company Ltd. business operation plan for the 2008 business year;
- Nomination of Milena Pirš as a Member of the Board for technical processing of reinsurances with the term from April 18 2008 until May 31 2009;
- Confirmation of the Charter on the functioning of the internal auditing of Triglav Re, Reinsurance Company Ltd., and consent with Internal auditing strategic plan of Triglav Re, Reinsurance Company Ltd.;
- Consent to the Annual program of the functioning of the internal auditing for the year 2008 and adoption of the Annual report concerning internal auditing in 2007 with a positive opinion;
- Confirmation of the Annual report of Triglav Re, Reinsurance Company Ltd. for the 2007 business year;
- Familiarization with the Report of the certified actuary as at December 31 2007 and the Opinion of a certified actuary to the Annual report of Triglav Re, Reinsurance Company Ltd. for the 2007 business year;
- Adoption of the Report of the Supervisory Board regarding the result of verifying the Annual report of Triglav Re, Reinsurance Company Ltd. for the 2007 business year with modifications provided at the session;
- Adoption of a proposal for the use of the profit for appropriation for the year 2007;
- Proposal at the General meeting to nominate Dr. Mojca Piškurić a new Member of the Supervisory Board of Triglav Re, Reinsurance Company Ltd.;
- Familiarization with the company's business operation at every quarter of a year with constant management of the liquidity, solvency, capital adequacy and the coverage of the technical provisions, and verification of the balance during risk management and related objectives;
- Familiarization with the Auditor's appendix to the Annual report for the business year ended at December 31 2007 and instructing the Management Board to draw up a summary of recommendations, indicate authorized persons and deadlines to realize the indicated recommendations;
- Adoption of the Rules of Procedure of the Supervisory Board operation with amendment in Paragraph 3 of Article 39;
- Familiarization with the Explanation on deviation of indexes of damages in the 2007 business year according to the plan;
- Adoption of a decision on the payment of reward to the Management Board for successful management in the year 2007 totaling four average gross salaries paid to each individual Member of the Board;
- Familiarization with and giving comments on the Internal auditing strategic plan for the period between 2009 and 2012.

Reporting by the Management Board

By means of reporting, the Management Board of Triglav Re, Reinsurance Company Ltd. enabled the Supervisory Board to successfully realize its supervisory function. The reports of the Management Board were drawn up by individual fields (the most important are premiums, damages, provisions, costs, investments and their effects) and enabled a review over the entire business operation of the Reinsurance Company. Reports on comparisons with the previous years and a plan set for the current year were also drawn up. This enabled the Supervisory Board to constantly follow the trends of operation in comparison with the past events and according to the announced operation of the Reinsurance Company.

Verification of the Annual report for the year 2008

During the verification of the formal sides of the Annual report for the year 2008, the Supervisory Board established that the report was drawn up within the statutory term. Based on an assurance given by the Management Board, an auditor of the company KPMG Slovenija, d.o.o., and a certified actuary Rudi Lipovec, the Supervisory Board has established that the report comprises all components required by the Companies Act, the Insurance Act, and executive acts.

The company formed technical provisions and other profit reserves. The regularity of the technical provisions was confirmed by the certified actuary and auditor.

Interpretations of the financial statements contain all information required by the Companies Act in Points 1 to 20 of the first Paragraph of Article 69.

Based on the decision at the Reinsurance Company's General meeting on the nomination of an auditor for the 2008 business year, the auditor carried out auditing of the balance sheet as at December 31, 2008, income statement, statement of changes in equity and statement of cash flows for the completed year and summaries essential accounting directions and of other explanatory notes.
On May 8, 2009, the auditor, the company KPMG Slovenija, d.o.o. launched and intervened Auditor's report. In line with the statutory requirements of the Insurance Act, the certified actuary Rudi Lipovec actuarially verified the Reinsurance Company's business operation and drew up on April 3, 2009 a Report by the certified actuary as at December 31, 2008, and on April 3, 2009 also submitted the Opinion by the certified actuary to the Annual report of the Reinsurance Company for the year 2008.

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 for review to the Supervisory Board of the Reinsurance Company the Annual report with Auditor's report and Opinion by the certified actuary to the Annual report of the Reinsurance Company for the year 2008.

Confirmation of the Annual report for the year 2008

The Supervisory Board adopted the Annual report for the year 2008, within the prescribed deadline, on May 22, 2009, which is before the expiry of one month from the submission of this report to the Supervisory Board. The Management Board submitted the Annual report of the Reinsurance Company on May 15, 2009.
The Supervisory Board has no comments to the Annual report for the year 2008 which would suspend the adoption of its decision as regards the Annual report of the Reinsurance Company.

Auditor's report

The Supervisory Board has reviewed the Auditor's report to the Supervisory Board of Triglav Re, Reinsurance Company Ltn. In it, the auditor ensures that the financial statements are on December 31, 2008 a true and fair image of the Reinsurance Company's financial position in all views and that they are drawn up in line with international standards of accounting. The auditor has presented its views also to the Supervisory Board in its report.

Proposal for the use of the profit for appropriation disclosed at December 31 2008

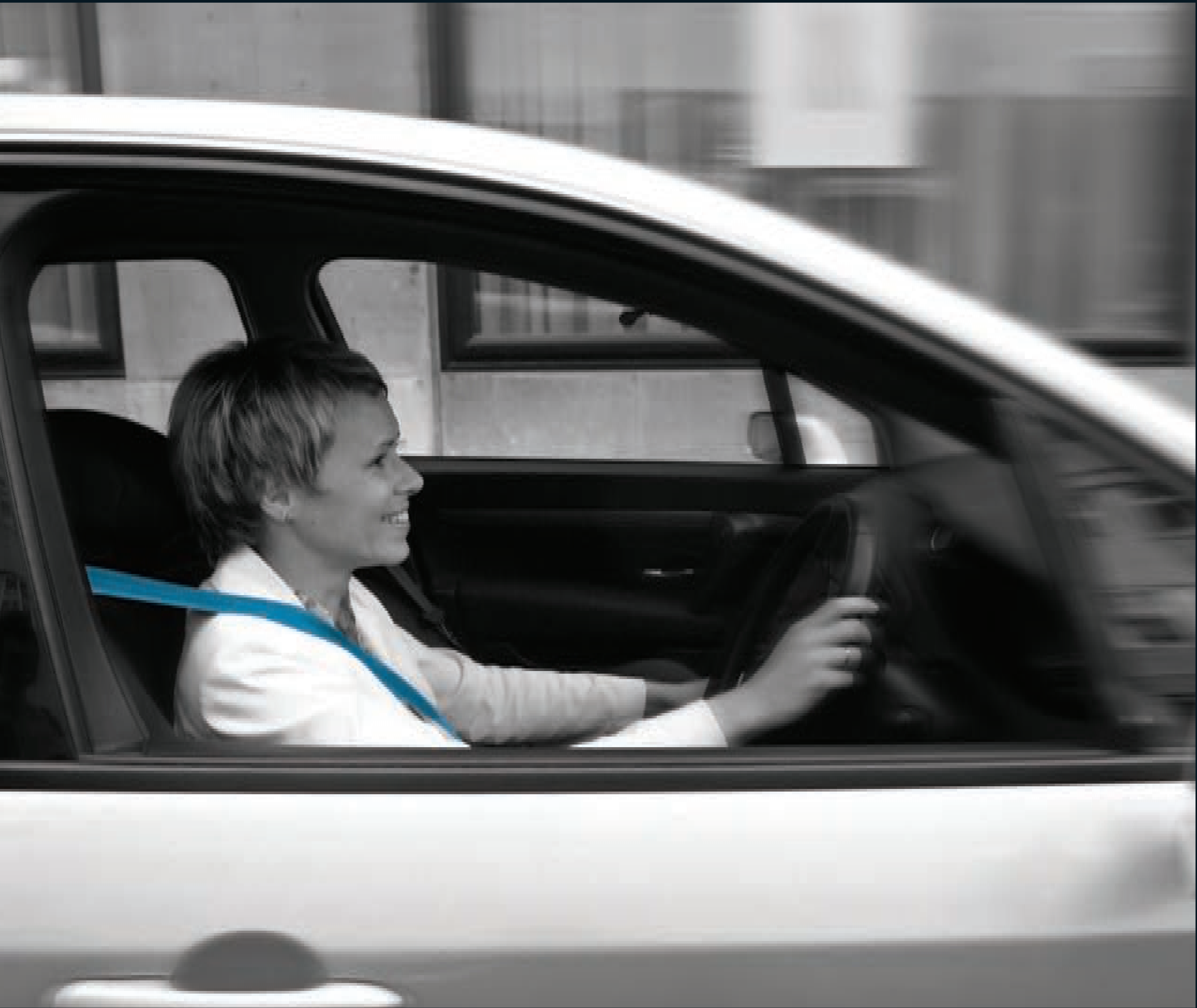
The Supervisory Board verified the proposal of the Management Board for the use of the profit for appropriation, disclosed at December 31 2008, from the formal perspective. It established that the distribution of profit was prepared in line with Article 230 of the Companies Act. The proposal for the use of the profit for appropriation, which is decided at the General meeting, is formed in line with Paragraph 4 of Article 282 of the Companies Act.

Based on Paragraph 4 of Article 293 of the Companies Act, the Management Board and the Supervisory Board of the Reinsurance Company proposed to the General meeting to adopt a decision on the use of the profit for appropriation, disclosed at December 31, 2008 pursuant to the proposal formed by the Management Board and the Supervisory Board.

Being an integral part of the Triglav Group, Triglav Re, Reinsurance Company Ltd., its Management Board and employees have made a constructive contribution to the development of the entire Group with their achieved business results. Balanced growth and fulfillment of the strategic goals of its each individual part are that more precious in given the conditions of the world financial and economic crisis. Being a reinsurance company, it also offers at the same time its services and active support to the insurance companies within the Triglav Group providing stability as well as strengthening the business operations in the Central European space and the South Eastern Europe. With its operation, it will undoubtedly significantly contribute to the strengthening of the Group's market positioning in the region for the future, as well as to the realization of the main objective by the year 2011, which is to be and remain the largest insurance group in Slovenia and one of the three largest in the South Eastern Europe.

Andrej Kocič, M.Sc

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



Economic Environment

The year 2008 was marked by the beginning of an economic crisis to which Slovenia, being closely related to the international environment, was not immune. First signs could be seen in autumn when capital markets started to react to the increasingly severe conditions. By the end of the year, some European countries had already encountered a recession, the two most important of Slovenia's foreign trade partners, Germany and Italy, being among them.

In the fourth quarter of 2008, gross domestic product (GDP) in real terms decreased by 0.8% compared to the fourth quarter of 2007. This was the first real fall in GDP recorded since the second quarter of 1993. After the high 5.6% growth in the first half of the year, economic growth first marked a downward trend in the third quarter (falling to 3.9%) and turned negative in the fourth quarter. According to first estimates, GDP increased in real terms by 3.5% in 2008, which is substantially below the growth in 2007 (6.8%). In the fourth quarter of 2008, GDP at current prices increased by 2.2%, and in 2008 as a whole by 7.7%, reaching the amount of EUR 37,126 million (EUR 18,196 per capita).

Excessive slowdown of the economy resulted mainly in the decline in investment activities and exports, while household consumption expenditure remained stable, and growth was registered only in government consumption. As regards value added by activity, the largest decline was recorded in processing activities. Since the changes in the labour market normally lag behind the changed economic conditions, the last quarter of 2008 did not yet show remarkable movements in the labour market, international trade and capital consumption started to decline, and unemployment was growing.

Within domestic demand, capital consumption nearly halved and amounted to 7% by the end of the year, while the current account deficit as a proportion of GDP increased and amounted to -6.1%. The growth of export of goods and services declined by 8 percentage points to reach just 5.8%, while imports were down by 9.2 percentage points to attain a 6.5% growth. Private consumption declined slightly, by only 1.6 percentage points, to reach the growth of 3.4%, and government consumption increased slightly, by 1.4 percentage points, to attain a 3.9% growth.

After having heavily grown in the first half of the year, the year-on-year inflation rate reached 7%, but then calmed down to be 5.7% at year-end.

In the euro area, GDP shrank by 1.5% in the last quarter of 2008, which represented the largest fall in the history of the common currency area. In the third quarter of 2008, GDP in the European Union as a whole shrank by 0.3%. At the annual level, GDP contracted by 1.3% in both the EU as a whole and the euro area in the fourth quarter of 2008, after the quarter on quarter growth in the third quarter still reached 0.6 and 0.7%, respectively.

In 2008, economic growth was 0.8% in the euro area and 0.9% in the EU as a whole, while in 2007 it was 2.6 and 2.9%, respectively. The main reason for the drastic fall in GDP was a substantial decrease in exports reaching 7.3% in the euro area and 6.8% in the EU as a whole in the last quarter of 2008. In both areas, zero growth in exports was recorded in the third quarter. In the same quarter, imports decreased by 5.5% in both the euro area and the EU as a whole, after a growth of 1.4 and 1.1%, respectively, was recorded in the preceding quarter.

Remarkable was the fall in corporate investments being as high as 2.7% in the euro area and 2.5% in the EU-27. Shrinking of investments increased in comparison to the third quarter, as it fell, in quarter-on-quarter volume, by 0.6 and 1.0%, respectively. The smallest portion in the decline was contributed

by household consumption expenditure, which only fell by 0.9% in the euro area and by 0.8% in the EU as a whole in the last quarter of 2008. The preceding quarter still recorded an increase of 0.1% in both areas.

In the European Union, the annual inflation rate was 1.7% in January 2009. In summer 2008, both the euro area and the EU-27 had an above-average inflation rate. With the growing financial and economic crisis, however, inflation started to decline in the autumn. In the January 2009, the annual inflation rate in the euro area was 1.1%, i.e. by 0.5 percentage point below the December 2008 figure. Thus, inflation in the euro area reached its lowest level since July 1999. The average annual inflation rate in the period from January 2008 to January 2009 was 3.1% in the euro area and 3.5% in the EU as a whole. Among the 15 states of the euro area, inflation was highest in Malta (3.1%), followed by Slovakia (2.7%), Finland (2.5%), Belgium (2.1%) and Greece (2%). In the EU-27 the highest inflation was recorded in Latvia (9.7%), followed by Lithuania (9.5%), Romania (6.8%) and Bulgaria (6.0%). After the record levels reached in mid-2008, inflation in the euro area fell to a level that is even below the mid-term goals of the European Central Bank (ECB), i.e. below, but close to 2%.

In the first half of the year, the European Central Bank maintained its key interest rate at a value of 4%. In June, ECB raised it by 0.25% owing to increased inflation pressures, but at the end of the year ECB lowered it down to 2.5% due to the increasingly deteriorated situation in both financial markets and real economy. In spite of substantial cuts, interbank interest rates remained relatively high. At the end of the year, the three-month EURIBOR was 2.93%.

In December 2008, the average exchange rate of euro against the US Dollar was 1.35 USD for 1.00 EUR. That is 7.7% less than in December 2007.

Enterprise Risk **Management**

In implementing its business policy, the Management of the Company devotes special attention to 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 Management, in line with the Insurance Act (ZZavar) and other implementing regulations, ensures the following:
- 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),
- the Company duly fulfils its matured liabilities (operating liquidity) and is permanently capable of fulfilling all of its liabilities (operating solvency),
- the risks to which the Company is exposed in individual or all classes of reinsurance business do not exceed the legally prescribed limits.

In line 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 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.

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

As in previous years, the available capital of the Company once again exceeded the sum of capital requirements of non-life reinsurance business in the 2008 financial year.

The Company does not carry out life reinsurance business, except to reinsure against the risk of death (excluding the savings part), and retrocedes the majority of accepted risks to foreign reinsurance companies.

The available capital of the Company as at 31 December 2008 amounted to EUR 25,848,175, and exceeded the minimum required capital of EUR 9,824,398 by the amount of EUR 16,023,777. The Company decreased its available capital by EUR 700,528 (Index 97) over the year 2007, and the Company's capital adequacy decreased by EUR 700,528 (Index 96) in comparison with the previous year.

The prescribed methodology for the calculation of minimum capital for 2008 did not change in comparison with the previous year. The minimum capital for 2008 was calculated in accordance with paragraph 12 of Articles 110 and 112 of the Insurance Act, which stipulates that the sum of insurance premiums achieved in the last business year up to the total amount of EUR 50 million shall be multiplied by 0.18, while the amount exceeding EUR 50 million shall be multiplied by 0.16. Further, the annual sum of claims on compensation payments up to the total amount of EUR 35 million shall be multiplied by 0.26, while the sum exceeding EUR 35 million shall be multiplied by 0.23. The Order on the amendment of amounts for the calculation of minimum capital and amounts of guaranteed capital of insurance companies (Official Gazette of RS, No. 9 of 2 Feb, 2007) also prescribes that the guaranteed capital of a reinsurance company may not at any time be lower than the amount of EUR 3.2 million.

Since its establishment, the Company has continuously presented capital adequacy, current liquidity, and matched assets and liabilities, which additionally confirms that the Management of the Company is pursuing a sound business policy and employing an integrated approach to risk management.

If, because of increased capital requirements or for other reasons, the Company fails at any time to achieve the required minimum amount of capital, the Management of the Company shall immediately adopt adequate measures for ensuring the fulfilment of capital requirements.

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 created guarantees 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.

On 31 December 2008, the Company recorded a total balance of net technical provisions in the amount of EUR 49,068,046. The net technical provisions of the Company at year-end comprised of the following types of provisions:

- net provisions for unearned premiums in the amount of EUR 11,109,473;
- net provisions for bonuses, rebates and cancellations in the amount of EUR 11,552;
- net provisions for claims outstanding in the amount of EUR 37,704,900;
- provisions for unexpired risks in the amount of EUR 242,121.

Net technical provisions increased by 21% in comparison with the balance as at 1 January 2008 and were covered in their entirety by liability fund investments as at 31 December 2008. Owing to the implementation of IFRS, equalisation provisions for credit insurance in the amount of EUR 953,684 were also included in the 2008 balance sheet (under the equity item) and were therefore not recorded under technical provisions.

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 line with International Accounting Standards, the Insurance Act, and relevant implementing regulations governing this sphere of activity.

The balance of the liability fund as at 31 December 2008 amounted to EUR 69,143,944, and was comprised of:

- investments in shares and other variable-yield securities and coupons in mutual funds in the amount of EUR 1,742,977 or 2.5% of all liability fund investments,
- investments in bonds of the Republic of Slovenia in the amount of EUR 25,044,982 or 36.3% of all liability fund investments,
- investments in bonds of other domestic companies in the amount of EUR 4,293,728 or 6.2% of all liability fund investments,
- investments in bonds of foreign issuers in the amount of EUR 21,461,257, which represents 31.0% of all liability fund investments,
- shares in investment funds in the amount of EUR 2,919,257 or 4.2% of all liability fund investments,
- deposits in the amount of EUR 12,339,802 or 17.8% of all liability fund investments,
- accrued interest on debt securities in the amount of EUR 1,341,942 or 2.0% of all liability fund investments.

As at 31 December 2008, the liability fund increased by EUR 9,269,151 or 15.5% in comparison to the balance of 31 December 2007. The liability fund as at 31 December 2008 surpassed the calculated net technical provisions by EUR 20,075,898. The reinsurance premium receivable from reinsurance companies, which is allowed under the Insurance Act and relevant implementing regulations, is not included in the liability fund.

The Company balances, by means of an appropriate reinsurance programme, that portion of risks assumed under reinsurance contracts which exceed the retention specified in the Company's Table of Retentions.

Considering the type, scope and volume of risks assumed for reinsurance, the Company chooses among traditional and alternative forms of reinsurance protection, either on a contractual or facultative basis, to ensure the maximum safety, dispersion and profitability of its operations.

In the 2008 financial year, the Company withheld 55.1% of the gross written premium in retention, which is by 2.3% less than in the previous year, particularly due to the additional reinsurance protection portfolio of the Triglav Group, required because of the summer thunderstorms.

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 that part of the risks above its own retention, or concludes contracts on retention protection with leading European and international reinsurers.

The Company is aware of the significance of continuously developing information support to operations, and for this reason conducts, develops and supervises strategically conceived projects in this area while observing the principles of reliability, safety and compatibility of information systems.

A conservative investment policy is persued where alongside all the prescribed principles, it also observes the principle of separability of the investment and insurance portfolios.

A strong emphasis is placed on systematic training and development of its staff, providing a safe working environment and developing allegiance to the Company. It is aware that human resources management is one of the most important elements of managing operational risks.

To ensure the correctness, transparency and traceability of operations, the Company systematically incorporates internal auditing activities into its operations. The regular monitoring of changes in legislation and legal practices in major markets keeps the Company regularly informed on the current situation and relevant shifts in the legal sphere. From the aspect of legal practice, the most risky market is that of North America, which is why the Company is practically inactive in this market, or is active to a very limited extent based on a conservative strategy.

As a member of the Triglav Group, the Company carries out the majority of its activities in the European reinsurance market. In line with the expansion of the Triglav Group to the markets of former Yugoslavia and its strategic plans for further expansion to the markets of South-eastern Europe, the Company takes advantage of the economy of scale and provides high-quality reinsurance protection to all insurance companies in the Triglav Group while systematically strengthening its position as professional reinsurer in the region. The Company's sole competitor in the domestic reinsurance market is Pozavarovalnica

Sava, Ltd., which provides reinsurance protection to Slovenian insurance companies in which it has a controlling ownership or management share. Among other comparable reinsurance companies in the region, mention should be made of Croatia Lloyd and Polish Re, both of which are intensively focused on expanding their operations in the Balkans region. From the very beginning, the Company has cooperated with the above-mentioned companies according to the principles of fair competition. For the time being, the strategic and capital restructuring of large, medium-sized and small companies in the international reinsurance market that has been under way in recent years so far has not had any major impact on the business operations and results of the Company. The Company carefully selects its circle of strategic partners, and systematically provides regular information on occurrences, important events and trends in the international reinsurance market. Its strategic objective of entering the international market is based on the extremely cautious and conservative assumption of reinsurance risk, acquaintance with the market, and the gradual expansion of its volume of operations.

As in the past, the Company managed its resources and investments in 2008 in a manner allowing it to meet, at any given moment, all of its matured liabilities. Within the scope of liquidity management, the Company provided for the regular fulfilment of its obligations, regularly monitored liquidity, and calculated liquidity ratios on a weekly basis. In 2008, the highest/lowest ratios between liquid funds and matured and almost matured liabilities were 3,199.22 and 11.48, respectively, which means that the Company had at its disposal at least eleven times more liquid funds than matured liabilities in each week of 2008.

Internal Audit is organised as an independent organisational unit of the Company and is subordinated directly to the Board of Management. Internal Audit carries out internal auditing activities in line with the Insurance Act, internal auditing standards and internal rules – the Basic Document, and the Rules on Internal Auditing in the Company.

Internal Audit assists the Board of Management of the Company in protecting its property and improving the quality, economy and efficiency of operations within the scope of the adopted strategy, business policies, and business/financial plans. It helps the Company to achieve its goals by stimulating a premeditated, systematic method of evaluating and improving the success of procedures relating to risk management and governance.

In line with the requirements laid down by the Insurance Act, Internal Audit conducts continuous and comprehensive supervision of operations for the purpose of verifying whether:

- the Company is carrying out reinsurance business correctly and in line with the Insurance Act and relevant regulations issued on the basis thereof, as well as internal rules regulating the business operations of the Company;
- the Company is keeping business books, compiling accounting documents, valuating accounting items and compiling financial and other reports in line with the Insurance Act and relevant regulations issued on the basis thereof, as well as internal rules regulating the business operations of the Company.

In 2008, Internal Audit carried out internal auditing tasks on the basis of the strategic plan and the annual programme of work as approved by the Board of Management of the Company and with the consent of the Supervisory Board. The activities to be performed by Internal Audit were defined in more detail in the operational plan of work approved by the Board of Management. Internal Audit regularly reported to the Board of Management in writing on completed internal audits and related activities, and gave recommendations for improving the internal control system and risk management efficiency. Summaries of its findings and recommendations relating to individual internal audits, as well as the fulfilment of recommendations, were also reported on a regular basis to the Supervisory Board of the Company.

Operating Performance

In 2008, reinsurance sector recorded favourable results in terms of its main activities; the combined ratio of 97% provides confidence in further stability of the reinsurance market. Despite that, returns were smaller in comparison to 2007. Main reasons for that were the following:

- major financial losses as a consequence of natural disasters, mainly hurricanes like Ike and Gustav. Most affected were reinsurance companies from Bermuda;
- numerous losses as a consequence of man-made accidents in total amount of USD 5 billion;
- growing losses arising from financial guarantees and credit insurance operations, as consequence of the expanding financial crisis,
- general lowering of reinsurance premium rates and less restricting conditions for reinsurance.

In general, the growth of reinsurance business was below the GDP growth, which is particularly true of mature economies. On the other hand, the growth was above average in emerging markets. Penetration of insurance business into new markets increases in parallel to the development of new economies. In spite of stronger competition, the results in emerging markets were positive.

In Europe, the 2008 financial year was slightly more favourable in comparison with 2007, when the Kyrill storm caused more than USD 6.1 billion worth of insured losses. The biggest event was the winter storm in the beginning of March, named Emma; it caused USD 1.6 billion losses to (re)insurance companies. Worst affected were certain regions in Austria and Germany.

While 2007 was a favourable year for insurance business in North America, in 2008 the Carribeans were damaged by hurricanes Ike and Gustav causing insurance losses that amounted to USD 15 and 5 billion, respectively. Also worth mentioning is the earthquake in China with 70,000 casualties and 18,000 missing persons, but a relatively small pecuniary loss for (re)insurance business, i.e. USD 300 million. Winter storms in China caused higher losses amounting to USD 1.6 billion. In May, the Nargis cyclone devastated the densely populated regions of Burma (Myanmar). Consequence: 84,500 casualties and 50,000 missing persons. Insurance losses of this event have not been recorded.

To reinsurance companies, the developments on financial markets were of greater importance than the events concerning their main activities. In the published business results for the year 2008, all reinsurance companies presented a drastic fall in profits or even losses in comparison with previous accounting periods.

In comparison with other industries, insurance is normally less subject to economic fluctuations. Despite that, the consequences of the lost value of second-class bonds, and the consequential financial crisis and global economic recession were also transferred into insurance operations and/or business results of (re)insurance companies.

The consequences of financial crisis reflected in lower credit ratings of some (re)insurance companies in the beginning of the year 2009, Standard & Poor's lowered the credit rating of the biggest reinsurance company Swiss Re from AA- to A+.

In 2008, the reinsurance market did not record any major changes in terms of market consolidation. Among the events to be mentioned was the take-over of Polish Re by Fairfax, owner of Odyssey Re. The biggest reinsurance companies continue to be Swiss Re, Munich Re, Berkshire Hathaway, Hannover Re and Lloyd's.

Fifteen insurance, 2 reinsurance companies and 3 foreign subsidiaries, operated in the Slovenian insurance market in 2008. In total, insurance companies a gross premium of EUR 1.9 billion. The majority (73%) of that makes non-live insurance, and 27% is life assurance. The stated data have been gathered within the Slovenian Insurance Association (SZZ), which means that data from non-members (2 small insurance companies and 2 foreign subsidiaries) are not included. Furthermore insurance transactions

that insurance companies domiciled in EU member states directly carry out in Slovenia under the freedom of service (FOS) regulation are not included. The share of such transactions is growing, but in our opinion remains neglibile as compared to the total premium collected. To date, 484 insurance companies have registered their performance of FOS insurance business with the Insurance Supervision Agency (AZN), most of them for just in case. In the same way, Triglav Insurance Company, Ltd. has eliminated any formal obstacle to direct underwriting in all 27 EU members, which means, among other things, that we can follow our customers throughout the EU.

Among the 15 companies engaged in direct insurance business, there are nine composite companies and six specialised companies (life, health and non-life insurance). Fourteen of these 15 companies are organized as public limited companies, one is a mutual company, with General, Grawe, Merkur, and Arag being foreign majority ownership.

The degree of concentration in the Slovenian insurance market is rather high, since in 2008 the four largest insurance companies controlled 79% of the market. Triglav Insurance Company, Ltd., with a 40% market share, continues to hold the leading market position among traditional insurance companies. In comparison to the previous year, Triglav Insurance Company, Ltd. kept its market share and, together with its subsidiary Triglav Health Insurance Ltd., even increased it by 0.2 percentage points.

In 2008, Triglav Re, Reinsurance Company Ltd. increased its presence in foreign reinsurance markets in line with its long-term business goals. The reinsurance premium from businesses other than related to Triglav Insurance Company, Ltd. already reached about 40.3% of the total gross premium written in the 2008 financial year (in 2007 the share of reinsurance premium from cedants other than Triglav Insurance Company, Ltd. was approx. 37.5%). In 2008, the Company strengthened its presence both in European and in Near East and Asian markets.

The gross premium written from businesses other than those of Triglav Insurance Company, Ltd. increased by 31.4% in 2008 and amounted to EUR 43,141,992. The strongest reinsurance business segments were fire and natural forces insurance, general liability insurance, liability insurance for motor vehicles, and land motor vehicle.

Efforts in 2008 were again focused on strengthening the Company's position in the rapidly growing markets of Central and Southeastern Europe, the Near East and Asia. For this purpose the Company has decided on an active, direct approach to cedants in these areas, as well as closer cooperation with leading international reinsurance brokers (Aon, Willis, Guy Carpenter), since the majority of business in these areas is arranged through reinsurance brokers.

Also significant is the increasingly greater role of the Company in optimising the reinsurance programmes of insurance companies of the Triglav Group in foreign countries. Through the further integration and/or consolidation of programmes, the Company is attaining optimal, cost-effective reinsurance protection for all insurance companies in the Triglav Group.

By the volume of premium operations conducted with Triglav Insurance Company, the Slovenian market continues to be the Company's most important market despite the fact that the percentage of premium earned in operations with Triglav Insurance Company in the total premium income is decreasing from year to year. In 2008, operations with Triglav Insurance Company, Ltd. accounted for 59.7% of the total gross premium, which is approximately 2.8 percentage points below the previous year's figure.

As in previous years, the Company actively participated in the Pool for Insurance and Reinsurance of Nuclear Risk and in the working bodies of the Slovenian Insurance Association (SZZ). In its operations, the Company observes the Insurance Code, which is accessible on the web pages of SZZ and has been presented to all employees of the Company.

In 2008, the gross reinsurance premium written increased by 22% over the previous year, and amounted to EUR 106,994,118. Such increase is primarily the consequence of the increased volume of gross reinsurance premium written by foreign cedants and retrocedants, which was 36% above the previous year's figure.

Among the leading classes of business (by premium volume), above-average growth was recorded in land motor vehicle hull insurance (index 129) and other non-life insurance (index 131). The reason for this above-average growth is in the exceptional increase of premiums in these two classes of business on the part of foreign cedants and retrocedants, as well as on the domestic market.

The reduction of premium compared to the year 2007 was particularly noticeable in the business class liability insurance for aircraft, which is primarily due to the decline in cessions of Triglav Insurance Company, Ltd.

In 2008, the Company retroceded EUR 48,034,559 in reinsurance premiums, which is in real terms approximately at the previous year's level.

The net reinsurance premium written by the Company in 2008 amounted to EUR 58,959,560, which represents a 17% increase over the previous year.

In 2008, the Company recorded the highest growth of net premiums in the following premium- significant insurance classes:

- Fire and natural forces insurance (net premium: EUR 13,401,696, increase of 37% over 2007);
- Land motor vehicle hull insurance (net premium: EUR 12,503,420, increase of 24% over 2007);
- Transportation insurance (net premium: EUR 843,632, increase of 64% over 2007).

In 2008, the Company recorded EUR 85,685,792 in gross reinsurance losses, which is 91% more than in the same period in 2007. Above-average growth was registered primarily in operations with Triglav Insurance Company, Ltd., a segment in which a growth of 225% was recorded in 2008 over the previous year. Such increase resulted from catastrophic losses from summer storms. On the other hand, the losses resulting from operations with cedants outside Slovenia in the relevant year increased by 36% over the previous year, which is in proportion with the growth of business with foreign cedants. Among natural disasters, special mention should be made of the loss amounting to EUR 560,000, caused by the storm Emma in the beginning of 2008, primarily in Germany and Austria.

As regards loss occurrences in the Slovenian portfolio of the Company, mention should be made of the major losses caused by storms and hail in Central and Northeastern Slovenia in July and August 2008. Due to high losses, the Company on three occasions activated non-proportional reinsurance cover for protecting retention against catastrophic events, i.e. excess of loss over the total priority of the cedant and the Company. In addition, these events resulted in a rather poor incurred loss ratio in reinsurance of annual excess of losses in the crop segment.

The net reinsurance losses of the Company amounted to EUR 34,551,951, which is by 23% more than in 2007. The increase in net reinsurance losses is due to the fact that the majority of business made with Triglav Insurance Company, Ltd. was retroceded abroad.

Owing to the numerous loss occurrences in Slovenia the Company recorded a relatively favourable current incurred loss ratio of 73.07% (ratio between incurred loses and earned premiums) in 2008. The loss ratio was approximately 5.5 percentage points above the 2007 figure.

In 2008, the net premiums earned totalled EUR 58,871,783, which represents an index of 120 in comparison with 2007. Net claims incurred in the amount of EUR 43,015,395 attained an index of 130 in comparison with the previous year, when the Company's net claims incurred were lower by EUR 9.8 million. Operating costs remained on the longstanding level, i.e. below 2.5% of the gross written premium.

Despite the unfavourable loss occurrences, the Company generated a gross profit of EUR 2,912,031, which represents an index of 48 in comparison with the gross profit generated in 2007 in the amount of EUR 6,098,416. The 2008 net profit after tax amounts to EUR 2,265,926, which represents an index of 54 in comparison with 2007.

The accumulated profit as at 31 December 2008 amounted to EUR 22,572,945, and included retained earnings from previous periods in the amount of EUR 15,245,937; as well as reversed provisions for equalisation provisions and nuclear risks in the amount of EUR 5,202,402, which were set up by the Company in previous periods and are no longer recognised by international standards.

The financial result was less favourable in 2008 than in the previous year due to the unfavourable net incurred loss ratio and permanent impairment of investments in the amount of EUR 2.7 million.

Operating costs under the classification by type amounted to EUR 2,592,307 in 2008. Operating costs in 2007 amounted to EUR 2,173,389. Although a comparison between the years 2008 and 2007 shows a 19% increase, the Company still manages its operating costs, which have remained on a longstanding level of up to 2.5% of the gross reinsurance premium written.

According to the classification of costs by functional group, which serves as a basis for the preparation of the Company's income statement, the Company utilised EUR 976.263 for acquisition costs, EUR 1,482,281 for operating costs in a narrower sense, and EUR 133,763 for costs of asset management in 2008.

Net reinsurance commission in 2008 amounted to EUR 9,170,145 (in 2007 the excess of paid over received reinsurance commission amounted to EUR 9,780,278). The operating costs accounted for by type in 2008 attained only 2.42% of the Company's gross premium written. In 2007, the percentage of these costs in the Company's gross premium amounted to 2.48%.

Table 6: Operating costs by type in 2008 (in EUR):

	2008	2007	Index
ITEM	1	2	3=2/1
Total operating costs:	2,592,307	2,173,389	119
1.1. Depreciation of assets needed for operations	100,621	79,324	127
1.2. Labour costs	1,783,429	1,566,533	114
- wages and salaries	1,282,807	1,111,975	115
- social security costs	223,585	194,779	115
- other labour costs	277,037	259,779	107
1.3. Costs of services provided by individuals not engaged in business activity, including contributions	30,593	42,127	73
1.4 Other operating costs	677,665	485,405	140
- costs of advertising, promotion and entertainment	40,398	35,809	113
- costs of materials and energy	42,125	39,417	107
- reimbursement of work-related expenses	128,624	62,848	205
- costs of intellectual and personal services	136,768	54,805	250
- costs of insurance premiums	12,486	12,122	103
- costs of payments and banking services	31,650	28,143	112
- rents and leases	81,854	71,630	114
- jubilee benefits, termination benefits	9,353	1,292	724
- other costs of services	194,407	179,339	108

Total assets in the amount of EUR 161,550,575 were recognised in the balance sheet as at 31 December 2008 in accordance with the scheme prescribed by the Insurance Supervision Agency (AZN). Sum of total assets increased by 26%, over the year 2007 and indicates that the Company's financial position improved again in 2008.

Table 7: Structure of assets and liabilities of the Company:

	in EUR		Structure in %		Index
Balance sheet	31 December 2008	31 December 2007	31 December 2008	31 December 2007	2008/2007
ASSETS	161.550.575	127.982.367	100,00%	100,00%	126
A. Intangible assests	158,854	151,506	0.10%	0.12%	105
B. Investments in land and buildings and financial investments	110,904,178	93,258,625	68.65%	72.87%	119
C. Investments to the benefit of life policy-holders					
D. Receivables	50,213,328	34,426,359	31.08%	26.90%	146
E. Various assets	257,016	129,398	0.16%	0.10%	199
F. Deffered costs and accrued revenue	17,198	16,480	0.01%	0.01%	104
G. Off-balance-sheet items	347,800	347,800			100
LIABILITIES	161,550,575	127,982,367	100.00%	100.00%	126
A. Shareholders' equity	28,698,907	33,813,935	17.76%	26.42%	85
B. Subordinated liabilities					
C. Gross technical provisions and deferred premium revenue	81,734,626	60,224,888	50.59%	47.06%	136
D. Net technical provisions to the benefit of life policy-holders					
E. Provisions for other risks and expenses	89,043	81,091	0.06%	0.06%	110
F. Liabilities for financial investments of reinsurers under reinsurance contracts with cedents					
G. Other liabilities	51,007,889	33,838,664	31.57%	26.44%	151
H. Accrued costs and deferred liabilities	20,109	23,787	0.01%	0.02%	85
I. Off- balance-sheet items	347,800	347,800			100

The total equity of the Company as at 31 December 2008 amounted to EUR 28,698,906.93 and decreased by 15% in comparison with 2007. The share of equity in the sum of total assets was 18% in 2008. The share capital amounts to EUR 3,129,695 and is divided into 15,000 ordinary shares with a nominal value of EUR 208.65 each. All shares have been subscribed and paid in. The capital surplus has remained unchanged in comparison with 2007 and amounted to EUR 1,146,704. The revenue reserve in the amount of EUR 2,093,407 consists of legal and statutory reserves (EUR 519,762), other revenue reserves (EUR 619,961) and a credit risk equalisation reserve (credit risk equalisation reserve in the amount of EUR 953,684). The revaluation surplus at year-end 2008 amounted to negative EUR 243,844 EUR, while it had amounted to EUR 5.9 million in 2007. Such large decrease resulted from permanent impairment of financial assets.

Retained earnings as at 31 December 2008 amounted to EUR 20,448,339 and, in comparison with the previous year, increased by the amount of unappropriated profit for 2007, and decreased by the amount of dividends paid. The unappropriated profit for 2008 amounts to EUR 2,124,606. In 2008, the equity of the Company decreased by EUR 5,115,028.

Gross technical provisions, compared to the balance as at 31 December 2007 (EUR 60,224,888) increased by 36% and were as at 31 December 2008 set up in the amount of EUR 81,734,626. The amount charged to retrocessionaires was EUR 32,666,581 (2007: EUR 19,817,216) and increased by 65%. Technical provisions increased primarily as a result of the increased volume of operations in 2008.

Gross provisions for claims as at 31 December 2008 (EUR 64,545,018) increased by 45% over the previous year (EUR 44,402,594). As at 31 December 2008, provision for unearned premiums amounted to EUR 16,935,936 and increased by 8% over the previous year (EUR 15,677,775). As at 31 December 2008, provision for bonuses and rebates was set up in the amount of EUR 11,552 and increased by 4% over the previous year (EUR 11,086).

The payables recorded by the Company as at 31 December 2008 under the item Other payables increased by 51% and amounted to EUR 51,007,889, of which the largest portion were payables from reinsurance business. Reinsurance premium payable increased by 16% in comparison with the year 2007, while payables for the reinsurers' share of claims increased by 113%. The major items under Other liabilities were deferred tax liabilities, which decreased in comparison with the previous year and amounted to EUR 425,099 at the balance sheet date.

Accrued costs and deferred revenue decreased in 2008 in comparison with the previous year, and amounted to EUR 20,110.

The balance of funds representing assets in the balance sheet, recorded under the scheme prescribed by the Insurance Supervision Agency, amounted to EUR 161,550,575 as at 31 December 2008, and increased by 26% over the previous year.

Intangible assets increased, attaining a value of EUR 158,854 as at 31 December 2008. Intangible assets include computer programmes used by the Company in its business operations.

Financial investments increased by 7 %, i.e. by EUR 4,796,189, and totalled EUR 78,237,598 as at 31 December 2008.

On 31 December 2008, the Company had the following investments:

- long-term investments in the amount of EUR 62,628,911;
- short-term investments in the amount of EUR 11,922,509;
- investments in group companies and associates in the amount of EUR 1,462,140;
- premiums withheld by cedants arising from the Company's reinsurance contracts in the amount of EUR 2,224,038.

As at year-end 2008, long-term investments were comprised of:

- investments in shares and other variable-yield securities and mutual fund coupons in the amount of EUR 3,339,803 (36% increase over the previous year);
- debt securities and other fixed-income securities in the amount of EUR 55,665,099,31 (which is 9% more than in the previous year);
- investments in shares of investment funds in the amount of EUR 3,614,008.75 (47% increase over the previous year);
- other investments valued at EUR 10,000 (which were not in the portfolio during last year).

In 2008, short-term investments comprised only investments in deposits in the amount of EUR 11,922,509 which represents a 196% increase over the 2007 financial year.

As at 31 December 2008, the Company's portfolio comprised investments in group companies and associates. These included:

- debt securities and loans granted to associate companies in the amount of EUR 1,044,847;
- other investments in associate companies in the amount of EUR 417,293.

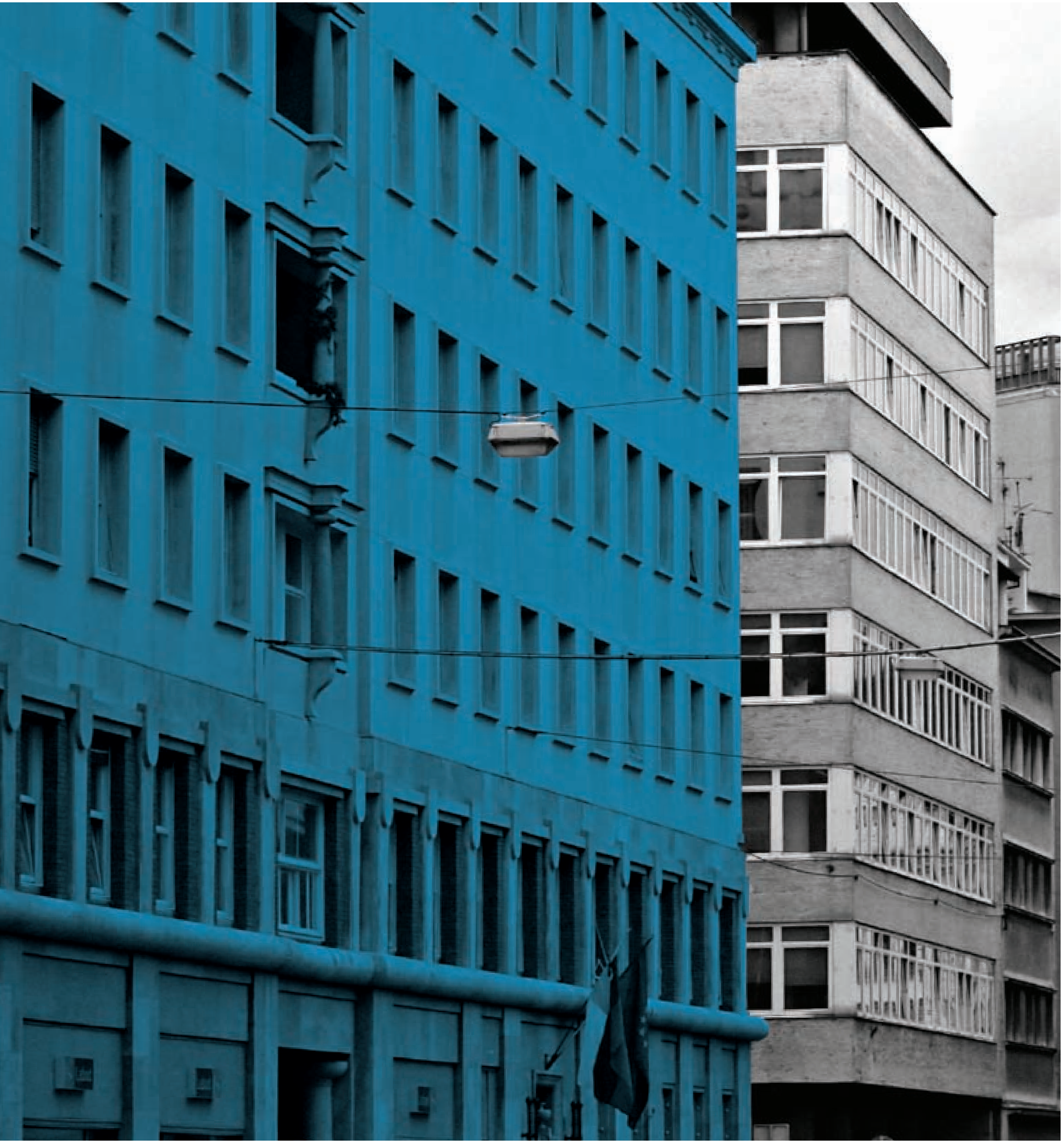
Table 8: Structure of the Company's investments as at 31 December 2008:

Type of investment	31 December 2008 in TEUR	31 December 2008 %	31 December 2007 in TEUR	31 December 2007 %	Index 31 December 08/ 31 December 07
1. Other investments	76,014	100%	72,323	100%	105
Shares and other variable-yield securities	3,340	4%	9,161	13%	36
Debt and other fixed-income securities	56,710	75%	51,016	71%	111
Shares in investment funds	3,614	5%	7,704	11%	47
Loans and receivables	12,340	16%	4,442	6%	278
Other investments	10	0%	-	-	-
2. Reinsurers' investments arising from reinsurance contracts with cedants	2,224	100%	1,119	100%	199

The second most important item on the asset side of the balance sheet is receivables. As at 31 December 2008, the Company recorded receivables in the amount of EUR 50,213,328, which represents a 46% increase over the previous year. The highest receivables were reinsurance receivables in the amount of EUR 49,386,831, which increased by 44% over the previous year. Other receivables amounted to only EUR 826,497. Premium receivables slightly decreases in comparison to the previous year, i.e. by 4%, while receivables from the reinsurers' share of claims increased by 164%, and were largely reconciled with the Company's payables for the cedants' share of claims.

As at the balance sheet date, other assets amounted to EUR 257,016, which is a 99% increase over the previous year.

Deferred costs and accrued revenue in the balance sheet amounted to EUR 17,199.



Additional Information

The beginnings of the Company's business operation date back to the year 1999. In the first year of its operation, the Company reinsured only the portfolio of the Triglav Insurance Company, and met the expectations of its founders by achieving a positive business result and at the same time significantly influencing the balancing and control of risks in Slovenia. The Company did not begin actively to participate in the international market until 2000.

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, where it is acquiring an increasing number of business partners, including reinsurance and insurance companies and reinsurance pools.
In 2002 and 2003, the Company devoted most of its attention to providing adequate reinsurance protection to Triglav Insurance Company, Ltd. and its subsidiaries within the scope of the Triglav Group, and systematically increased its presence in foreign markets while pursuing a conservative underwriting policy. In this period, the Company strengthened its position in Europe and entered the Asian market in 2002.

In 2004 and 2005, the Company continued to expand its activities to foreign markets, and intensified its growth of operations outside the Triglav Group.

Alongside its fundamental business goals and objectives within the scope of the Triglav Group and in line with its medium-term plans, the Company systematically worked towards strengthening and expanding its activities to foreign markets in 2006 and 2007. The Company continued to pursue a conservative underwriting policy and the moderate growth of operations. As in all past years, the Company withheld the majority of its premium arising from operations abroad in its retention in 2007.
As a result, the Company's market share rose from an initial 30% to approximately 44.3% in 2008. Since its establishment, the Company has recorded excellent business results and continuously met all legal requirements concerning capital adequacy and risk control.

With regard to the Company's future activities and performance, the year 2008 was a turning point in its development. On 25 September 2008, Standard & Poor's Ratings Services assigned an A rating with a stable outlook to Triglav Insurance Company, Ltd., and an A- rating with equally stable outlook to its daughter company Triglav Re, Reinsurance Company Ltd. The ratings published by Standard & Poor's also reflect the financial strength of the Triglav Group. It was for the first time ever, that Triglav Insurance Company, Ltd. Triglav Re, Reinsurance Company Ltd. obtained such rating from an internationally recognised credit rating agency.

In spite of unfavourable economic developments, the forecasted recession in some developed markets, and the expected lower growth of emerging markets the Company expects further growth in 2009. The assigned A- credit rating will have decisive positive impact on such development.

Based on the obtained credit rating, the company has strengthened and improved its 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 line with its business plan for 2009 and the further optimisation of the reinsurance programme of the Triglav Group in Slovenia and abroad, the Company shall focus more intensively on acquiring reinsurance business 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.

In 2009, the Company plans to increase its gross written premium by 8%. The majority of this growth will be realised in the European reinsurance market, and partly in Asian markets. The share of retention premium, which amounted to 55.1% in 2008, is expected gradually to increase, since almost the entire reinsurance premium received outside the Group remains retained by the Company. In 2009, the Company plans to retain approximately a 59.7% share of the premium.

As at 31 December 2008, the total equity of the Company amounted to EUR 28,698,907, while the total equity at the end of 2007 amounted to EUR 33,813,935, which indicates an index of 85.

The Company's equity is divided among the following shareholders:

Company's shareholders' equity as at 31 December 2008		
Shareholder	Number of shares*	% of shares
FMR, d.d., Idrija	200	1.33 %
Helios, d.d., Domžale	100	0.67 %
Maksima Holding, d.d., Ljubljana	300	2.00 %
NLB, d.d., Ljubljana	750	5.00 %
Petrol, d.d., Ljubljana	300	2.00 %
Sava, d.d., Kranj	300	2.00 %
Triglav Insurance Company Ltd., Ljubljana	13,050	87.00 %
	15,000	100 %

* The number of shares registered with the Central Securities Clearing Corporation (KDD) is 15,000, all of which are ordinary, no-par value shares with voting rights.

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

In addition to Triglav Re, the following companies comprised the Triglav Group in 2008:

Triglav Insurance Company, d.d., Ljubljana, controlling company

Triglav Health Insurance Company, d.d., Koper

Triglav Osiguranje, d.d., Zagreb, Croatia

Triglav Pojišt'ovna, a.s., Brno, Czech Republic

Triglav BH Osiguranje, d.d., Sarajevo, Bosnia and Herzegovina

Lovćen Osiguranje, a.d., Podgorica, Republic of Montenegro

Triglav Kopaonik Osiguranje, a.d.o., Belgrade, Republic of Serbia

AD Vardar Osiguruvanje, a.d., Skopje, Macedonia

Krajina Kopaonik. a.d.o., Banja Luka, Republic of Srpska

Triglav DZU, d.o.o., Ljubljana

Triglav Naložbe, Finančna družba, d.d., Ljubljana

Triglav penzijski fondovi, a.d., Belgrade, Republic of Serbia

Triglav Netherland, b.v., Amsterdam, Netherlands

TRI-PRO, d.o.o., Domžale

AS Triglav – servis in trgovina, d.o.o., Ljubljana

Zenit nepremičnine, inženiring in trženje, d.d., Ljubljana

Slovenijales, d.d., Ljubljana

Golf Arboretum, d.o.o., Radomlje

Gradis IPGI, d.d., Ljubljana

The management bodies of the Company are:

General Meeting of Triglav Re, Reinsurance Company Ltd.;
Two general meetings were convened in 2008: on 5 August 2008 and on 10 November 2008.

Supervisory Board of Triglav Re, Reinsurance Company Ltd.;
As at 31 December 2008, the following were the members of the Company's Supervisory Board:

Andrej Kocič, M.Sc., Chairman
Dr. Borut Eržen, Deputy Chairman
Mateja Perger, Member
Dr. Mojca Piškurić, Member

On 28 July 2008, Boštjan Kramberger ended his term of office as member of the Company's Supervisory Board based on his declaration of resignation. The 15th General Meeting of Triglav Re, Reinsurance Company Ltd. held on 10 November 2008 appointed Dr. Mojca Piškurič as a new member of the Company's Supervisory Board for a term of office that expires on the same date as the term of office of all present members of the Company's Supervisory Board.

Board of Management of Triglav Re, Reinsurance Company Ltd.;

Chairman of the Management Board: Gojko Kavčič,
Member of the Management Board: Milena Pirš.

The Company carries out its activities only at its registered office at Miklošičeva 19, Ljubljana, and operates without subsidiaries and representative offices.

As at 31 December 2008, the Company's internal organisation structure was as follows:
- 01 Non-life Reinsurance Division,
- 02 Motor Vehicle, Transport, Liability and Personal Insurance Division,
- 03 Reinsurance Accounts Division,
- 04 Finance and Accounting Division,
- Staff Services:
    - Strategic Planning and Actuarial Services,
    - Legal, Staff and General Affairs,
    - Internal Audit,
    - Information Technology.

The Company recorded no major events after the balance sheet date, which could have affected the financial statements as at 31 December 2008.

In the first quarter of 2009, the downtrend of security prices continues as a consequence of financial crisis. The change in prices will lower the value of the Company's portfolio. In addition, the Company will have to recognise impairment losses in the amount of TEUR 364, and will do so by transferring this amount from the changes in fair value reserve to the income statement.

Financial Statements

Contents

Balance sheet

As at 31 December 2008

	2008	2007
	EUR'000	EUR'000
Assets		
Property and equipment	134	72
Intangible assets	159	152
Total financial assets, of which:	78,238	73,442
- Available-for-sale financial assets	54,414	64,689
- Financial assets at fair value through profit or loss	1,951	3,183
- Loans and receivables	21,873	5,561
Retrocessionaires' share of reinsurance contract provisions	32,666	19,817
Reinsurance and other receivables	49,498	34,426
Set-off deferred tax assets	227	0
Cash and cash equivalents	123	57
Current tax receivables	81	0
Total assets	161,126	127,965
Liabilities		
Reinsurance contract provisions	81,735	60,224
Provision for termination and jubilee benefits	89	81
Reinsurance and other payables	50,603	31,249
Set-off deferred tax liabilities	0	2,236
Current tax liabilities	0	361
Total liabilities	132,427	94,151
Shareholders' equity		
Share capital	3,130	3,130
Fair value reserve	- 244	5,909
Capital surplus	1,147	1,147
Revenue reserve	2,093	1,952
Retained earnings	20,448	17,631
Net profit or loss for the period	2,125	4,045
Total equity	28,699	33,814
Total liabilities and equity	161,126	127,965

The accounting policies and other explanatory notes on pages 52 to 91 form an integral part of this financial statement.

Income statement

For the year ended 31 December 2008

	2008	2007
	EUR'000	EUR'000
Gross premiums written	106,994	87,625
Reinsurance premiums ceded to retrocessionaires	-48,034	-37,308
Net premiums written	58,960	50,317
Change in the gross provision for unearned premiums	-1,258	-1,424
Retrocessionaires' share of change in the provision for unearned premiums	1,170	212
Net reinsurance premiums earned	58,872	49,105
Fee and commission income	9,933	6,773
Financial income	4,445	3,487
Other operating income	0	6
Other net income	14,378	10,266
Gross claims incurred	-85,686	-44,834
Retrocessionaires' share of claims incurred	51,134	16,678
Change in the gross provision for claims outstanding	-20,142	-11,329
Retrocessionaires' share in the provision for claims outstanding	11,679	6,315
Net claims	-43,015	-33,170
Acquisition costs	-977	-818
Operating expenses	-1,482	-1,243
Fees and commission expenses	-19,103	-16,553
Other operating expenses	-312	-271
Change in other technical provisions	-109	-141
Financial expenses	-5,340	-1,076
Profit before income tax	2,912	6,099
Income tax expenses	-646	-1,921
Profit for the period	2,266	4,178
Earnings per share		
Basic and diluted earnings per share in EUR	151	279

The accounting policies and other explanatory notes on pages 52 to 91 form an integral part of this financial statement.

Statement of changes in equity

For the year ended 31 December 2008

	Share capital	Fair value reserve	Capital surplus	Other revenue reserve	Credit risk equalisation reserve (for credit insurance)	Current year profit	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January 2007	3,130	4,623	1,147	1,140	679	0	17,924	28,643
Change in fair value reserve	0	3,722	0	0	0	0	0	3,722
Profit for 2007	0	0	0	0	0	4,178	0	4,178
Expenses in equity -reserve for credit insurance	0	0	0	0	133	-133	0	0
Other increase in equity components - revaluation	0	0	0	0	0	0	694	694
Dividend payout	0	0	0	0	0	0	-758	-758
Other decrease in equity components for deferred taxes	0	-2,436	0	0	0	0	-229	-2,665
Balance at 31 December 2007	3,130	5,909	1,147	1,140	812	4,045	17,631	33,814
Accumulated profit 2007						4,045	17,631	21,676
Balance at 1 January 2008	3,130	5,909	1,147	1,140	812	0	21,676	33,814
Change in fair value reserve	0	-6,153	0	0	0	0	0	-6,153
Profit for 2008	0	0	0	0	0	2,265	0	2,265
Expenses in equity-reserve for credit insurance	0	0	0	0	141	-141	0	0
Other increase in equity components - revaluation	0	0	0	0	0	0	0	0
Dividend payout	0	0	0	0	0	0	-1,228	-1,228
Balance at 31 December 2008	3,130	-244	1,147	1,140	953	2,124	20,448	28,698
Accumulated profit 2008						2,124	20,448	22,572

The accounting policies and other explanatory notes on pages 52 to 91 form an integral part of this financial statement.

Statement of cash flows

For the year ended 31 December 2008

	2008	2007
	EUR'000	EUR'000
A. OPERATING CASH FLOW		
Profit and loss account item	9,940	25,922
Operating revenues and financial income from operating receivables	72,360	57,091
Operating expenses excluding depreciation and financial expenses for operating liabilities	-61,774	-29,275
Corporate income tax and other tax excluded from operating expenses	-646	-1,894
Changes in current assets (deferred items and deferred receivables and tax liabilities) and in operating balance-sheet items	-4,054	-23,757
Change in operating receivables	17,309	-4,690
Change in short-term deferred costs and accrued revenues	0	0
Change in deferred tax receivables	227	0
Change in inventories	0	0
Change in operating debts	-21,590	-18,538
Change in accrued costs and deferred revenues, as well as provisions	0	0
Change in deferred tax liabilities	0	-529
Operating cash flow	5,886	2,165
B. INVESTING CASH FLOW		
Interest received	7	2,365
Dividends and other participation income received	360	122
Cash proceeds from the disposal of intangible assets	-62	-68
Cash proceeds from the disposal of property, plant and equipment	-108	-61
Cash proceeds from investment to related parties	0	0
Cash proceeds from the disposal of investment property	0	0
Cash proceeds from disposal of investments	-4,789	-3,713
Investing cash flow	-4,592	-1,355
C. FINANCING CASH FLOW		
Payments for interest for financing	0	0
Payments for disposal of financial liabilities	0	0
Payments for dividends and other participation	-1,228	-758
Financing cash flow	-1,228	-758
D. CASH AND CASH EQUIVALENTS – OPENING BALANCE	57	5
E. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	66	52
F. CASH AND CASH EQUIVALENTS – CLOSING BALANCE	123	57

The accounting policies and other explanatory notes on pages 52 to 91 form an integral part of this financial statement.

Audit Report

KPMG

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, in form of a Business Report, are derived from Company's audited financial statements and include the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and the selected notes to the financial statements. As stated in our report of 8 May 2009, an unqualified opinion was issued on the financial statements from which the Business Report originates. Without expressing qualification we draw attention to the inconsistency of the Company's financial statements with the requirements of the Insurance Act. The Company forms and discloses equalisation provisions within equity in accordance with the International Financial Reporting Standards as adopted by the European Union. If the financial statements would be prepared according to provisions of the Insurance Act, these equalisation provisions would have been formed and charged against the operating profit or loss and disclosed among technical provisions.

In our opinion, the attached Business Report complies, in all material aspects, with the financial statements from which it originates.

For a better understanding of the financial position of Pozavarovalnica Triglav Re, d.d., its financial performance for 2008, its cash flows for the year then ended, and the scope of our audit, it is necessary to read the Business Report together with the financial statements from which it derives, 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, 23 June 2009

KPMG Slovenija, d.o.o.
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Notes to the Financial Statements

Contents

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 parent company is Triglav Insurance Company Ltd. which is domiciled in Ljubljana, Miklošičeva 19, Slovenia.

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

Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The 2008 financial statements were authorised for issue by the Company's Management Board on 17 April 2009.

The audited financial statements for financial year 2008 shall be adopted by the Company's Supervisory Board in accordance with their Articles of Association, the Companies Act and IAS 10, and together with the Supervisory Board's Report presented for information to the Company's Shareholders' Meeting.
The Company's financial statements are individual financial statements.

(b) 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 the nearest thousand.

(c) Basis of measurement

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

(d) 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 of insurance contract provisions, discussed on page 62.

e) Adjustments to the new or amended standards with effect from 1 January 2009

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

1. **IFRS 8 Operating Segments (effective since 1 January 2009)**

   The standard introduces "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

   The Company prepares no segment reports, and hence this amendment will have no impact on the Company's financial statements.

2. **Revised IAS 23 Borrowing Costs (effective since 1 January 2009)**

   The revised standard removes the option to recognise expense borrowing costs and requires an entity to capitalise borrowings costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

   The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with previous provisions, the Company will apply the revised IAS 23 in relation to the assets for which the capitalisation of borrowing costs begins at or after the effective date.

3. **Amendments to IFRS 2 Share-based Payment (effective since 1 January 2009)**

   The amendment specifies the notion of vesting conditions and introduces the concept of non-vesting (not guaranteed) conditions. Non-vesting conditions shall be taken into account when estimating the fair value at the grant date; failure to meet a non-vesting condition shall be treated as cancellation.

   The Amendments to IFRS 2 will have no substantial impact on the Company's operation, as the Company does not apply a share-based bonus system.

4. **Amendments to IAS 1 Presentation of Financial Statements (effective since 1 January 2009)**

   The revised standard requires entities to aggregate information in their financial statements on the basis of shared characteristics and introduces the statement of comprehensive income. Items of costs and expense and components of other comprehensive income shall be presented in a comprehensive income statement (covering both income statement and any non-owner changes in equity in one single statement), or in two separate statements (income statement followed by a statement of comprehensive income)

   In 2009, the Company will present its financial statements in two separate income statements.

5. Amendment to IAS 27 Consolidated and Separate Financial Statements (effective since 1 January 2009)

Amendments refer to the abolition of the cost method for an investment so far stated under definitions of IAS 27. Instead, any dividends of a subsidiary, jointly controlled entity or associated company shall be recognised as income in the financial statements of the investing entity, as soon as the right to dividends arises.

The Amendment will not affect the Company since it has no investments in subsidiaries, jointly controlled entity or associated companies.

6. Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective since 1 January 2009)

The amendments have introduced a deviation from the normally applied IAS 32 principle with regard to the classification of financial instruments as part of equity; the amendment namely allows that certain marketable instruments issued by an entity and normally classified as liabilities may now be classified as equity provided that specified criteria have been met.

The amendments are not important for the Group because the Company was not issuing any marketable instruments in the past.

7. IFRIC 13 Customer Loyalty Programmes (effective since 1 July 2008)

IFRIC 13 addresses accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services.

The Company will be obliged to follow IFRIC 13 when preparing financial statements for 2009, but it will in no way affect the Company's financial statements.

Significant accounting policies

(a) Property 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.

(b) Intangible assets

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 expenditure
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.

(c) 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. 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. Derivatives are classified as 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. Trading assets and liabilities are those assets and liabilities that the Company acquires or incurs 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, if their value does not exceed 500 TEUR. The total value of such assets is lower than 1% of the Company's liability fund.

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.

Gains and losses on financial instruments carried at amortised cost are recognised in the income statement, when a financial instrument is derecognised or when its 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. Fair value shall be estimated on the basis of most recent transaction prices or following the discounted cash flow method; the Black-Scholes valuation model for options shall be applied.

Impairment of financial assets
At each balance sheet date the Company 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 recorded 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. 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 balance sheet date.

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 equity securities classified as available for sale in case that their fair value has dropped bellow their value at cost and remained lower 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. Impairment of equity securities may not be reversed through profit or loss.

Available-for-sale debt securities shall be impaired in case that the issuer has violated contract provisions and failed to fulfil the coupon payment obligation, or in case that the debtor has declared bankruptcy. Impairment shall be recognised in the income statement. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

(d) Trade and other payables

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

Offsetting of financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the Company has an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(e) Cash and cash equivalents

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

(f) 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 is 4.1%; it has been set based on market yields on high quality bonds in the Republic of Slovenia at the balance sheet date.

(g) 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, providing for 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.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

(i) Shareholders' 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 shareholders' meeting, the right to dividends. The Company does not record any subscribed shares not paid-in.

Reserves
The Company presents capitals surplus, comprising other capital paid in under the Articles of Association.

Revenue reserves comprise legal reserve and other revenue reserves, which are set up in accordance with the resolution of the Management Board and the resolution of the Shareholders' Meeting and strengthen the capital adequacy of the Company. Revenue reserve 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 revenue reserves;
- to cover retained loss if it cannot be covered by charging it against net profit for the period or other revenue reserves.

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.

(j) Revenue

Net reinsurance premiums earned
Premiums on reinsurance assumed are recognised as revenue 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 retrocession less the amount of gross written reinsurance premium of assumed cessions or retrocessions ceded for retrocession of assumed cessions or retrocession. The criterion for the recognition of revenue are the premiums written recorded on the basis of invoices received from cedants and retrocedants.

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 under Significant accounting policies note "Gains and Losses" (page 56).

(k) Costs and expenses

The Company's expenses are recorded by type 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 type 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.

(l) 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 have been classified as insurance contracts.

Contracts with discretionary participation features
The Company has no such contracts.

(m) Liabilities arising from reinsurance contracts

Non-life insurance provision
The Company's technical provisions comprise unearned premium provision, provision for incurred and reported claims 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.

Unearned premium provision
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 amounts 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.

Provision for claims
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 was made on the basis of the Company's calculations. A projection is prepared 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
Life reinsurance provision is not made by the Company 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, loss of income insurance due to accident or illness) are not recorded by the Company in its 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.

(n) Outward reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of diversification 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.

(o) 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 notes Liability adequacy test (page 63) and The Sensitivity of present value of future profits to changes in significant variables (page 64).

Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (page 90) and reinsurance risk management (page 82).

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.

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, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk department.

Equity securities classified as available-for-sale are impaired if their fair value diminished below their value at cost and remained lower 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 are described in Significant accounting policies on page 55. 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 reserving
The most significant estimates in relation to the Company's financial statements relate to the establishment of reinsurance contract provisions. When establishing the provisions, the Company applies regulations set by the Insurance Supervisory Agency. The Company employs a certified actuary.

Management believes that the current level of technical reserves is sufficient.
Reinsurance risk management is discussed in detail on page 82, while reinsurance contract provisions are analysed on page 70.

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.

Critical accounting judgements in applying the Company's accounting policies

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

Financial asset and liability classification
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 (see page 55). 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 (see page 55). 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 (see page 55).

In 2008, pursuant to the revised IAS 39, the Company reclassified some specified financial assets from the available-for-sale category into loans and receivables. A detailed description of the reclassification effect is presented on page 68.

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

Non-life reinsurance
Provision is made at the balance sheet date for claims reported but not settled. In addition, provisions were made 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.

The estimation of claims incurred but not reported (IBNR provisions) is generally subject to a greater degree of uncertainty than reported claims. Provisions for claims incurred but not reported (IBNR provisions) are 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 following:

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.

Life reinsurance
Because the risks requiring setting-up mathematical provisions have not yet been underwritten for reinsurance, any information relating to life reinsurance is stated together with the information on non-life reinsurance.

Liability adequacy test - LAT

Non-life reinsurance
The Company makes provisions for unexpired risks, thus complying among other things with the criteria of the liability adequacy test (LAT). The liability adequacy test has been carried out in compliance with Directive No. 1 of the Council of Experts of the Slovenian Association of Actuaries, which is recommendable and helpful in the course of implementing IFRS 4, as well as in association with all substantive and technical issues arising in connection with the implementation of the respective standard. 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 2008, 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 2008.

The actual unexpired risk provision at 31 December 2008 amounts to EUR 242,121. 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 236,902 is required, which means that the actual unexpired risk provision at 31 December 2008 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 balance sheet.

Should the Company calculate unexpired risk provision for in the same way as for 2007, i.e. without the cost margin added to unexpired risks, the unexpired risk provision (calculated on net items) at 31 December 2008 amounted to EUR 192.076, i.e. by EUR 50,045 less than the actual unexpired risk provision at that date. The unexpired risk provision calculated on gross items less cost margin at 31 December 2008 would amount to EUR 210,308, again by EUR 26,595 less than the actual comparative calculation of the gross unexpired risk provision.

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.

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

Life reinsurance
The sensitivity of present value of future profits 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.

Non-life reinsurance
In non-life the insurance variables which would have the greatest impact on insurance liabilities relate to motor third party liability (MTPL) 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.

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

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 (hull) 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 manufacturer's liability insurance, liability insurance of members of the Management Board and members of the Supervisory Board, and professional liability insurance.

Life reinsurance
Life reinsurance provision is not made by the Company 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, loss of income insurance due to accident or illness) are not recorded by the Company in its 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.

Property and equipment

	Motor vehicles	Equipment and furniture	Under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
Balance at 1 January 2007	92	179	0	271
Transfer into use	40	21	-61	0
Additions	0	0	61	61
Disposals	-46	-5	0	-51
Balance at 31 December 2007	86	196	0	282
Balance at 1 January 2008	86	196	0	282
Transfer into use	24	84	-108	0
Additions	0	0	108	108
Disposals	-23	-63	0	-86
Balance at 31 December 2008	87	217	0	304
Depreciation and impairment losses				
Balance at 1 January 2007	33	171	0	204
Depreciation charge for the period	9	13	0	22
Disposals	-11	-5	0	-16
Balance at 31 December 2007	31	179	0	210
Balance at 1 January 2008	31	179	0	210
Depreciation charge for the period	8	38	0	46
Disposals	-23	-63	0	-86
Balance at 31 December 2008	16	154	0	170
Carrying amounts				
At 1 January 2007	59	8	0	67
At 31 December2007	55	17	0	72
At 1 January 2008	55	17	0	72
At 31 December 2008	71	63	0	134

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

Intangible assets

	Software	Software under development	Total
	EUR'000	EUR'000	EUR'000
Cost			
Balance at 1 January 2007	353	0	353
Additions	0	69	69
Transfer into use	69	-69	0
Disposals	0	0	0
Balance at 31 December 2007	422	0	422
Balance at 1 January 2008	422	0	422
Additions	0	62	62
Transfer into use	62	-62	0
Disposals	0	0	0
Balance at 31 December 2008	484	0	484
Amortisation and impairment losses			
Balance at 1 January 2007	213	0	213
Amortisation charge for the period	57	0	57
Balance at 31 December 2007	270	0	270
Balance at 1 January 2008	270	0	270
Amortisation charge for the period	55	0	55
Disposals	0	0	0
Balance at 31 December 2008	325	0	325
Carrying amounts			
At 1 January 2007	140	0	140
At 31 December2007	152	0	152
At 1 January 2008	152	0	152
At 31 December 2008	159	0	159

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

Financial assets

	2008	2007
	EUR'000	EUR'000
Available-for-sale financial assets	54,413	64,689
Financial assets at fair value through profit or loss	1,951	3,183
Loans and receivables	21,873	5,561
	78,237	73,442

2007	Available-for-sale	At fair value through profit or loss	Loans and receivables	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Listed	7,774	-	-	7,774
Unlisted	1,387	-	-	1,387
Equity securities	9,161	-	-	9,161
Government bonds	24,433	-	-	24,433
Corporate bonds	23,400	3,183	-	26,583
Debt securities	47,833	3,183	-	51,016
Open ended	3,907	-	-	3,907
Closed ended	3,797	-	-	3,797
Investment funds	7,704	-	-	7,704
Deposits with banks	-	-	5,561	5,561
Loans and receivables	-	-	5,561	5,561
TOTAL 2007:	64,689	3,183	5,561	73,442

2008	Available-for-sale	At fair value through profit or loss	Loans and receivables	Total
Listed	2,142	-	-	2,142
Unlisted	1,197	-	-	1,197
Equity securities	3,339	-	-	3,339
Government bonds	29,393	-	485	29,878
Corporate bonds	18,057	1,951	6,824	26,832
Debt securities	47,450	1,951	7,309	56,710
Open ended	2,038	-	-	2,038
Closed ended	1,576	-	-	1,576
Investment funds	3,614	-	-	3,614
Deposits with banks	-	-	14,564	14,564
Loans and receivables	-	-	14,564	14,564
Other investments	10	0	0	10
TOTAL 2008:	54,413	1,951	21,873	78,237

Financial assets at fair value through profit or loss were classified into the group when acquired.
The increase/decrease amount due to changes in fair value in the amount of TEUR -10,196 also contains impairment loss amounting to TEUR 2,713 transferred from the fair value reserves into the income statement. Impairment was carried out in accordance with the accounting policy described on page 55.

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.

Fair value was estimated on the basis of valuation technique for 0.85% of all financial assets, 0.67 % of all investments was measured at historical cost (in accordance with the adopted accounting policy – see page 55), while other financial assets were valued at available market prices.

Loans and receivables comprise debt securities reclassified into this category. At the balance sheet date, the carrying amount of these assets amounted to TEUR 7,309. On 1 July 2008, the Company reclassified its investments from the available-for-sale category to the category of loans and receivables in line with the revised accounting standard IAS 39. The assets were reclassified under Articles 50E and 54 of IAS 39, since due to exceptional conditions on financial markets no transactions were effected, and hence the securities correspond with the definition of loans and receivables. The Company has estimated to be capable of holding these securities to maturity or to foreseeable future.

As at 1 July 2008, i.e. at the reclassification date, the carrying amount of reclassified assets, including interest, transferred from the available-for-sale category to the category of loans and receivables totalled TEUR 7,309. The carrying amount equalled the fair value of the assets at the date of reclassification. Fair value as at 31 December 2008 has not been disclosed because we believe that the market price did not reflect fair value due to the fact that the market is either illiquid or non existing, and as such without any value, therefore effects as at 31 December 2008 cannot be presented.

At the date of reclassification of assets, fair value reserves of the reclassified assets amounted to negative TEUR 86, while at the balance sheet date of the preceding year, i.e. at 31 December 2007 the reserves amounted to negative TEUR 55.

At the date of reclassification, i.e. at 1 July 2008, effective interest rate on the reclassified securities was 5.87%.

Retrocessionaires' share in reinsurance contract provisions

	2008	2007
	EUR'000	EUR'000
Non-life		
Retrocessionaires' share in unearned premium reserve	5,826	4,656
Retrocessionaires' share in reported but not settled claims provision	25,665	14,315
Retrocessionaires' share claims incurred but not reported provision	1,175	846
	32,667	19,817

Deferred tax assets and liabilities

	2007	Increase	Decrease	2008
	EUR'000			EUR'000
Deferred tax assets				
Deferred tax assets				
- recognised in profit or loss	17	511		588
- recognised in equity	0	65		65
Balance of deferred tax assets at 31 December	17	636		653
Deferred tax liabilities				
Deferred tax liabilities:				
- recognised in profit or loss	0	0		0
- recognised in equity	2,253	0	1,828	425
Balance of deferred tax liabilities at 31 December	2,253	0	1,828	425
Net deferred tax assets/liabilities at 31 December	-2,236	636	1,828	228

In 2008, the Company recognised deferred tax assets for non-deductible allowance for loss on investments made in 2008 in the amount of TEUR 570. In 2008, the Company recognised deferred tax assets for the negative revaluation surplus in the amount of TEUR 65, and for the provisions for jubilee benefits and termination benefits in the amount of TEUR 18.

The Company has deferred tax liability in the amount of TEUR 425 (2007: liabilities amounted to TEUR 2.253) recognised in equity. In 2008, deferred tax liability in the amount of TEUR 425 relates to the reversal of nuclear risk provision and equalisation provisions which the company reversed in the financial year 2007.

Reinsurance and other receivables

	2008	2007
	EUR'000	EUR'000
Premium receivables from assumed reinsurance	22,658	23,625
- whereof receivables from related companies	16,973	17,010
Receivables from retrocessions		
- from claims recoveries	23,772	9,017
- from reinsurance commission	2,957	1,749
Other receivables	110	37
	49,498	34,426

The Company assesses the need for impairment of receivables based on case-by-case assessment of the financial position and solvency of the debtors from which outstanding receivables are recorded. As at 31 December 2008 the Company recorded EUR 1,584 million of past-due receivables from retrocessions (See also page 82 Reinsurance risk management). In the financial year 2008, the Company impaired no receivables.

Reinsurance contract provisions

Gross liabilities	2008	2007
	EUR '000	EUR '000
Provision for unearned premiums	16,936	15,678
Notified outstanding claims reserve (reserve after bordereaux)	42,798	26,335
Incurred but not reported claims reserve (IBNR)	21,747	18,067
Other provisions (unexpired risk provision and provisions for bonuses and rebates)	254	145
	81,735	60,225

Net liabilities	2008	2007
	EUR '000	EUR '000
Provision for unearned premiums	11,109	11,022
Notified outstanding claims reserve (reserve after bordereaux)	17,133	12,123
Incurred but not reported claims reserve (IBNR)	20,572	17,118
Other provisions (unexpired risk provision and provisions for bonuses and rebates)	254	145
	49,068	40,408

Retrocessionaires' shares in insurance contract provisions are presented on page 68 of this report.
The analysis of movement in unearned premium provision, provision for reported but not settled claims and the incurred but not reported claims provision (IBNR) are, due to the specific nature of the reinsurance business, presented as positive or negative change in each provision and not as increase or decrease in the relevant items.

a) Analysis of movement in unearned premium provision

	2008	2008	2008	2007	2007	2007
	Gross	Retroceded	Net	Gross	Retroceded	Net
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Non-life insurance						
Balance at 1 January	15,678	4,656	11,022	14,254	4,446	9,808
Change in unearned premiums (+/-)	1,257	1,170	87	1,424	210	1,214
Balance at 31 December	16,935	5,826	11,109	15,678	4,656	11,022

b) Analysis of movement in notified outstanding claims reserve (reserve after bordereaux – RBNS)

	2008	2008	2008	2007	2007	2007
	Gross	Retroceded	Net	Gross	Retroceded	Net
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January	26,335	14,212	12,123	18,723	8,239	10,484
Change in claims reserve (+/-)	16,463	11,453	5,010	7,612	5,973	1,639
Balance at 31 December	42,798	25,665	17,133	26,335	14,212	12,123

c) Analysis of movement incurred but not reported claims reserve (IBNR claims)

	2008	2008	2008	2007	2007	2007
	Gross	Retroceded	Net	Gross	Retroceded	Net
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January	18,067	949	17,118	14,350	607	13,742
Change in IBNR claims (+/-)	3,680	226	3,454	3,717	342	3,376
Balance at 31 December	21,747	1,175	20,572	18,067	949	17,118

d) Life reinsurance provision

Life reinsurance provision is not made by the Company 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, loss of income insurance due to accident or illness) are not recorded by the Company in its 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.
Only unearned premium provision and claims provision for death risk, critical illness risk and supplementary accident insurance are made.

e) 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 2008 and 2007. Originally assessed provisions shown in the tables below comprise claims reserve (including IBNR provision) and unearned premiums. Due to negative difference in provision adequacy we decided on an above average increase in IBNR provision in 2008 (increase by 135% compared to 2007); the provision grew from 2.2 million EUR to 5.2 million EUR. 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 2008 for the past 5 years.

Gross provisions for claims + unearned premiums	As at 31 December					
	2003	2004	2005	2006	2007	2008
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Originally assesed	30,994	34,253	39,913	47,327	60,080	81,481
Reassessed after 1 year	29,534	30,610	39,296	45,946	63,758	
Reassessed after 2 years	26,638	28,926	38,092	43,917		
Reassessed after 3 years	27,566	30,027	37,591			
Reassessed after 4 years	28,458	29,259				
Reassessed after 5 years	27,629					
Cumulative excess	3,365	4,994	2,322	3,410	-3,678	
Cumulative gross claims paid						
1 year later	13,059	12,783	17,283	20,483	28,433	
2 years later	16,918	17,309	22,515	27,135		
3 years later	19,391	18,580	25,983			
4 years later	20,180	20,827				
5 years later	20,878					

Net provisions for claims + unearned premiums	As at 31 December					
	2003	2004	2005	2006	2007	2008
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Originally assesed	19,937	22,698	28,263	34,035	40,263	48,814
Reassessed after 1 year	18,607	20,751	26,379	31,255	42,326	
Reassessed after 2 years	15,542	16,788	23,133	28,221		
Reassessed after 3 years	14,557	16,057	21,998			
Reassessed after 4 years	14,321	15,528				
Reassessed after 5 years	14,030					
Cumulative excess	5,908	7,170	6,265	5,814	-2,063	
Cumulative gross claims paid						
1 year later	8,735	9,141	11,990	16,340	20,389	
2 years later	10,662	11,371	15,998	19,614		
3 years later	11,432	11,994	17,311			
4 years later	11,770	12,560				
5 years later	12,039					

Note: The amounts are calculated from tolar to euro at the rate of 1 EUR = 239.64 SIT.

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, which in the last year, exceptionally, is lower in amount than the relevant provision. This proves that provision was increased above average in the past year (IBNR provision grew from 2.2 million EUR to 5.2 million EUR). The cumulative excess in provisions (computed by deducting the last known assessment of provision from the original assessment of provisions) is negative in 2008, because the reassessed provision (42.3 million EUR) exceeds the originally assessed provision (40.3 million EUR), in our case primarily due to substantive increase in IBNR provision.

Reinsurance and other payables

	2008	2007
	EUR'000	EUR'000
Reinsurance contract payables	50,166	30,841
- of which payables to related companies	34,852	17,734
Provision for bonuses to employees	204	163
Liabilities for salaries	102	120
Other liabilities and accrued expenses	131	125
- of which other liabilities to related companies	34	27
	50,603	31,249

Reinsurance contract payables are of current nature. They include payables to insurance companies arising from reinsurance share in claims and commissions. Payables are stated at historical cost which equals fair value. In 2008, the Company has no outstanding payables.

Equity

The Company's balance sheet for 2008 discloses shareholders' equity in the amount of TEUR 28,699 (2007: TEUR 33,814). The equity consists of share capital in the amount of TEUR 3,130 (2007: TEUR 3,130), capital surplus in the amount of TEUR 1,147 (2007: TEUR 1,147), revenue reserve in the amount of TEUR 2,093 (2007: TEUR 1,952), retained earnings in the amount of 22,573 TEUR (2007: TEUR 21,676), and fair value reserve in the amount of TEUR - 244 (2007: TEUR 5,909).

Share capital

The share capital of the Company is denominated in EUR. The share capital is divided into 15,000 shares. No new shares were issued in 2008. All shares have been fully paid.
The shareholders of the Company at year end are the following:

	2008	2007
	% ownership	% ownership
Triglav Insurance Company Ltd.	87.00	87.00
Nova Ljubljanska banka, d.d.	5.00	5.00
FMR d.d., Idrija	1.33	1.33
Petrol, d.d.	2.00	2.00
Maksima Holding, d.d.	2.00	2.00
Sava, d.d.	2.00	2.00
Helios Domžale, d.d.	0.67	0.67
	100.0	100.0

Dividend per share, paid in 2008, amounted to 4 % of the Company's equity recorded in 2007, i.e. EUR 80.00 per share. The total amount of dividends paid for the financial year 2007 was TEUR 1,200. The Statement of changes in equity also reveals some other payments from equity in total amount of TEUR 28. The resolution on dividends paid was adopted by the Company's Shareholders' Meeting, and the Shareholders' Meeting will also decide on the payment of dividends for the financial year 2008.

Change in fair value reserve

	2008	2007
	EUR'000	EUR'000
Balance at 1 January	5,909	4,623
Additions / disposals due to valuation	-6,147	1,587
Additions / disposals due to sale	-6	-806
Balance at 31 December	-244	5,909

Revaluation surplus also includes the surplus arising from revaluation of available-for-sale financial assets measured at fair value. In 2008, the amount of TEUR 2,713 was transferred from reserves for the change in fair value to the income statement due permanent impairment of financial assets.
Upon disposal of assets, net realised gains from available-for-sale assets were transferred from fair value reserve under equity and recognised in profit or loss in the amount of TEUR 6.

Capital surplus

	2008	2007
	EUR'000	EUR'000
Paid-in capital surplus	543	543
Other paid-in capital under the Articles of Association	604	604
	1,147	1,147

Revenue reserve

	2008	2007
	EUR'000	EUR'000
Legal reserve	262	262
Statutory reserve	258	258
Credit risk equalisation reserve	954	812
Other revenue reserve	620	620
	2,094	1,952

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 stipulates that equalisation provisions shall be set up as part of technical provisions. This causes discrepancy between the requirements of the Insurance Act and International Financial Reporting Standards.

Had the financial statements followed the requirements of the Insurance Act, net profit or loss for 2008 would have been lower by TEUR 141 (2007: TEUR 133) and would have amounted to TEUR 2,125 (2007: TEUR 4,045). 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. These would have amounted to TEUR 82,689 as at 31 December 2008 (31 December 2007: EUR 61,037), if they had included credit risk equalisation provision.

Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the company. Earnings per share amount to 151 EUR in 2008 (2007: EUR 279). 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 (2005: 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.

Net reinsurance premiums earned

	2008	2007
	EUR'000	EUR'000
Gross premiums written	106,994	87,625
Of which: - premium from insurance companies for reinsurance assumed	77,492	66,327
- premium from reinsurance companies for reinsurance assumed	29,502	21,298
Reinsurance premiums ceded to retrocessionaires	-48,035	-37,308
Change in the gross provision for unearned premiums	-1,258	-1,424
Retrocessionaires' share of change in the provision for unearned premiums	1,170	211
Total net reinsurance premium income	58,872	49,104

Analysis of premiums by class of business

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

For the year ended 31 December 2008	Gross premiums written	Gross premiums earned	Gross claims incurred	Acquisition costs and other operating expenses
	EUR'000	EUR'000	EUR'000	EUR'000
Accident insurance	2,101	2,097	931	77
Health insurance	34	35	29	1
Land motor vehicle insurance	18,534	18,271	27,805	521
Railway rolling stock insurance	619	619	0	0
Aircraft insurance	1,075	1,187	59	14
Ships insurance	1,042	1,047	1,076	42
Goods in transit insurance	1,568	1,567	493	35
Fire and natural forces insurance	33,975	34,619	43,792	559
Insurance of other damage to property	20,241	19,841	17,727	404
Liability insurance for motor vehicles	19,177	18,196	8,326	649
Liability insurance for aircraft	666	656	669	4
Liability insurance for ships	212	217	377	8
General liability insurance	2,654	2,438	2,167	52
Credit insurance	1,795	1,637	406	49
Suretyship insurance	485	523	135	5
Miscellaneous financial loss insurance	2,165	2,203	1,503	23
Legal expense insurance	56	54	-5	2
Assistance insurance	439	379	297	13
Life assurance	154	151	40	0
Total non-life insurance	106,994	105,736	105,828	2,459

For the year ended 31 December 2007	Gross premiums written	Gross premiums earned	Gross claims incurred	Acquisition costs and other operating expenses
	EUR'000	EUR'000	EUR'000	EUR'000
Non-life insurance				
Accident insurance	1,860	1,840	863	67
Health insurance	50	41	65	2
Land motor vehicle insurance	14,343	13,755	9,103	414
Railway rolling stock insurance	651	651	0	0
Aircraft insurance	965	894	109	9
Ships insurance	409	440	240	16
Goods in transit insurance	1,136	1,168	437	21
Fire and natural forces insurance	27,644	27,213	15,327	401
Insurance of other damage to property	15,475	15,534	12,874	383
Liability insurance for motor vehicles	17,669	17,221	10,555	616
Liability insurance for aircraft	789	840	558	4
Liability insurance for ships	99	91	20	3
General liability insurance	2,141	2,221	1,404	46
Credit insurance	1,666	1,539	1,004	46
Suretyship insurance	357	429	88	4
Miscellaneous financial loss insurance	1,853	1,827	3,219	21
Legal expense insurance	48	43	5	2
Assistance insurance	292	276	166	7
Life assurance	179	178	125	0
Total non-life and life insurance	87,625	86,201	56,163	2,061

Fee and commission income (expense)

	2008	2007
	EUR'000	EUR'000
Commission income	9,933	6,773
Commissions expense	19,103	16,553
Difference	-9,170	-9,780

The reinsurance commission income (in 2008: TEUR 9,933; 2007: TEUR 6,773) 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 (in 2008: TEUR 19,103; 2007: TEUR 16,553) is accounted for in connection with inwards reinsurance business (i.e. reinsurance business ceded to the Company by cedants 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 expenses (in 2008: TEUR 9,170; 2007: TEUR 9,780).

Financial income

	2008	2007
	EUR'000	EUR'000
Interest income:		
- Available-for-sale financial assets	2,422	641
- Financial assets at fair value through profit or loss	194	111
- Loans and receivables	476	1,616
Dividend income	360	122
Other income from investments		
-Foreign exchange gains -Other income from investments	976 7	160 31
-Revaluation revenue upon disposal of property and equipment	3	0
Net realised gains from available-for-sale financial assets	6	806
	4,445	3,487

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 TEUR 6.

Net claims

	2008	2007
	EUR'000	EUR'000
Paid claims		
Gross paid claims	85,686	44,834
Retrocessionaires' share of claims incurred	-51,134	-16,678
Change in provision for reported but not settled claims		
Gross amounts	16,895	7,583
Retrocessionaires' share	-11,453	-6,076
Change in provision for incurred but not reported claims		
Gross amounts	3,248	3,745
Retrocessionaires' share	-226	-238
Total net claims	43,015	33,170

Operating expenses

Costs are classified by type and by functional groups. In the financial statements, costs are classified by functional groups. These are: acquisitions costs, appraisal costs (not recorded by the Company due to its nature of work), asset management costs, and other costs. A portion of costs by type 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. The classification is stated below as follows:

Cost type	Total	Acquisition costs	Asset management costs	Other
	EUR'000	EUR'000	EUR'000	EUR'000
Total costs in 2008	2,592	976	134	1,482
Depreciation of assets needed for operation	101	38	5	58
Personnel expenses	1,783	672	92	1020
- Wages and salaries	1,283	483	66	734
- Social security costs	223	84	12	128
- Other personnel expenses	277	104	14	158
Costs of services provided by individuals not engaged in business activity	30	12	1	17
Other operating expenses	678	255	35	387

Cost type	Total	Acquisition costs	Asset management costs	Other
	EUR'000	EUR'000	EUR'000	EUR'000
Total costs in 2007	2,173	818	112	1,243
Depreciation of assets needed for operation	79	30	4	45
Personnel expenses	1,567	590	81	896
- Wages and salaries	1,112	419	57	636
- Social security costs	195	73	10	111
- Other personnel expenses	260	98	13	149
Costs of services provided by individuals not engaged in business activity	42	16	2	24
Other operating expenses	485	183	25	278

In 2008, the average number of employees was 31 (2007: 26).
Gross emoluments paid by Triglav RE, Reinsurance Company Ltd. to the members of the Management Board for the year 2008, ended 31 December 2008, amounted to EUR 347,704 (2007: EUR 370,583), including fixed salary and 2007 profit share.

In 2008, the costs of audit services amounted TEUR 25 (2007: TEUR 25).

Asset management costs amounting to TEUR 112 have been recorded in the Income statement, included in the item of financial expenses in the total amount of TEUR 5,340.

Financial expenses

	2008	2007
	EUR'000	EUR'000
Interest expense	113	195
Net foreign exchange translation loss	1,018	330
Loss on disposal of available-for-sale financial assets	5	12
Loss on valuation of financial assets through profit or loss	1,253	348
Expenses due to impairment of financial assets	2,713	0
Other expenses	238	191
	5,340	1,076

Income statement also discloses unrealised losses resulting from valuation of investments at fair value through profit or loss; they amounted to TEUR 1,253 (2007: TEUR 348).

In line with the Company's accounting policy (see page 55) the Company recorded impairment losses on financial assets in the amount of TEUR 2,713.

Income tax expenses

	2008	2007
	EUR'000	EUR'000
Current income tax expense	1,217	1,902
Deferred income tax expense	-571	19
Total income tax expense	646	1,921

Reconciliation of accounting profit for the period to income tax expense

	2008	2007
	EUR'000	EUR'000
Accounting profit for the period before income taxes	2,912	6,098
Income tax at 22% for 2008, or 23% for 2007	641	1,403
Differences:		
Non-deductible expenses	629	28
Income that increases taxable base	-8	-4
Tax exempt income	-45	-13
Change in temporary differences	-571	487
Deferred tax expenses arising from the write-down of a previously recognised deferred tax asset	0	19
Total income tax recognised in the income statement	646	1,921

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%. The income tax rate will be 21% in 2009, and 20% in 2010 and onwards.

In 2008 the Company recorded income tax liability in the amount of TEUR 81 (2007: liability in the amount of TEUR 361).

Related parties

The key shareholder of the Company is Triglav Insurance Company Ltd. with the holding of 87% (2007: 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 Triglav Insurance Company Ltd. in force in 2008:

- the major business concluded between the Company and Triglav Insurance Company Ltd. is a reinsurance contract for 2008 which incorporates an overall specification of the reinsurance programme for Triglav Insurance Company Ltd., both in respect of proportional and non-proportional reinsurance of the assumed non-life insurance and life assurance portfolios of Triglav Insurance Company 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;
- 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 concluded under market conditions and are not secured.

Specification of revenue and expenses arising from transactions with Triglav Insurance Company Ltd.	Year 2008 (in TEUR)
Earned premium income	63,852
Fee and commission expense	9,860
Incurred claims	62,522
Change in the provision for unearned premiums	1,416
Change in the provision for claims outstanding	12,884
Rental costs	64
Asset management costs	100
Costs of property, accident and pension insurance premiums	63
Receivables as at 31 December	12,749
Payables as at 31 December	32,114

Contracts concluded between the Company and the related entities of the controlling company (Triglav Insurance Company Ltd.):

Contracts concluded with the insurance company Triglav Osiguranje, d.d., Zagreb, Republic of Croatia
- a reinsurance contract for 2008, which regulates the reinsurance of the insurance company's portfolio, and
- various facultative reinsurance contracts.

Specification of revenue and expenses arising from transactions with Triglav Osiguranje	Year 2008 (in TEUR)
Earned premium income	1,997
Fee and commission expense	244
Incurred claims	903
Change in the provision for unearned premiums	-10
Change in the provision for claims outstanding	-6
Receivables as at 31 December	1,509
Payables as at 31 December	1,140

Contracts concluded with the insurance company Triglav BH Osiguranje, d.d., Sarajevo, Bosnia and Herzegovina
- separate reinsurance contracts relating in particular to the cover of the insurance company's retention in respect of property insurance (CAT property treaty), and
- various facultative reinsurance contracts.

Specification of revenue and expenses arising from transactions with Triglav BH osiguranje	Year 2008 (in TEUR)
Earned premium income	14

Contracts concluded with the insurance company Triglav pojištovno, a.s., Brno, Czech Republic
- separate reinsurance contracts relating in particular to the cover of the insurance company's retention in respect of property insurance (CAT property treaty).

Specification of revenue and expenses arising from transactions with Triglav pojištovno	Year 2008 (in TEUR)
Earned premium income	11,086
Fee and commission expense	2,801
Incurred claims	5,063
Change in the provision for unearned premiums	810
Change in the provision for claims outstanding	1,141
Receivables as at 31 December	2,449
Payables as at 31 December	1,551

Contracts concluded with the insurance company Lovčen RE, Podgorica, Montenegro
- separate reinsurance contracts relating in particular to the cover of the insurance company's retention in respect of property insurance (CAT property treaty).

Specification of revenue and expenses arising from transactions with Lovčen RE	Year 2008 (in TEUR)
Earned premium income	617
Fee and commission expense	109
Change in the provision for claims outstanding	157
Receivables as at 31 December	99
Payables as at 31 December	21

Contracts concluded with the insurance company Lovčen Osiguranje, Podgorica, Montenegro
- separate reinsurance contracts relating in particular to the cover of the insurance company's retention in respect of property insurance (CAT property treaty).

Specification of revenue and expenses arising from transactions with Lovčen Osiguranje	Year 2008 (in TEUR)
Earned premium income	13
Fee and commission expense	1
Receivables as at 31 December	13
Payables as at 31 December	1

Contracts concluded with the insurance company Vardar Osiguruvanje, Skopje, Former Yugoslav Republic of Macedonia
- separate reinsurance contracts relating in particular to the cover of the insurance company's retention in respect of property insurance (CAT property treaty).

Specification of revenue and expenses arising from transactions with Vardar Osiguruvanje	Year 2008 (in TEUR)
Earned premium income	436
Fee and commission expense	32
Incurred claims	28
Change in the provision for unearned premiums	24
Change in the provision for claims outstanding	553
Receivables as at 31 December	149
Payables as at 31 December	60

Contracts concluded with the insurance company Triglav Krajina Kopaonik Osiguranje, Banja Luka, Bosnia and Herzegovina

- separate reinsurance contracts relating in particular to the cover of the insurance company's retention in respect of property insurance (CAT property treaty).

Specification of revenue and expenses arising from transactions with Krajina Kopaonik Osiguranje	Year 2008 (in TEUR)
Earned premium income	10
Receivables as at 31 December	5

Contracts concluded with the bank A banka Vipa, d.d., Ljubljana

- a long-term deposit in the amount of TEUR 417 deposited in 2004, and
- an interest rate swap contract in the amount of TEUR 347.

Legal transactions that were concluded in 2008 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.

The Company's supervisory Board has four members, and three of them are employed in Triglav Insurance Company Ltd. In 2008, gross emoluments paid to the members of the Supervisory Board amounted to EUR 37,966 (2007: EUR 43,479), of which EUR 22,565 (2007: EUR 22,074) were paid to the members of the Management Board of Triglav Insurance Company Ltd.

Reinsurance 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 Triglav Insurance Company Ltd.

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 mechanism.

Reinsurance risk relates to the uncertainty of the reinsurance business. The most significant components of the reinsurance risk are the reinsurance premium risk and the reserve risk. Reinsurance premium risk is the risk that expenses and incurred losses will be higher than the reinsurance premium received. Reserve risk represents the risk that the absolute level of the technical provisions is misestimated or that the actual claims will fluctuate around the statistical mean value. Non-life reinsurance risk includes also the risk of a large number of claims from a single loss event (catastrophe risk), which streams from irregular events that are not sufficiently reinsured, and underreserving risk.

Risk management

The Company manages its reinsurance risk through observance of retention limits from the table of retentions, approval procedures for transactions, testing of the adequacy of reinsurance premiums, verification of the cedants' technical results, and reinsurance underwriting, by which the Company transfers its reinsurance risk on retrocessionaires.

The Company's reinsurance underwriting strategy seeks diversity to ensure a dispersed portfolio. As a rule, the reinsurance contracts are annual in nature and the Company has the right to refuse renewal or to change the terms and conditions of the contract at renewal.

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.

Concentration of reinsurance risk

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.

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 2008.

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 170.1% in 2008, compared to 75.8% in 2007. However, incurred loss ratio excluding commissions was more favourable and amounted to 134.0% in 2008 compared to 62.0% in 2007. The fluctuation of these results does not increase the Company's risk exposure because the differences are due to emergence of large claims or catastrophe claims that are mostly retroceded to foreign business partners. In 2008 large claims were recorded due to three catastrophe events (hail and storms in Slovenia in July and August 2008). Because of the level of claims, non-proportional reinsurance was used to protect its retention against catastrophe events, i.e. the amount of loss in excess of joint priority of the cedant and the Company.

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.

Market risk

The Company's investment portfolio is exposed to market variables on which the Company has not 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.

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

Financial assests by class and by cash flow maturity

2008					
Type of investment	Undefined or without maturity	Less than 1 year	1 to 5 years	More than 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Gross total:	6,964	17,903	32,175	21,195	78,237
Securities – in the country	0	1,817	17,645	14,685	34,147
Securities of financial institutions	0	1,024	6,431	5,569	13,024
Securities of corporations	0	498	7,109	488	8,095
Structured securities	0	0	990	453	1,443
Deposits	0	12,340	0	0	12,340
Other equity securities	6,954	0	0	0	6,954
Other investments	10	0	0	0	10
Investments with cedants	0	2,224	0	0	2,224

2007					
Type of investment	Undefined or without maturity	Less than 1 year	1 to 5 years	More than 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Gross total:	16,868	7,374	21,487	27,712	73,442
Securities – in the country	0	1,691	8,154	15,010	24,855
Securities of financial institutions	0	540	10,418	8,712	19,670
Securities of corporations	0	0	2,498	993	3,491
Structured securities	0	0	0	2,997	2,997
Deposits	0	4,024	417	0	4,442
Other equity securities	16,868	0	0	0	16,868
Investments with cedants	0	1,119	0	0	1,119

Four debt securities are callable prior to maturity; their total carrying amount at the balance sheet date amounts to TEUR 1,283 (in 2007: TEUR 1,466).

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.

2008				
	Less than 1 year	1-5 years	More than 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Gross technical provisions	54,690	21,269	5,776	81,735
Provision for unearned premiums	13,473	2,851	612	16,936
Notified outstanding claims reserve (reserve after bordereaux) & incurred but not reported claims reserve (IBNR)	40,963	18,418	5,164	64,545
Other technical provisions *	254	0	0	254

2008				
	Less than 1 year	1-5 years	More than 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Net technical provisions	34,798	10,661	3,609	49,068
Provision for unearned premiums	9,609	1,289	211	11,109
Notified outstanding claims reserve (reserve after bordereaux) & incurred but not reported claims reserve (IBNR)	24,935	9,372	3,398	37,705
Other technical provisions *	254	0	0	254

* Other technical provisions do not include equalisation provision in the amount of TEUR 954 because it is not recorded in the balance sheet under technical provisions; it is recorded under equity. Gross (net) technical provisions including equalisation provision would have amounted to TEUR 82,688 (TEUR 50,022).

2007				
	Less than 1 year	1-5 years	More than 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Gross technical provisions	37,492	17,196	5,537	60,225
Provision for unearned premiums	12,770	2,496	412	15,678
Notified outstanding claims reserve (reserve after bordereaux) & incurred but not reported claims reserve (IBNR)	24,577	14,700	5,125	44,402
Other technical provisions *	145	0	0	145

2007				
	Less than 1 year	1-5 years	More than 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Net technical provisions	27,391	9,325	3,692	40,408
Provision for unearned premiums	9,442	1,421	159	11,022
Notified outstanding claims reserve (reserve after bordereaux) & incurred but not reported claims reserve (IBNR)	17,804	7,904	3,533	29,241
Other technical provisions *	145	0	0	145

* Other technical provisions do not include equalisation provision in the amount of TEUR 812 because it is not recorded in the balance sheet under technical provisions; it is recorded under equity. Gross (net) technical provisions including equalisation provision would have amounted to TEUR 61,037 (TEUR 41,220).

Other liabilities were classified as those not yet matured at the balance sheet date, and those that have matured and are either up to 180 days overdue or more than 180 days overdue.

Other liabilities by maturity

	Not matured	up to 180 days overdue	more than 180 days overdue	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Other liabilities	38,216	11,484	903	50,603
Co-insurance and reinsurance	37,779	11,484	903	50,166
- Reinsurance premium liabilities	8,840	1,509	169	10,518
- Liabilities for shares in claims	25,366	9,433	576	35,375
- Other reinsurance liabilities	3,573	542	158	4,273
Other liabilities	437	-	-	437

Interest rate risk

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 a bond investment in the contract amount of EUR 347,800.

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 2008, cash was deposited at the interest rate ranging from 2.35% to 6.20%. 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 effect of parallel move of the interest rate curve by +/- 100 basis points to the fair value of all interest rate sensitive financial assets that have not been valued at amortised cost method, that is of all those debt instruments classified as available-for-sale and at fair value through profit or loss.

2008		EUR '000
CLASS OF SECURITIES	+100BP	-100BP
Government securities	-1,389.3	1,389.3
Securities of financial institutions	-342.5	342.5
Securities of corporations	-261.1	261.1
Structured securities	-126.9	126.9
TOTAL	-2,119.8	2,119.8
Impact on the balance sheet	-1,992.9	1,992.9
Impact on the income statement	-126.9	126.9

2007		EUR '000
CLASS OF SECURITIES	+100BP	-100BP
Government securities	-1,378.6	1,378.6
Securities of financial institutions	-488.3	488.3
Securities of corporations	-204.8	204.8
Structured securities	-219.8	219.8
TOTAL	-2,291.5	2,291.5
Impact on the balance sheet	-2,071.8	2,071.8
Impact on the income statement	-219.8	219.8

Equity price risk
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:

		EUR '000
	+10 %	-10 %
Shares in EU	357.7	-357.7
Shares on emerging markets	219.6	-219.6
Global shares *	91.2	-91.2
Shares in Asia **	26.8	-26.8
TOTAL	695.4	-695.4
Impact on the balance sheet	695.4	-695.4
Impact on the income statement	0	0

* Investments in equity dispersed all over the world
** Equity investments in the developed part of Asia (Japan, Hong Kong)

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.

The most significant foreign currency in which the Company holds its assets and liabilities is USD. The exchange rates used for translation at 31 December 2008 and at 31 December 2007 were USD 1 = EUR 0.7093 (2007: USD 1 = EUR 0.6806).

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 client.

Credit risk

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.

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 2008 amounts to TEUR 5,390. 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 24.1 million. In the international markets, the Company mainly invests in securities with Aa2 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 2008. 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 Company has adopted a conservative risk management policy.

CREDIT RISK EXPOSURE OF BOND PORTFOLIO WITHIN THE LIABILITY FUND AND OWN FUNDS		
	Liability fund	Own funds
A1	4.5%	6.8%
A2	12.0%	0.0%
A3	8.5%	0.0%
Aa1	1.9%	0.0%
Aa2	51.0%	0.0%
Aa3	4.5%	0.0%
Aaa	2.4%	0.0%
Baa1	3.5%	0.0%
Baa2	0.8%	0.0%
Baa3	2.6%	0.0%
Ba2	0.0%	0.9%
Without rating	8.3%	92.3%
	100.0%	100.0%

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

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 A rated reinsurers in case of long-tail reinsurance, and with BBB+ rated reinsurers by Standard and Poor's in case of other types of reinsurance.

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.

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.

Fair values

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Financial assets available for sale and financial assets and liabilities at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortised cost less impairment.

Capital and capital adequacy risks

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 required minimum capital amounted to TEUR 9,824 (equal to the amount in 2007), and the available capital to TEUR 25,848 (2007: TEUR 26,549). The excess of available capital over the required minimum capital was high (TEUR 16,024 as at 31 December 2008 and TEUR 16,724 as at 31 December 2007). Therefore the risk of capital inadequacy may be considered negligible. It can be stated that in 2008, in spite of the global financial crisis and recession, practically no decrease in the excess of available capital over the required minimum capital was registered, since the available capital exceeds the required minimum by 63% as at 31 December 2008. The Company considers that the risk management is adequate and the risk of capital inadequacy effectively minimised.

Events after the balance sheet date

The Company recorded no major events after the balance sheet date, which could have affected the financial statements as at 31 December 2008.

In the first quarter of 2009, the downtrend of security prices continues as a consequence of financial crisis. The change in prices will lower the value of the Company's portfolio. In addition, the Company will have to recognise impairment losses in the amount of TEUR 364, and will do so by transferring this amount from the changes in fair value reserve to the income statement.

Publisher: Triglav Re, Reinsurance Company Ltd. Production: Triglav Re, Reinsurance Company Ltd. Design: Nuit d.o.o., AD+D Mateja Jenič Photo: Lorenka Stropnik, iStockphoto, IPAK Images Print: Bograf d.o.o. Print run: 150, Ljubljana, 2009