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PIB 100058593

## TRANSLATION

### Independent Auditors' Report

TO THE SHAREHOLDERS  
WIENER STÄDTISCHE OSIGURANJE A.D.O. BEOGRAD

We have audited the accompanying financial statements of Wiener Städtische osiguranje a.d.o., Beograd" (hereinafter: "the Company"), which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and true and objective presentation of these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia, applicable Insurance Law and other relevant by-laws issued by National Bank of Serbia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, the applicable Decision on the content of reports on the audit of financial statements of an insurance company and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and true and objective presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, the financial statements present truly and objectively, in all material respects, the financial position of Company as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Insurance Law and other relevant by-laws issued by National Bank of Serbia.

Belgrade, 15 March 2011

KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović  
*Certified Auditor*

*This is a Translation of the Original Independent Auditors' Report issued in Serbian Language. We are responsible for the translation of the Independent Auditors' Report and not for any other documents.*

Belgrade, 15 March 2011

KPMG d.o.o. Beograd



Nina Bulatović  
*Certified Auditor*

TRANSLATION

**WIENER STÄDTISCHE  
OSIGURANJE A.D.O. BEOGRAD**

**Financial Statements  
for 2010**

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of RSD	Note	2010	2009
<b>Operating income</b>			
Insurance and coinsurance premium income		3,517,005	3,358,965
Income from activities directly connected with insurance business		23,317	17,526
Income from placement of technical reserves		1,294,295	790,625
Other operating income		17,553	12,286
<b>Total operating income</b>		<b>4,852,170</b>	<b>4,179,402</b>
<b>Operating expenses</b>			
Expenses for long-term provisions and functional contributions		(1,373,365)	(1,288,069)
Claims paid		(1,288,131)	(1,361,606)
Movement in provisions for outstanding claims-increase/(decrease)		6,624	(25,676)
Premiums from recourse claims		84,112	114,864
Decrease in other technical reserves		9,638	-
Granted bonuses and discounts		(3,085)	(9,130)
Costs from placement of technical reserves		(118,958)	(29,709)
<b>Total operating expenses</b>		<b>(2,683,165)</b>	<b>(2,599,326)</b>
<b>Gross operating profit</b>		<b>2,169,005</b>	<b>1,580,076</b>
<b>Costs of insurance activity</b>			
Acquisition costs		-	-
Commissions		(208,886)	(240,428)
Other acquisition costs		(908,574)	(867,907)
Deferred acquisition cost - increase		31,588	68,757
Deferred acquisition cost - decrease		(11,775)	-
Managing costs		-	-
Depreciation		(58,263)	(48,306)
Costs of material, energy, service and immaterial costs		(126,878)	(105,116)
Salaries, fringe benefits and other personal expenses		(225,102)	(204,098)
Other managing costs		(2,143)	(5,350)
Reinsurance and retrocession income		-	-
Reinsurance and retrocession commission		425,826	265,595
<b>Total costs of insurance activity</b>		<b>(1,084,207)</b>	<b>(1,136,853)</b>
<b>Operating profit</b>		<b>1,084,798</b>	<b>443,223</b>
Financial income except financial income based on technical reserves		81,473	158,193
Financial expenses except financial expenses based on technical reserves		(584,338)	(377,640)
Income from assets valuation adjustments and other income		16,195	13,738
Impairment costs and other expenses		(354,366)	(208,660)
<b>Net profit / (loss) from ordinary activities before taxation</b>		<b>243,762</b>	<b>28,854</b>
Net operating (loss)/profit from discontinuing operations		(41,038)	72
<b>Profit before tax</b>		<b>202,724</b>	<b>28,926</b>
Income tax		(7,273)	-
(Losses)/gains from increase/(decrease) of deferred tax assets		(20,775)	686
<b>NET PROFIT</b>		<b>174,676</b>	<b>29,612</b>

**BALANCE SHEET AS AT 31 DECEMBER 2010**

In thousands of RSD	Note	2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		100,300	99,999
Property, plant and equipment		130,831	145,128
Long term financial investments		5,185,759	4,995,411
<b>Total non-current assets</b>		<b>5,416,890</b>	<b>5,240,538</b>
<b>Current assets</b>			
Inventories		6,442	10,094
Receivables		1,164,481	1,054,286
Current income tax receivables		796	796
Short term financial investments		2,746,502	1,796,448
Cash and cash equivalents		1,608,180	651,688
Accruals and deferred expenses		213,413	125,590
Deferred acquisition costs		201,566	184,641
Reinsurer's and coinsurer's share of unearned premium		135,819	123,660
Provisions for outstanding claims charged to reinsurer and coinsurer		140,275	158,546
Deferred tax asset		-	14,774
<b>Total current assets</b>		<b>6,217,474</b>	<b>4,120,523</b>
<b>TOTAL ASSETS</b>		<b>11,634,364</b>	<b>9,361,061</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		918,834	918,834
Reserves		13,457	13,457
Unrealized gains from securities available for sale		135,457	117,004
Unrealized losses from securities available for sale		(3,160)	(1,443)
Accumulated profit		190,675	29,612
Loss		-	(13,312)
<b>Total equity</b>		<b>1,255,563</b>	<b>1,064,152</b>
<b>Liabilities and provisions</b>			
Long term provisions		7,482,111	5,569,297
Short term liabilities		773,289	553,792
Deferred income		2,115,541	2,173,820
Deferred tax liabilities		7,860	-
<b>Total liabilities and provisions</b>		<b>10,378,801</b>	<b>8,296,909</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11,634,634</b>	<b>9,361,061</b>

Belgrade, 28 February 2011

WIENER STÄDTISCHE OSIGURANJE A.D.O., BEOGRAD

Branko Krstonošić  
Chairman of Board of Directors

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010**

In thousands of RSD	2010	2009
<b>Cash flow from operating activities</b>		
Cash receipts from collected insurance and coinsurance premiums and advances received	4,876,684	5,183,759
Cash receipts from participation in settlement of claims	687,106	590,371
Other cash generated from operating activities	412,751	341,043
Claims paid, participation in claims settlement from coinsurance and paid advances	(1,988,175)	(2,126,166)
Paid coinsurance, reinsurance and retrocession premiums	(1,388,632)	(1,294,219)
Paid gross salaries to employees	(881,988)	(856,866)
Other payments from operating activities	(834,245)	(808,125)
Payments of taxes, contributions and other charges	(162,238)	(135,245)
<b>Net cash generated from operating activities</b>	<b>721,263</b>	<b>894,552</b>
<b>Cash flow from investment activities</b>		
Inflows from depositing and other financial investments	365,703	-
Inflow from received interest	189,181	172,753
Inflow from received dividends	1,474	904
Outflows from selling intangible and fixed assets	(39,279)	(35,622)
Outflows from depositing and other financial investments	(387,651)	(1,432,965)
<b>Net cash generated/(used) in investment activities</b>	<b>129,428</b>	<b>(1,294,930)</b>
<b>Cash flow from financial activities</b>		
Inflows from increase in equity	-	187,216
<b>Net cash generated in financial activities</b>	<b>-</b>	<b>187,216</b>
<b>Net cash inflow/(outflow)</b>	<b>850,691</b>	<b>(213,162)</b>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	651,688	772,519
Foreign exchange gains	118,520	128,599
Foreign exchange losses	(12,719)	(36,268)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,608,180</b>	<b>651,688</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of RSD	Share capital	Reserves	Unrealized gains from securities available for sale	Unrealized losses from securities available for sale	Accumulated profit/(loss)	Total
Balance as at 1 January 2009	777,158	238	713	(73,058)	(45,887)	659,164
Share issue	141,676	45,794	-	-	-	187,470
Increase	-	-	116,291	71,615	-	187,906
Loss covering	-	(32,575)	-	-	32,575	-
Result for the year 2009	-	-	-	-	29,612	29,612
<b>Balance as at 31 December 2009</b>	<b>918,834</b>	<b>13,457</b>	<b>117,004</b>	<b>(1,443)</b>	<b>16,300</b>	<b>1,064,152</b>
Balance as at 1 January 2010	918,834	13,457	117,004	(1,443)	16,300	1,064,152
Increase /(decrease)	-	-	18,453	(1,717)	-	16,736
Result for the year 2010	-	-	-	-	174,675	174,675
<b>Balance as at 31 December 2010</b>	<b>918,834</b>	<b>13,457</b>	<b>135,457</b>	<b>(3,160)</b>	<b>190,975</b>	<b>1,255,563</b>

TRANSLATION

**WIENER STÄDTISCHE  
OSIGURANJE A.D.O. BEOGRAD**

**Notes to the Financial Statements  
for 2010**

Belgrade, 28 February 2011

## 1 Foundation and activity

### 1.1. Foundation

"Wiener Städtische osiguranje" a.d.o. Beograd (hereinafter: "the Company") was established in 2003 and registered with the Commercial Court in Belgrade on 4 February 2003, under no. V-Fi-1162/03.

On 17 December 2002 the Federal Ministry of Finance passed a Resolution on Issuing the Operating Permit to the Company No. 4/3-02-0023/2002-01, which affirmed that the conditions prescribed by the Law on the Foundation of Joint-Stock Companies have been fulfilled. The Company has permission for business operations in life, compulsory and other property and accident insurance.

On 9 April 2006 the National Bank of Serbia passed Resolution G. No. 2849, which affirmed that the conditions prescribed by the Insurance Law on the Company's organization, Statute and other internal Company regulations have been fulfilled. According to the decision of the National Bank of Serbia the Company has permission for business operations in all types of life insurance (except for voluntary pension insurance) and all types of non-life insurance.

### 1.2. Activity

According to the Insurance Law, the Foundation Agreement and the Company's Statute Wiener Städtische's registered activities are:

- All types of life insurance, except for voluntary pension insurance.
- All types of non-life insurance.

The Company's Decision Making Bodies are: the Shareholders' Assembly, Board of Directors and Supervisory Board. Branko Krstonošić, Managing Director, and Dragana Mihajlović, Financial Manager are responsible for preparation of the Company's financial statements for the year ended 31 December 2010.

The Company is managed by founders via the Assembly. Founders – shareholders have voting rights in proportion to their participation in shareholder capital. Each share has one voting right.

The Company performs business operations through its Headquarters (the head office) and branch offices in Belgrade, Subotica, Novi Sad, Vršac, Ruma, Šabac, Požarevac, Užice, Kruševac, Niš, Jagodina, Čačak and Novi Pazar, sub-branch offices in Pirot, Arilje, Sombor, Kanjiža, Zrenjanin, Temerin, Gornji Milanovac, and points of sale in Sremska Mitrovica, Leskovac, Vranje, Vrnjačka Banja, Smederevo, Valjevo, Bajina Bašta, Kikinda, Bačka Topola, Senta, Pančevo and more points of sale in Belgrade.

The Company's headquarters is located in Belgrade, Trešnjin cvet 1.

As at 31 December 2010 Wiener has 1043 employees (2009: 916, 2008: 930, 2007: 771, 2006: 646, 2005:471).

Company's Identification number is 17456598, and tax identification number is 102608229.

## 2 Basis for preparation of financial statements

### (a) *Statement of compliance*

Financial statements have been prepared in accordance with the following laws and regulations: the Law on Accounting and Auditing ("Official Gazette of the RS", no. 46/06 and 111/09), Insurance Law ("Official Gazette of the RS", no. 55/2004, 70/2004, 61/2005, 85/2005, 101/2007, 63/2009 and 107/2009), Law on Enterprises ("Official Gazette of the RS", no. 125/2004), Corporate Income Tax Law ("Official Gazette of Republic of Serbia", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010), Law on Securities ("Official Gazette of Republic of Serbia", no. 47/06), Regulation on Chart of Accounts and the Contents of the Chart of Accounts for Insurance Companies ("Official Gazette of the RS", no. 15/2007, 3/2009 and 35/2010) and other rules and regulations based on the above-mentioned laws, as well as general regulations of the Company and amendments approved by the licensed actuary.

In accordance with the Law on Accounting and Auditing, legal entities and entrepreneurs in the Republic of Serbia shall prepare and present financial statements in accordance with legal, professional and internal regulations, where the applicable professional regulations include the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations that are part of the standard or text of IAS and IFRS, which has been implemented, does not include grounds for concluding, illustrating examples, guidelines, comments, opposing views, elaborated examples and other supplementary materials.

Changes to existing standards and translation of new IFRS and interpretations that are an integral part of the standards issued by the International Accounting Standards Board and IASB IFRS by 1 January 2009 formally adopted the Decision of the Minister of Finance no. 401-00-1380/2010-16 and published in the Official Gazette of RS 77/2010. Amended or issued IFRS standards and interpretations, after this date, have not been translated and published, and therefore have not been applied in preparing these financial statements.

The accompanying financial statements have been prepared in the format specified in the Regulation on the content and form of financial statements of the insurance company (Official Gazette, no. 3/2009, 7/2009 and 5/2010) which prescribes the application of a set of financial statements whose form and content did not comply with those stipulated in the revised IAS 1 - Presentation of Financial Statements, whose application is mandatory for accounting periods beginning on or after 1 January 2009.

### (b) *Measurement rules*

Financial statements are prepared based on the historical cost principle, except for the following items:

- Financial instruments at fair value through profit and loss, which are measured at fair value;
- Available-for-sale financial instruments, which are measured at fair value, and
- Derivatives, which are measured at fair value.

**(c) Going concern concept**

Financial statements are prepared in accordance with the going concern concept, which assumes that the Company will continue to operate for an indefinite period of time into the foreseeable future.

**(d) Functional and reporting currency**

All data are expressed in thousands of Dinars (RSD), if not otherwise stated. The Dinar is the official currency applicable for reporting purposes in the Republic of Serbia.

**(e) Use of estimates**

Presentation of financial statements requires from the management of the Company to use the best possible estimates and reasonable assumptions, which have effect on presented values of assets and liabilities and publication of potential receivables and liabilities on the date of preparation of financial statements, and income and expenses during the reporting period. These estimates and assumptions are based on previous experience, as well as different information available on the day of preparation of financial statements, and that seem realistic and reasonable in the given circumstances. Based on this information, values of assets and liabilities are estimated, which cannot be immediately confirmed on the basis of other information. The actual value of the assets and liabilities may be different from the value that was estimated in this way.

Estimates, as well as assumptions upon which estimates are made, are the result of regular monitoring. If it is found that there has been a change in the evaluated value of assets and liabilities, effects are recognized in the financial statements in the period when there has been a change in estimate, if the change in estimate affects only the calculation period, or in the period when changes in the evaluation happened and following periods, if the change in estimate affects the current and future periods.

**Key accounting estimates and judgements**

Through continual use of best estimates and reasonable assumptions available as at balance sheet date, the Company seeks to establish their effect on reported amounts of assets and liabilities, income and expenses, as well as their effect on future events. Actual results may differ from these estimates. When adjustments become necessary, they are disclosed to the income statement in the period when they came to attention.

The most significant estimates relate to impairment of financial assets held for sale, of actuarial categories and fair value estimation.

*// Impairment of financial assets*

In accordance with International Accounting Standard 39, if decrease in value of an asset held for sale is deemed significant and long-term, the Company performs impairment of such asset by transferring or cancelling revaluation reserves and charging the corresponding amount to the income statement. Additional criteria used in estimating fair value of such assets include: the financial position of the investee, stock exchange volume for investment, liquidity of each individual security, etc.

The company makes and specifies assumptions necessary for actuarial calculations of provisions for retirement benefits for full time employees.

The Company only signs insurance contracts. The policy holder is obliged by the insurance contract to pay a specified amount to the insurer, who in turn undertakes, in case of occurrence of an insured event, to pay to the insured or a third party compensation which is the insured amount.

*/iii/ Actuarial categories (provisions)*

Given the fact that when determining the premium rate, the interest rate and mortality tables in life insurance, and statistical data on the frequency of particular risks are used, the mentioned elements are the main source of uncertainty and insecurity.

Long duration is the basic characteristics of life insurance. As all tariffs include a guaranteed interest rate (in the case of the Company - 3%), there is a possibility that due to decrease interest rates, planned income will not be achieved. Therefore, the interest rate is set at a relatively low level that minimizes risk of decreasing interest rates.

Mortality tables based on 1980/82 census were used to calculate tariffs on which insurance contracts were based on, up to 30 September 2010. The mentioned tables are relatively old, but if the negative impact to which the population in these areas was exposed to for many years, the tables should present realistically the mortality of the population. After 30 September 2010, the contracts are signed on the basis of 2000-02 mortality tables which are in accordance with the Decision of the NBS on Specific Criteria and Method of Calculating Mathematical Reserves and Profit Share are based on.

Rates for property insurance are determined on the basis of frequency of occurrence of insured risks. In order for the rate to be determined more precisely there is need for monitoring risks which are being insured for many years. This represents the largest source of uncertainty given the lack of adequate statistics for precise determination tariffs. Property insurance is usually short-term; there is certain protection that if the rate is incorrectly estimated, it can be immediately corrected. Besides that, additional protection is also provided by reinsurance because risk is accepted by the reinsurer on the basis of rates at which insurance is agreed.

Solvency margin

The solvency margin of an insurance company corresponds to total balance sheet assets reduced for intangible assets, accruals, loss, liabilities (including mathematical reserve for life insurance) and transferred items (unearned premium and provisions for outstanding claims). An insurance company calculates its solvency margin separately for life insurance activities and separately for non-life insurance activities.

- 1) For life insurance and annuity insurance, as well as for other types of life insurance - the total amount of mathematical reserves on the last day of the current accounting period is multiplied by 0.04, and then by the ratio that has been derived as the quotient of total mathematical reserves retained and total mathematical reserve, both on the last day of the current accounting period, provided this ratio may not be less than 0.85;

- 2) The solvency margin for different types of non-life insurance and for supplementary benefits under life insurance policies, with the exception of voluntary health insurance, is calculated as the higher of the amounts obtained subject to indent (a) and (b):
- (a) the sum of the amounts of total premium in the course of the past 12 months up to EUR 10,000,000 in dinar counter-value multiplied by 0.18 and the remaining amount of that premium multiplied by 0.16, further multiplied by the ratio, which is calculated as the coefficient of the amount of the total premium retained and total premium, both in the course of the past 36 months, provided this ratio is not lower than 0.50;
- (b) the sum of the average amounts of incurred claims in the past 36 months and/or 84 months up to EUR 7,000,000 in dinar counter-value multiplied by 0.26 and the remaining amount of those claims multiplied by 0.23, further multiplied by the ratio which is calculated as the coefficient of the amounts of incurred claims in retention and incurred claims, both in the course of the past 12 months, provided this ratio is not lower than 0.50.
- 3) The solvency margin for voluntary health insurance shall be calculated as one third of the higher of the amounts calculated as in the previous point.

*/iii/ Fair value*

The determination of fair value for financial assets and liabilities for which there is no readily available market price requires the use of valuation techniques. For financial instruments that are traded less frequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment, depending on liquidity, risk concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**(f) Segment reporting**

The basic reporting segments of the Company are business segments, in other words specially organized segments for particular types of insurance business.

Basic reporting segments are:

- Life insurance,
- Accident insurance, voluntary health insurance and travel insurance,
- Motor vehicle third party liability and
- Other property insurances.

For motor vehicle insurance, special reports are prepared for insurance against liability for the use of motor vehicles.

In most of frameworks of these segments, in accordance with the Decision on the Contents of Data the Insurance Company Submits to the National Bank of Serbia on the manner and deadlines for submission of this data - Official Gazette of RS, no. 24/2010 of 16 April 2010, the Company began providing data on the status and changes in asset accounts, equity and liabilities and revenues, expenditures and results of operations set forth and articulated by insurance type in articles 9 and 10 of the Insurance Law.

**(g) Reconciliation of receivables and payables**

In accordance with the current legislation, the Company reconciled its receivables and payables with its creditors and debtors. Out of total number of 11,893 requests sent to reconcile balances, the number of unreconciled balances was 225. Confirmations were not reconciled partly because of the address changes of policyholders, without notifying the Company of these changes, or due to failures to return outstanding account balances. The table below presents an overview of outstanding account balances as of the date when the requests for confirmation were sent up to today:

Sent	11,893
Disputed	225
Subsequently reconciled	29
Confirmed	10,451
Returned because of wrong address	1,188

**3 Summary of basic accounting policies**

The Company consistently applied adopted accounting policies in all periods presented in financial statements. The principle accounting policies adopted for the preparation of the financial statements for the year 2010 are set out below.

**3.1. Insurance and coinsurance premium income**

Insurance and coinsurance premium income represents the amount of invoiced premium (matured life insurance premium) paid by the insurance policy holder to the insurance company based on the insurance or co-insurance contract, decreased for the premium relating to the following period (unearned premium).

The amount of premium is determined by the premium rate according to the type of insurance. Premium rates are adopted by the Board of Directors of the Company.

Premium consists of functional premiums and overhead additions. Functional premium is technical premium (for all insurance types) and contribution for prevention (for motor vehicle third party liability insurance), where the percentage of the gross premium for contributions was provided by Law on Compulsory Vehicle Insurance. The overhead addition is used for covering insurance costs. The maximum rate of overhead additions is determined by the Board of Directors of the Company.

**3.2. Expenses for long-term provisions and functional contributions**

Expenses for long-term provisions and functional contributions include provisions for equalization reserves, mathematical reserve (including life insurance profit participation reserves), contribution for prevention for motor vehicle third party liability, fire fighting contribution and contribution to guarantee fund.

The equalization reserve is calculated based on the technical premium from non-life insurance self-retention amount. Equalization reserve is calculated on the basis of standard deviation, earned net premium and technical premium at the self-retention amount for each type of non-life insurance within the observed period.

Mathematical reserves of life insurance are calculated based on the gross prospective method for contracts where the premium is paid in instalments, or prospective net premium method for the contracts with a single premium, reduced contract and risk insurance, all in accordance with the principles of actuarial mathematics.

Provisions for participation in the profits of life insurance represent the amounts that the insurers are entitled to, share in profits based on life insurance contract, having accepted to share the risk of mathematical reserve funds investment.

Contribution to the prevention of motor vehicle third party liability insurance is allocated in the amount of 1.20% of the gross premium for a contribution to prevention, Company is in compliance with.

Fire fighting contribution represents the contribution for fire protection and is calculated according to regulations of the Republic in the amount of 6% of the collected technical premium in self-retained fire protection insurance until 7 July 2010 or the amount of 5% of the collected technical premiums in self-retention of insurance against fire and other hazards and liability insurance during the transport of dangerous goods, after 7 July 2010 due to changes in legislation.

Contributions to the guarantee fund are made based on the Resolution of the Association of Insurance Organisations of Serbia, specifying amounts of contributions by insurance organisations for forming and using the guarantee fund. This Resolution specifies the contribution amount per vehicle category, with the contribution being proportional to the number of insured vehicles.

### **3.3. Claims paid**

Claims paid are expenditures for the payment of claims to be determined on the basis of contracts, business policy and general acts of the Company. These claims also include expenses on claims assessment, assessment of technical adequacy of vehicles and other expenses defined by the acts of the Company.

### **3.4. Reinsurance premiums expenses**

Reinsurance premiums represent expenses relating to the reinsurance of risk at „Wiener Re“ a.d.o. Beograd, with whom the Company signed a contract on reinsurance, for insurance contracts signed before 1 January 2010.

The company still has reinsured risks at Dunav RE a.d.o. Belgrade based on insurance contracts signed before 1 January 2010.

Reinsurance premium commissions represent commissions that the Company charges to the reinsurance company with whom it reinsures its own insurance portfolio.

### **3.5. Provisions for outstanding claims**

Provisions for outstanding claims are calculated in the amount of estimated liabilities for reported but not settled and incurred but not reported claims for the current reporting period.

If claims for particular types of insurance are in the form of rent, provisions for outstanding claims are calculated as capitalised amounts of all future liabilities.

**3.6. Costs of insurance activity**

The costs of insurance activity relate to costs of operating insurance business, such as material costs, rent, depreciation/amortisation, gross wages, agents' commissions, advertising and promotion costs, entertainment expense, etc.

**3.7. Financial income and expense**

Financial income represents interest from foreign currency savings bonds issued by the Republic of Serbia, and interest from deposits with banks and foreign exchange gains. Financial expenses represent foreign exchange losses and interest expenses. Accounting policies for recognition and measurement of financial income and expenses are disclosed within the relevant balance sheet position.

**3.8. Income and expenses from assets valuation other income/expenses**

Income from assets valuation and other income comprise income from assets valuation, income from collected written-off receivables, income from sale of property and other income.

Expenses from assets valuation and other costs include provision expenses for estimated bad debt receivables, losses on disposal of fixed assets, expenses from impairment of financial investments available for sale and other expenses.

Accounting policies for recognition and measurement of financial income and expenses are disclosed within the relevant balance sheet position.

**3.9. Receivables**

Receivables comprise insurance and coinsurance premium receivables, receivables from reinsurer for share in claim settlement, receivables for paid advances, receivables from recourse rights, receivables for reinsurance commissions, receivables from interest on deposits and securities that the Company holds in its portfolio, as well as other receivables.

Insurance premium receivables represent invoiced insurance premiums that are uncollected at the balance sheet date.

These receivables are measured at nominal value reduced for potential bad debts estimated by the management of the Company. According to the business policy of the Company and NBS's Decision on the Method for Evaluation of Balance Sheet Items of Insurance Companies, receivables overdue more than 90 days are fully provisioned. All other receivables are provisioned in an aggregate amount of unmatured and matured receivables, based on a specific percentage of bad debt receivables, in compliance with the mentioned Company Rulebook and the National Bank of Serbia's Decision. Percentages are defined in accordance with the client's behaviour, i.e. delay in settling obligations.

### 3.10. Financial instruments

#### */i/ Classification*

The Company classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, financial assets available for sale and held to maturity. Classification depends on the purpose for which assets were acquired. Management classifies its financial assets at the moment of initial recognition. In statutory financial statement forms, the Company presented all of its financial investments, irrespective of their classification, under two balance sheet items, either as short-term or long-term financial investments.

#### */ii/ Recognition*

Purchase or sale of a financial asset or liability is accounted for appropriately as at transaction date.

#### */iii/ Measurement*

Financial instruments are initially recognised at market value, which includes transaction costs for all financial assets or liabilities, except those that are measured at fair value through profit and loss. Initial recognition of financial assets at fair value through profit and loss is at fair value, with related transaction costs charged to operating expenses in the income statement.

After initial recognition, financial assets available for sale and financial assets at fair value through profit and loss are measured at fair value. Loans and receivables, as well as financial assets held to maturity, are measured at amortised cost using the effective interest rate method.

After initial recognition, financial liabilities are disclosed at amortised cost using the effective interest rate method, except for financial liabilities at fair value through profit and loss.

#### */iv/ Derecognition*

The Company derecognises financial assets when the right to cash inflows from an asset expires or when such right is transferred to another party. All rights related to a transferred financial asset, whether created or retained by the Company, are recognised as a separate asset or liability.

The Company derecognises liabilities when a liability is settled, cancelled or transferred to another party.

#### */v/ Measurement at amortised cost*

Amortised cost of a financial asset or liability is the value at which the asset or liability is initially recognised, reduced for payment of principal, and increased or decreased for accumulated amortised cost using the effective interest rate method applied to the difference between initial value and nominal value as at date of maturity, reduced for any impairment.

*/vi/ Measurement at fair value*

Fair value of financial instruments is the value at which an asset can be exchanged, or liability settled, through an arm's length transaction between willing parties.

Fair value is determined using available market information as at reporting date and other valuation methods used by the Company.

Fair value of particular financial instruments reported at nominal value is approximately equal to their net book value. Such instruments comprise cash, as well as receivables and liabilities without contractual dates of maturity and without contractual fixed interest rate. Other receivables and liabilities are accounted for at present value by discounting future cash flows, using current interest rates. Management believes that due to the nature of the Company's business and its general policies, there are no significant differences between the net book value and fair value of financial assets and liabilities.

*/vii/ Impairment*

Financial assets are tested for impairment as at balance sheet date to assess whether there is objective evidence of impairment. If there is evidence of impairment, the recoverable amount is assessed. For adequate and efficient credit risk management the Company defined separate policies and procedures in its internal regulations for identifying and managing doubtful debts.

Company management estimates the collectability of receivables and impairment provision based on individual risk assessment of each receivable. Risk receivables are deemed to be all receivables that are overdue. The Company estimates the recoverable amount of receivables and investments, keeping in mind the regularity of settlement, the financial position of the debtor and quality of collateral, as well as the contractual cash flow and historical information on losses.

The Company makes provisions for the estimated amount of impairment and charges it to income statement in the period when the impairment occurred. If in subsequent periods the Company determines that circumstances have changed and that there is no longer any impairment, the previously made provision is reversed and credited to income. Reversal of a provision cannot result in a higher carrying amount of the asset than the value such asset would have had had no impairment been made previously.

*/viii/ Financial assets held to maturity*

Financial assets held to maturity are non-derivative financial assets with fixed or determined payment schedules and fixed maturities, for which the Company has the intention and ability to hold to maturity. Such financial assets comprise foreign currency savings bonds issued by the Republic of Serbia, short and long-term deposits, special deposits for international insurance card operations (green card) and investments in corporate bonds.

In the event that Company decides to sell a significant portion of its financial assets held to maturity, the entire category will be reclassified as available for sale. Financial assets held to maturity are classified as long-term financial assets, except if maturities fall within less than 12 months from balance sheet date, when they are classified as short-term assets.

Financial assets held to maturity are initially recognised at cost, and as at balance sheet date they are accounted for at amortised cost, which is the present value of future cash flows, discounted using the effective interest rate specific to the instrument.

*/ix/ Financial assets at fair value through profit and loss*

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified into this category if it is acquired principally for sale within the short term. Derivatives are also classified as assets held for trading, unless used for hedging risks. Assets in this category are classified as short-term financial investments. Financial assets at fair value through profit and loss include foreign currency savings bonds issued by the Republic of Serbia which are held for trading.

Financial assets at fair value through profit and loss are initially recognised at cost and as at balance sheet date at market value. Changes in market value are recognised in income statement as income or expense from asset valuation. The Company recognised gains or losses on the sale of such securities.

*/x/ Financial assets available for sale and equity investments*

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified as loans and receivables, financial assets held to maturity or financial assets at fair value through profit and loss. Available for sale financial assets are investments for which there is an intention to hold for an indefinite period of time and that can be sold for liquidity purposes or due to fluctuations in interest rates, exchange rates or market prices. If there is no active market for available for sale financial assets, if they have fixed maturities, available-for-sale financial assets are measured at amortised cost using the effective interest rate method.

Available for sale financial assets are initially measured at cost and as at balance sheet date at market value, if available. Changes in market value are recognised within equity, credited or debited to revaluation reserves, up to the date when securities are sold, when revaluation reserves are transferred to income.

Equity investments are characterised by the intention of holding them for an indefinite period of time. Such investments can be sold in case of cash shortage or in the event of change in market price. Equity investments without active market are measured at cost.

All the securities in the Company's portfolio as at 31 December 2010 are quoted and actively traded on the stock exchange. The Company's financial assets available for sale include foreign currency savings bonds issued by the Republic of Serbian Government, as well as shares and investment units. Those assets are classified within long-term financial investments, except those with maturity less than one year from the balance sheet date.

**3.11. Intangible assets, property, plant and equipment***/i/ Recognition and evaluation*

Intangible assets, property, plant and equipment are recognised at cost decreases by accumulated depreciation. Property, plant and equipment relate to equipment, fixed assets under construction, leasehold improvements and advances for fixed assets, while intangible assets comprise licenses, computer software, advances for intangible assets and intangible assets under construction.

Initial recognition of intangible assets, property, plant and equipment is at cost which comprises the amount invoiced by supplier and all costs associated with bringing the asset into use.

When parts of the asset have different useful lives, they are accounted for as separate items (major components) of equipment.

Subsequent measurement after initial recognition is at cost reduced for accumulated depreciation and any impairment.

*/ii/ Subsequent costs*

Costs of replacement of a part of a fixed asset are recognised at carrying amount, if there is likelihood that future economic benefits will inflow to the Company and if the cost of such part can be measured reliably. Spare parts and servicing equipment are recorded in the income statement when used.

*/iii/ Depreciation and amortisation*

Applied depreciation and amortisation rates are:

Description and amortisation rate	%
Computers	20%
Motor vehicles	15.5%
Equipment	7% - 16.5%
Intangible asset	20%

In accordance with paragraph 51 of IAS 16, which requires periodic review of the useful life of assets, the Company reviews once a year and at the latest by balance sheet date the remaining useful lives of assets and makes adjustments to initially applied depreciation rates in order to better reflect remaining useful lives of assets.

Maintenance expenses for fixed assets are recorded as period expenses when occurred.

Gains on disposal of fixed assets are credited to other income. The net book value of the sold and written off fixed assets is covered by other costs.

### 3.12. Unearned premium

The unearned premium represents a part of the insurance premium that relates to the future period.

The amount of the unearned premium is calculated according to the gross method based on the rates determined by the type of insurance, as stipulated by Company business policy. The basis for calculation is invoiced gross premium.

The calculation of unearned premium is performed according to the *pro rata temporis method*. The application of this method assures that the current year income includes only calculated and invoiced premiums related to the current financial year.

### 3.13. Provisions for outstanding claims

Provisions for outstanding claims represent provisions for reported but not settled claims and provisions for incurred but not reported claims until 31 December 2010.

The amounts of outstanding claims are determined in accordance with Company business policy, e.g. by counting and determining the value of each unsettled claim. The determination of provision for each claim is based on the amount of provision assumed as necessary for claim settlement at the time when payment is expected to occur. If claim records do not contain other documentation except the claim application, the amount of provision is determined based on the amount stated in the claim application, and if such method is not applicable, the claim will be determined based on the average of settled claims for a specific type of insurance in the corresponding financial period.

In accordance with Company business policies, the amount of provision for incurred but not reported claims is calculated in two ways:

- By multiplying coefficient (*at*) for the calculation incurred unreported claims in the insurance type with the sum of the amount of claims settled (without annuity claims) in self-retention in the type of insurance in the current year and the amount of outstanding claims (other than annuity claims) at self-retention for incurred, reported and pending claims in the insurance type of calculation. Coefficient (*at*) the Company calculated as the arithmetic mean of the coefficient (*ki*) for the last three years. Coefficient points for each of the last three years are defined as the ratio of total amount of claims settled during the year and outstanding claims at 31 December that were incurred in the previous period, but were reported for the first time in the year for which the coefficient is being calculated, and the cumulative amount of claims settled during the year and provisions for outstanding claims as at 31 December for the year for which the coefficient is being calculated.
- By Chain ladder method based on settled claims from motor vehicle third party liability, casco insurance and accident insurance.

Provisions for incurred but not reported claims are established for each type of insurance policy separately.

### 3.14. Contributions for prevention

In accordance with Business policy internal regulations, the contribution for prevention is calculated on the basis of retained gross insurance premium, in order to implement measures to prevent and control risks to property, subject to the agreed policy. The prevention fund is formed from the premium in accordance with percentage per types or insurance groups and premium tariffs, then from returned resources approved from prevention fund, interest from placements of prevention funds, from net income according to the Decision of the Assembly and from other sources. The prevention contribution from compulsory insurance was 1.2% of gross premium.

### 3.15. Long-term provisions

Long-term provisions relate to provisions for the mathematical reserve, profit participation reserve, equalization reserves and provisions for severance pay for retirement.

In accordance with Business policy internal regulations, the mathematical reserve is the difference between the present value of the future liabilities of the Company and the present value of the future liabilities of the insurers. The mathematical reserve is used for the payment of insured amounts after insurance matures, then for the payment of the redeemed value before insurance matures and for the payment of other liabilities which are negotiated in life insurance contracts. The mathematical reserve is calculated for all long-term insurance contracts, e.g. for every contract with duration over one year using the following methods:

- Gross method – for all insurances under which policy holders are obliged to pay premiums in instalments.
- Net method – for all insurance under which the policy holder's liabilities to pay premium are discontinued, such as for capitalized (reduced) insurance and insurance with payments of premiums in a single instalment and the risk of life insurance.

Mathematical reserves for life insurance in 2010 are calculated using the gross prospective method in accordance with the principles of actuarial mathematics. In accordance with statutory regulations, mathematical and technical bases for calculation of mathematical reserves are prepared by the life insurance certified actuary who is responsible for the accuracy of the calculation.

In accordance with Company's business policy and the NBS's Decision on the Criteria for the Calculation of Equalization Reserves, the Company allocated a part of the technical premium for equalization reserves. Equalization reserve is calculated on the basis of standard deviation, claims ratio and technical premium at the self-retention amount for each type of non-life insurance within the observed period.

Profit participation reserves are calculated in the amount the policyholders are entitled to, based on participation arising from a life insurance contract.

### 3.16. Equity

Equity of the Company comprises of share capital, share premium, unrealized gains and losses on securities available for sale and retained earnings.

In order to settle its liabilities the Company has to form a guarantee reserve. A guarantee reserve includes initial capital, profit reserves and reserves established by internal regulations of the Company, retained earnings from previous years up to 50%, a portion of undistributed profit from the current year up to 50% with condition that the calculated amount is not higher than average value of net profit realised in last three years and is not higher than 25% of guarantee reserve, revaluation reserve, retained earnings and losses, provided that these three categories together with the available reserves (legal, statutory and others) do not exceed 20% of guarantee reserves. Guarantee reserves of the insurance Company less treasury shares purchased and loss cannot be less than the equivalent of the minimum amount of monetary initial capital required for establishment, calculated using the average exchange rate of NBS on balance sheet date, which for the Company as at 31 December 2010 amounts to EUR 6,500,000, calculated at the average exchange rate of NBS on 31 December 2010.

### 3.17. Taxes and contributions

#### **Current income taxes**

Taxation is provided in accordance with the Corporate Income Tax Law. Through the principle of self-assessment the Company filed a tax return and determined the monthly advance tax payments. Income tax rate for 2010 was 10% (2009-10%) and is payable on the taxable profit reported in the tax balance. The base tax profit reported in the tax returns includes the profit shown in the income Statement before tax, adjusted in accordance with the Corporate Income Tax Law of the Republic of Serbia.

In compliance with Corporate Income Tax Law the Company reduced taxable profits on the basis of realized losses from previous years.

#### **Deferred income tax**

Deferred tax is provided using the balance sheet liability method which enables to see temporary differences between carrying amounts of assets and liabilities for financial reporting and the value of property for tax purposes.

Recognition of assets is possible only to the extent that it is expected that their carrying amounts will be refunded in the form of economic benefits that will inflow to the insurance company in future periods, i.e. using these assets will be possible to make taxable economic benefits (taxable income). Property subject to taxation decreases in the moments when it is not probable that the taxable economic benefits of the asset will be realized.

#### **Taxes and contributions which are not dependent on results**

Taxes and contributions which are not dependent on results include property taxes, taxes and contributions on salaries and benefits charged to the employer, withholding taxes and other taxes and charges in accordance with Serbian laws and regulations. These taxes and contributions are disclosed within costs of insurance activity.

**3.18. Foreign currency transactions**

Transactions in foreign currencies are translated into Dinars at the average exchange rate set by the interbanking foreign currency exchange market ruling at the date of the transaction.

All assets and liabilities denominated in foreign currencies are translated into Dinars at the average exchange rate set by the interbanking foreign currency exchange market ruling as at balance sheet date.

Net gains and losses arising from the translation of cash and cash equivalents, foreign currency receivables and liabilities into Dinar amounts in balance sheet, recognised in the Income statement as financial income or expense.

Contingent liabilities and commitments in foreign currency are stated in Dinars at the average exchange rate set by the interbanking market ruling as at balance sheet date.

The applied exchange rates at the balance sheet dates were as follows:

Currency	2010	2009
EUR	105.4982	95.8888
USD	79.2802	66.7285

**INCOME STATEMENT****4 Operating income**

Operating income relates to:

In thousands of RSD	2010	2009
Insurance and coinsurance premium income		
Invoiced life insurance and coinsurance premiums	2,356,603	1,986,663
Invoiced non-life insurance and coinsurance premiums	2,541,473	2,510,491
Premiums transferred into coinsurance	(14,183)	(7,365)
Premiums transferred into reinsurance	(1,446,756)	(1,152,656)
(Increase)/Decrease in transferred insurance and coinsurance unearned premiums	79,868	21,832
<b>Total</b>	<b>3,517,005</b>	<b>3,358,965</b>
Income from activities directly connected with insurance business		
Income from Green Card	14,606	11,250
Income from evaluation and settlement of claims	1,427	2,379
Found stolen vehicle (adjustment of claims)	7,284	3,899
<b>Total</b>	<b>23,317</b>	<b>17,526</b>
Income from placement of technical reserves	1,294,295	790,625
Other operating income	17,553	12,286
<b>Total</b>	<b>4,852,170</b>	<b>4,179,402</b>

Income from insurance and coinsurance premiums present paid or calculated and not amounts that were invoiced in 2010, and reduced by the amount of unearned premium in the same period.

## 5 Expenses for long-term provisions and functional contributions

Expenses for long-term provisions and functional contributions according to the structure could be presented as follows:

In thousands of RSD	2010	2009
Mathematical reserves from life insurance	1,334,823	1,271,536
Contribution for preventive	3,340	5,158
Fire fighting contribution	5,322	1,448
Contributions to Guarantee fund	11,184	8,438
Equalization reserves	18,696	1,489
<b>Total</b>	<b>1,373,365</b>	<b>1,288,069</b>

## 6 Claims paid

Claims paid could be presented as follows:

In thousands of RSD	2010	2009
Claims paid from life insurance	(466,744)	(399,095)
Claims paid from non-life insurance	(1,277,319)	(1,411,730)
Claims investigation, assessment and settlement costs	(102,163)	(88,345)
Claims paid - participation in coinsurance claims	(35,846)	(195)
Income from co insurer's participation claims paid	6,402	-
Income from reinsurer's and retrocessioner's participation in claims paid	587,539	537,759
<b>Total</b>	<b>(1,288,131)</b>	<b>(1,361,606)</b>

**7 Provision for outstanding claims**

Movements in provision for outstanding claims relate to:

In thousands of RSD	2010	2009
Provision for claims from life insurance - increase		
Incurred reported claims	(5,544)	-
Incurred but not reported claims	(2,461)	-
Total - increase	(8,005)	-
Provision for claims from life insurances - decrease		
Incurred reported claims	-	25,727
Total - decrease	-	25,727
Provision for claims from non-life insurance - increase		
Incurred reported claims	(10,312)	(9,298)
Incurred but not reported claims	(11,336)	(52,281)
Provision for claims from coinsurance	(37)	(21,256)
Total - increase	(121,685)	(82,835)
Provision for claims from non-life insurance - decrease		
Incurred reported claims	96,272	6,729
Incurred but not reported claims	38,042	24,703
Provision for claims from coinsurance	2,000	-
Total - decrease	136,314	31,432
<b>Total</b>	<b>6,624</b>	<b>(25,676)</b>

**8 Other operating (functional) income and expenses**

Other operating (functional) income and expenses have the following structure:

In thousands of RSD	2010	2009
Granted bonuses and discounts	(3,085)	(9,130)
<b>Total</b>	<b>(3,085)</b>	<b>(9,130)</b>

**9 Costs from placement of technical reserves**

Costs from placement of technical reserves comprise:

In thousands of RSD	2010	2009
Exchange rate differences from investments of technical reserves funds	94,822	3,059
Costs of insurance activity incurred by the investment of technical reserves	24,123	26,650
Other expenses	13	-
<b>Total</b>	<b>118,958</b>	<b>29,709</b>

**10 Costs of insurance activity****10.1. Costs of insurance activity relate to:**

In thousands of RSD	2010	2009
Acquisition costs	(1,097,647)	(1,039,578)
Managing costs	(412,386)	(362,870)
Reinsurance and retrocession commission	425,826	265,595
<b>Total</b>	<b>(1,084,207)</b>	<b>(1,136,853)</b>

**10.2. Acquisition costs have the following structure:**

In thousands of RSD	2010	2009
Commission for insurance sales representatives	208,886	240,428
Other acquisition costs		
Material costs, energy and fuel	23,718	21,022
Rent of business premises	113,352	107,611
Car rentals	586	2,070
Telephone expenses (and PTT services)	18,752	23,438
IT maintenance costs and other electronic equipment	42,657	25,398
Other production service costs	16,719	12,585
Donations	5,216	12,172
Advertising costs	40,500	29,358
Representation costs	4,899	6,143
Insurance premium expenses	2,928	3,592
Taxes and contributions	13,251	9,950
Education costs	1,046	196
Memberships in business associations	437	378
Other non-production services	20,318	15,485
Other non-material expenses	15,081	22,057
Gross salaries and fringe benefits	473,709	468,364
Other personal expenses	115,405	108,088
<b>Total</b>	<b>908,574</b>	<b>867,907</b>
Changes in deferred acquisition costs-increase	(19,813)	(68,757)
<b>Total</b>	<b>1,097,647</b>	<b>1,039,578</b>

**10.3. Managing costs have the following structure:**

In thousands of RSD	2010	2009
Depreciation	58,263	48,306
Material costs, energy and fuel	7,753	5,720
Rent of business premises	55,669	39,798
Car rentals	111	221
Telephone expenses (and PTT services)	6,200	7,867
IT maintenance costs and other electronic equipment	20,194	13,455
Other production service costs	6,207	7,598
Representation costs	1,235	1,370
Insurance premium expenses	1,015	1,164
Taxes and contributions	6,704	5,551
Education costs	1,053	658
Memberships in business associations	267	244
Other non-production service costs	12,525	7,858
Other non-material expenses	7,945	13,612
<b>Total</b>	<b>126,878</b>	<b>105,116</b>
Salaries, fringe benefits and other personal expenses		
Gross salaries	185,120	164,896
Other personal expenses	39,982	39,202
<b>Total</b>	<b>225,102</b>	<b>204,098</b>
Other managing costs		
Provisions for employee benefits	2,143	5,350
<b>Total</b>	<b>2,143</b>	<b>5,350</b>
<b>Total</b>	<b>412,386</b>	<b>362,870</b>

**10.4. Coverage of the cost of insurance activity is presented in the following table:**

In thousands of RSD	2010	2009
Overhead addition	959,980	961,929
Cost of insurance activity after accrual	1,429,991	1,136,853
<b>Uncovered portion of the cost of insurance activity</b>	<b>470,011</b>	<b>174,924</b>

Overhead addition for non-life insurance amounted to RSD 529,623 thousand and by RSD 401,349 thousand is lower than cost of insurance activity. Part of the costs of insurance activity not covered with overhead addition is financed from the financial income.

Costs of insurance activity in life insurance business are high, since total commissions are paid to agents and brokers in the first four years of insurance.

**11 Financial income and expenses except financial income and expenses based on technical reserves**

Financial income and expenses except financial income and expenses from placement of technical reserves relate to:

In thousands of RSD	2010	2009
Financial income		
Interest income	20,717	44,652
F/X gains	60,756	113,541
Total	81,473	158,193
Financial expenses		
Interest expenses	(196)	(205)
F/X losses	(584,142)	(377,435)
Total	(584,338)	(377,640)
<b>Net financial (expenses)</b>	<b>(502,865)</b>	<b>(219,447)</b>

**12 Income and expenses from asset valuation and other income and expenses**

In thousands of RSD	2010	2009
Income from asset valuation and other income		
Income from asset valuation	5,043	2,493
Income from collection of written-off receivables	185	511
Gains on sale of property	7,090	6,836
Income from cancellation of liabilities	3,781	3,763
Other income	96	135
Total	16,195	13,738
Expenses from asset valuation and other expenses		
Write-off of insurance receivables	(184,741)	(1,203)
Impairment provision for insurance receivables	(158,081)	(150,559)
Write-off and impairment of property	(2,734)	(2,793)
Losses from sale of property	(5,534)	(39,614)
Impairment of securities	(3,129)	(14,385)
Other expenses	(147)	(106)
Total	(354,366)	(208,660)
<b>Total</b>	<b>(338,171)</b>	<b>(194,922)</b>

**13 Financial result**

In 2010 the Company realized total income in the amount of RSD 7,677,509 thousand (2009: RSD 6,488,544 thousand, 2008: RSD 5,828,608 thousand), total expenses in the amount of RSD 7,474,785 thousand (2009: RSD 6,459,618 thousand, 2008: RSD 5,884,138 thousand) and profit before tax in the amount of RSD 202,724 thousand (2009: profit before tax in the amount of RSD 28,926 thousand, 2008: loss before tax in the amount of RSD 41,753 thousand), therefore net profit after taxes amounted to RSD 174,676 thousand (2009: net profit in the amount of RSD 29,612 thousand, 2008: net loss in the amount of RSD 45,887 thousand).

**14 Income tax****14.1. Income tax as at 31 December 2010 includes:**

In thousands of RSD	2010	2009
Income tax	(7,273)	-
Deferred tax income/(expenses)	(20,775)	686
<b>Total</b>	<b>(28,048)</b>	<b>686</b>

**14.2. Income tax in accordance with the Company's tax balance for 2010 and 2009 is presented as follows:**

In thousands of RSD	2010	2009
Current year's profit	202,724	29,612
Capital gain		
Capital loss	-	29,640
Adjustment of income and expenditure		
Non deductible items	46,700	27,313
Depreciation calculated in the financial statements	58,262	48,306
Depreciation calculated for tax purposes	(41,382)	(40,713)
Difference in income due transfer pricing	127	52
Retirement benefits and compensations based on termination of employment which are calculated in the previous, and paid in the tax period for which the income tax is filed	(599)	
Profit	265,832	34,986
Tax loss carried forward to the amount of taxable profit	120,370	34,986
Tax base-capital gain	145,462	-
Calculated tax at tax rate 10%	14,562	-
Tax credits for investment in property and equipment	7,273	-
Calculated tax at average tax rate 10% (2009: 10%)	-	-
<b>Tax liabilities as at 31 December</b>	<b>7,273</b>	<b>-</b>

Changes in deferred tax assets as at 31 December are presented as follows:

In thousands of RSD	2010	2009
Balance as at 1 January	14,774	26,929
Tax (expense)/income	(20,775)	686
Decrease in deferred tax assets on the basis of the creation of deferred taxes in respect of the revaluation reserves on financial instruments available for sale	(1,859)	(12,841)
<b>Balance as at 31 December</b>	<b>(7,860)</b>	<b>14,774</b>

## BALANCE SHEET

### 15 Property, plant, equipment and intangible assets

Property, plant, equipment and intangible assets as at 31 December 2010 relate to:

In thousands of RSD	2010	2009
Equipment	130,516	143,290
Fixed assets under construction	212	761
Leasehold improvements	103	1,073
Advances for fixed assets	-	4
Property, plant and equipment	130,831	145,128
Licenses	2,722	3,216
Software	59,553	57,306
Intangible assets under construction	38,025	39,477
Intangible assets	100,300	99,999
<b>Balance as at 31 December</b>	<b>231,131</b>	<b>245,127</b>

TRANSLATION

Movements in Property, plant, equipment and intangible assets during 2010 were as follows:

In thousands of RSD	Licenses	Software	Intangible assets under construction	Total intangible assets	Computers and equipment	Leasehold improvements	Fixed assets under construction	Advances for fixed assets	Total fixed assets	Total
<b>Acquisition costs</b>										
Balance as at 1 January 2010	6,438	102,231	39,477	148,146	263,272	6,987	761	4	271,024	419,170
Additions	118	23,720	-	23,838	26,224	-	25,841	1,655	53,720	77,558
Transfer from/to	-	-	(1,452)	(1,452)	-	-	(26,390)	-	(26,390)	(27,842)
Increase/(Decrease)	-	-	-	-	-	-	-	(1,659)	(1,659)	(1,659)
Disposals	-	-	-	-	(8,369)	(39)	-	-	(8,408)	(8,408)
<b>Balance as at 31 December 2010</b>	<b>6,556</b>	<b>125,951</b>	<b>38,025</b>	<b>170,532</b>	<b>281,127</b>	<b>6,948</b>	<b>212</b>	<b>-</b>	<b>288,287</b>	<b>458,819</b>
<b>Accumulated depreciation</b>										
Balance as at 1 January 2010	3,222	44,925	-	48,147	119,982	5,914	-	-	125,896	174,043
Current year depreciation	612	21,472	-	22,084	36,083	954	-	-	37,037	59,121
Disposals	-	-	-	-	(5,454)	(23)	-	-	(5,477)	(5,477)
<b>Balance as at 31 December 2010</b>	<b>3,834</b>	<b>66,397</b>	<b>-</b>	<b>70,231</b>	<b>150,611</b>	<b>6,845</b>	<b>-</b>	<b>-</b>	<b>157,456</b>	<b>227,687</b>
<b>Net book value as at</b>										
<b>31 December 2010</b>	<b>2,722</b>	<b>59,554</b>	<b>38,025</b>	<b>100,301</b>	<b>130,516</b>	<b>103</b>	<b>212</b>	<b>-</b>	<b>130,831</b>	<b>231,132</b>
<b>Net book value as at</b>										
<b>31 December 2009</b>	<b>3,216</b>	<b>57,306</b>	<b>39,477</b>	<b>99,999</b>	<b>143,290</b>	<b>1,073</b>	<b>761</b>	<b>4</b>	<b>145,128</b>	<b>245,127</b>

**16 Long term financial investment****16.1. Long-term financial investment relate to:**

In thousands of RSD	2010	2009
<b>EQUITY INVESTMENTS</b>		
Shares available for sale (participation up to 20%)	35,068	37,764
Investment units available for sale	19,605	12,359
<b>Total equity investments</b>	<b>54,673</b>	<b>50,123</b>
<b>OTHER LONG-TERM FINANCIAL INVESTMENT</b>		
Term deposits placed with banks		
Life insurance	860,338	1,053,219
Other insurances	112,883	313,676
<b>Total</b>	<b>973,221</b>	<b>1,366,895</b>
Securities available for sale		
Foreign currency saving bonds of the Republic of Serbia - life insurance	1,479,563	1,457,590
Foreign currency saving bonds of the Republic of Serbia - other insurances	66,776	56,939
<b>Total</b>	<b>1,546,339</b>	<b>1,514,529</b>
Corporate Bonds		
Bonds and other securities that are not financed from technical reserves - life insurance	101,781	-
Bonds and other securities that are not financed from technical reserves - other insurance	172,170	-
<b>Total</b>	<b>273,951</b>	<b>-</b>
Securities held to maturity		
Foreign currency saving bonds of the Republic Serbia – Life insurance	1,889,082	1,749,098
Foreign currency saving bonds of the Republic Serbia – Other insurance	168,130	144,035
<b>Total</b>	<b>2,057,212</b>	<b>1,893,133</b>
Long-term investments - Approved advances to insurers	211,773	111,109
Association of insurance companies for Serbia	12,412	11,406
Other long-term investments	56,178	48,216
<b>Total other long-term financial investment</b>	<b>5,131,086</b>	<b>4,945,288</b>
<b>Balance as at 31 December</b>	<b>5,185,759</b>	<b>4,995,411</b>

Special purpose deposit in the amount of RSD 12,412 thousand (2009: 11,406 thousand) was paid to the Association of Insurance Companies of Serbia in order to obtain prerequisites for conducting international insurance card (green card).

Other long-term investments in the amount of RSD 56,178 thousand are funds invested in factoring receivables of Jugobanka in the form of bonds that mature in 2015 and 2016.

**16.2. Long-term deposits are placed with the following banks:**

In thousands of	2010		2009	
	EUR	RSD	EUR	RSD
ProCredit Bank a.d. Beograd	-	-	3,620	347,117
Unicredit Bank Srbija a.d. Beograd	-	-	3,000	287,666
NLB LHB Bank Beograd a.d.	120	12,660	1,215	116,505
Čačanska banka a.d. Čačak	2,000	210,996	2,000	191,778
Volksbank a.d. Beograd	1,865	196,754	-	-
Raiffeisen banka a.d. Beograd	1,820	192,007	-	-
Komercijalna banka a.d. Beograd	3,420	360,804	4,420	423,829
<b>Balance as at 31 December</b>	<b>9,225</b>	<b>973,221</b>	<b>14,255</b>	<b>1,366,895</b>

Long-term deposits are placed for periods from 1 to 3 years; with interest rates in the range from 5.18% p.a. to 6.36% p.a. Interest on deposits is calculated and paid annually or will be at the end of contract period.

**16.3. Changes in long-term financial investments during 2010 were as follows:**

In thousands RSD	Shares available for sale	Investment units Available for sale	Term deposits placed with banks	Foreign currency savings bonds available for sale	Approved advances to insurers	Foreign currency savings Bonds held to maturity	Corporate bonds - Bonds and other securities that are not financed from the technical reserve	Association of insurance companies	Other long term investments	Total
Balance as at 1 January 2010	37,764	12,359	1,366,895	1,514,529	111,109	1,893,133	-	11,406	48,216	4,995,411
Increase	41	5,400	629,735	116,757	97,448	142,980	276,318	8,937	7,962	1,285,578
Decrease	-	-	(1,082,605)	(217,566)	-	(155,309)	(2,367)	(7,931)	-	(1,465,778)
Exchange rate differences	-	-	59,196	132,619	3,216	176,408	-	-	-	371,439
Impairment	(6,538)	-	-	-	-	-	-	-	-	(6,538)
Value adjustment	3,801	1,846	-	-	-	-	-	-	-	5,647
<b>Net value as at 31 December 2010</b>	<b>35,068</b>	<b>19,605</b>	<b>973,221</b>	<b>1,546,339</b>	<b>211,773</b>	<b>2,057,212</b>	<b>273,951</b>	<b>12,412</b>	<b>56,178</b>	<b>5,185,759</b>

**17 Receivables**

Receivables relate to:

In thousands of RSD	2010	2009
<b>Receivables</b>		
Life insurance premium receivables	83,107	86,208
Insurance premium receivables - motor casco	588,202	579,874
Insurance premium receivables – other insurance	572,953	432,737
Compulsory insurance premium receivables	3,468	5,601
Other insurance premium receivables	27,008	15,286
Receivables from claims compensation	183,553	149,335
Advances paid for claims	2,150	1,805
Receivables from recourse claims	10,081	7,918
Receivables for reinsurance commission	119,586	78,362
Other receivables	32,791	31,864
<b>Total</b>	<b>1,622,899</b>	<b>1,388,989</b>
<b>Impairment Provision</b>		
Life insurance premium receivables	(1,055)	(1,860)
Insurance premium receivables - motor casco	(159,522)	(128,825)
Insurance premium receivables – other insurance	(233,209)	(150,540)
Compulsory insurance premium receivables	(1,758)	(1,566)
Non -life insurance premium receivables – receivables categorization	(58,460)	(49,082)
Receivables from recourse claims	(2,266)	(792)
Other receivables	(2,148)	(2,038)
<b>Total</b>	<b>(458,418)</b>	<b>(334,703)</b>
<b>Balance as at 31 December</b>	<b>1,164,481</b>	<b>1,054,286</b>

In accordance with Company's business policy, insurance premium receivables and other receivables that are overdue more than 90 days are provisioned in full amount. As at 31 December 2010, in accordance with the Decision on the Method of Assessment of Balance and Off-balance Sheet Positions of the Insurance Company, issued by the National Bank of Serbia, and in accordance with the Company's Rules on Assessing Balance Sheet and Off-balance Sheet Items, the Company classified all debtors by period overdue in settling insurance liabilities toward the Company. Total related provision as at 31 December 2010 amounted to RSD 58,460 thousand.

**18 Short-term financial investment****18.1. Short-term financial investments are as follows:**

In thousands RSD	2010	2009
Current portion of long-term financial investments – Foreign currency saving bonds of the Republic of Serbia held to maturity	155,309	84,516
Foreign currency saving bonds of the Republic of Serbia available for sale	92,770	-
Foreign currency term deposits with banks	2,407,037	1,691,768
Funds managed by broker	91,386	19,414
Deposits with Raiffeisen Leasing	-	720
<b>Balance as at 31 December</b>	<b>2,746,502</b>	<b>1,796,448</b>

**18.2. The structure of foreign currency term deposits with banks is presented as follows:**

In thousands RSD	2010		2009	
	EUR	RSD	EUR	RSD
Komercijalna banka a.d. Beograd	3,120	329,154	2,000	191,778
EFG Eurobank a.d. Beograd	4,190	442,021	4,454	427,095
Volksbank a.d. Beograd	-	-	1,640	157,258
Meridian bank – Credit Agricole Group a.d. Novi Sad	-	-	1,300	124,655
Erste banka a.d. Novi Sad	5,650	596,065	5,350	513,005
Banca Intesa a.d. Beograd	-	-	800	76,711
AIK banka a.d. Niš	1,880	198,337	829	79,492
Hypo-Alpe-Adria Bank a.d. Beograd	-	-	700	67,122
Raiffeisen banka a.d. Beograd	-	-	130	12,457
Unicredit Bank Srbija a.d. Beograd	3,000	316,495	110	10,548
Pro Credit Bank	3,620	381,903	-	-
NLB LHB banka Beograd	1,215	128,180	-	-
Raiffeisen banka a.d. Beograd	-	14,882	-	31,647
<b>Balance as at 31 December</b>	<b>22,675</b>	<b>2,407,037</b>	<b>17,313</b>	<b>1,691,768</b>

Short-term deposits are placed for periods up to 1 year; with interest rates in the range from 4.00% p.a. to 6.75% p.a. Interest on deposits is calculated and paid annually or will be paid at the end of contract period.

**19 Cash and cash equivalents**

Cash and cash equivalents consist of:

In thousands RSD	2010	2009
Gyro accounts in RSD	5,570	737
Cash in hand in RSD	68	271
Foreign currency account	1,602,542	650,680
<b>Balance as at 31 December</b>	<b>1,608,180</b>	<b>651,688</b>

**20 Accruals and deferred expenses**

Accruals and deferred expenses relate to:

In thousands of RSD	2010	2009
Reinsurance and coinsurance share of unearned premium		
Reinsurance premiums paid in advance	135,460	118,720
Coinsurance premiums paid in advance	359	4,940
Total	135,819	123,660
Accrued expenses		
Accrued interest income on deposits with banks	199,671	109,619
Accrued receivables for uninvoiced income	-	295
Rent paid in advance	9,318	11,623
Other accrued expenses	4,424	4,053
Total	213,413	125,590
<b>Balance as at 31 December</b>	<b>349,232</b>	<b>249,250</b>

**21 Deferred acquisition costs**

Deferred acquisition costs relate to:

In thousands of RSD	2010	2009
Deferred discounts	1,947	3,554
Other deferred acquisition costs	199,619	181,087
<b>Balance as at 31 December</b>	<b>201,566</b>	<b>184,641</b>

In accordance with the regulations of the Insurance Law, prepaid acquisition costs are accrued by participation of unearned premium in total invoiced premium.

Deferred acquisition costs refer to the cost of sales agents, and agents fees, who are engaged in selling life insurance in the amount of 198,039 RSD thousand, the cost of discounts given to policyholders who have paid a one instalment long-term policy of non-life insurance in the amount of RSD 1,947 thousand and deferred (pre-collected) commissions for life insurance in the amount of 1,580 thousand RSD.

## 22 Provisions for outstanding claims charged to reinsurer and coinsurer

Structure of accrued provision for outstanding claims – reinsurance portion per type of insurance is presented as follows:

In thousands of RSD	2010	2008
Casco insurance	61,633	90,869
General liability	292	743
Transport	1,768	21,336
Property	41,569	22,107
Accident	1,954	488
Motor third party liability	7,979	-
Life insurance	25,080	23,003
<b>Balance as at 31 December</b>	<b>140,275</b>	<b>158,546</b>

Amount of RSD 140,275 thousand (2009: 158,546 thousand) relates to the part of the provision for reported but not settled claims from policies which are reinsured.

## 23 Deferred tax assets/ (liabilities)

Deferred tax liabilities in the total amount of RSD 7,860 thousand (2009: deferred tax assets RSD 14,774 thousand 2008: deferred tax assets RSD 26,929 thousand) relate to a difference between the tax base of certain assets and liabilities and the accounting base, as well as a tax credit from those investment in fixed assets and tax losses. In accordance with paragraph 20 ISA 12, the Company calculated tax liability by multiplying revaluation reserve with the income tax rate of 10%. Deferred tax assets/ (liabilities) as at 31 December are calculated as follows:

In thousands of RSD	2010			2009		
	Assets	Liability	Net	Assets	Liability	Net
Depreciation	-	(1,688)	(1,688)	-	(7,643)	(7,643)
Tax credit from investment in fixed assets	-	-	-	21,757	-	21,757
Tax loss	-	-	-	13,500	-	13,500
Valuation of securities available for sale	-	(14,700)	(14,700)	-	(12,840)	(12,840)
Other deferred tax assets	8,528	-	8,528	-	-	-
<b>Deferred tax (liability)/asset, net</b>	<b>8,528</b>	<b>(16,388)</b>	<b>(7,860)</b>	<b>35,257</b>	<b>(20,483)</b>	<b>14,774</b>

Deferred tax is calculated by applying a tax rate of 10%.

At 31 December 2010 the Company recognized deferred tax assets on tax credits from unused capital losses, provisions for employee benefits, impairment of securities in the amount, respecting the medium-term business plan of the Company and the applicable tax regulations related to the order of using the tax credit on the basis of Investment in fixed assets.

## 24 Equity

24.1 As at 31 December 2010 the Company's equity include:

In thousands of RSD	2010	2009
Share capital	918,834	918,834
Share premium	13,457	13,457
Unrealized gains on securities	135,457	117,004
Unrealized losses on securities	(3,160)	(1,443)
Current year gain/(loss)	174,676	29,612
Previous year's loss	-	(13,312)
Unallocated earnings from previous year	16,299	-
<b>Balance as at 31 December</b>	<b>1,255,563</b>	<b>1,064,152</b>

Coverage of the remaining loss reported in 2008 in the amount of RSD 13,313 thousand was charged to earnings in 2009, which amounted to RSD 29,612 thousand, of which 16,299 RSD are unallocated earnings from previous year.

24.2 As at 31 December 2010, shareholders structure according to participation in capital and voting rights was as follows:

Shareholder	Value as at 31 Dec 2010	Number of shares	% of the participation in total equity	% of the voting right
Wiener Städtische Allgemeine Versicherung AG Vienna	917,825	20,018	99.89	99.89
Slobodan Zečević	1,009	22	0.11	0.11
<b>Total</b>	<b>918,834</b>	<b>20,040</b>	<b>100.00</b>	<b>100.00</b>

As at 31 December 2010 the Company's share capital consists of 20,040 ordinary shares (2009: 20,400 ordinary shares, 2008: 16,950 ordinary shares) with the nominal value of RSD 45,850 per share.

Holders of ordinary shares carry business risks and they are responsible for liabilities of the Company in proportion to the number of shares they possess. Shares can be transferred to other parties in accordance with the Articles of Association. Holders of ordinary shares are entitled to dividends and they have voting rights in proportion to the number of shares they possess.

Earnings per share as at 31 December 2010 amount to RSD 8,716.

24.3 Article 28 of the Insurance Law stipulates that a joint-stock company is obliged to assure that the initial safety fund is always above or equal to the monetary amount of the initially paid capital, which depends on types of insurance. The precautionary portion of the initial capital of the Company has to be equal or above EUR 6,500,000 or the equivalent Dinar value of RSD 685,740 thousand as at 31 December 2010. The share capital of the Company as at 31 December 2010, reduced for the current year loss, was equal to RSD 918,834 thousand and was high enough to satisfy the minimum prescribed by the Law.

24.4 According to Article 116 of the Insurance Law the total amount of the guarantee reserve is EUR 6,500,000 which is equal to Dinar counter value of RSD 685,740 thousand as at 31 December 2010. The structure of the guarantee reserve is as follows:

In thousands of RSD	2010	2009
Share capital	918,834	918,834
Share premium	13,457	13,457
Revaluation reserves	132,297	115,561
Losses	-	(13,312)
Profit up to 50%*	8,149	-
<b>Balance as at 31 December</b>	<b>1,072,737</b>	<b>1,034,900</b>

\* 50% of the profit for the year is not included in the calculation of the guarantee reserve, bearing in mind that 50% of realized profit for 2010 year exceeds the average amount of net profit in three previous years.

Guarantee reserve as at 31 December 2010 exceeds prescribed minimum.

24.5 Under Article 14 of the Insurance Law Insurance companies cannot be engaged in life and non-life insurance simultaneously. According to the transitional and final regulations of the Insurance Law, insurance companies which on the effective date of this Law possess a license to engage in insurance activities are obliged to perform appropriate changes in their status and business activities as fulfilment of this Law requirement by 31 December 2011.

## 25 Long term provisions

Long-term provisions relate to:

In thousands of RSD	2010	2009
Mathematical reserve from life insurance	7,394,284	5,492,073
Equalization reserve	74,396	65,338
Provisions for employee benefits	13,431	11,886
<b>Balance as at 31 December</b>	<b>7,482,111</b>	<b>5,569,297</b>

**26 Long term and short term financial liabilities**

As at 31 December 2010 the Company does not have long-term or short-term financial liabilities.

**27 Short-term liabilities**

Short term liabilities as at 31 December 2010 relate to:

In thousands of RSD	2010	2009
Liabilities for claims and insured amounts	9,767	4,203
Liabilities for premium earnings and other liabilities		
Liabilities for recourse claims	11,266	15,138
Liabilities for reinsurance premium	435,182	275,129
Liabilities for reinsurance and coinsurance provision	2,403	13,528
Liabilities for coinsurance premium	3,162	2,465
<b>Total</b>	<b>452,013</b>	<b>306,260</b>
Trade payables		
Insurance agents	19,188	18,783
Suppliers for fixed assets	482	873
Suppliers for goods and services	64,245	43,196
<b>Total</b>	<b>83,915</b>	<b>62,852</b>
Advances received for		
Other insurance	21,680	14,900
Life insurance	102,137	97,585
<b>Total</b>	<b>123,817</b>	<b>112,485</b>
Liabilities for other contributions and taxes	34,708	16,207
Liabilities for gross salaries	52,432	34,527
Other liabilities	16,636	16,258
<b>Total</b>	<b>763,521</b>	<b>549,589</b>
<b>Balance as at 31 December</b>	<b>773,289</b>	<b>553,792</b>

**28 Deferred income**

28.1 Deferred income consists of:

In thousands of RSD	2010	2009
Unearned premium		
Life insurance	43,826	39,219
Other insurance	1,133,637	1,220,134
Compulsory insurance	150,846	174,564
Coinsurance, reinsurance and retrocession	38,633	12,893
<b>Total</b>	<b>1,366,942</b>	<b>1,446,810</b>
Provisions for outstanding claims		
Reported but not settled claims		
Life insurance	83,546	69,860
Other insurance	274,900	270,421
Compulsory insurance	75,220	87,971
<b>Total</b>	<b>433,666</b>	<b>428,252</b>
Incurred but not reported claims		
Life insurance	15,805	12,128
Other insurance	95,701	99,856
Compulsory insurance	67,620	90,170
<b>Total</b>	<b>179,125</b>	<b>202,154</b>
<b>Total provisions for outstanding claims</b>	<b>612,791</b>	<b>630,406</b>
Other deferred income		
Contribution for prevention		
Other insurance	48,258	50,148
Compulsory insurance	930	8,475
Premium income invoiced in advance	86,620	37,981
<b>Total</b>	<b>135,808</b>	<b>96,604</b>
<b>Balance as at 31 December</b>	<b>2,115,541</b>	<b>2,173,820</b>

Provisions for reported but not settled claims according to the type of insurance are as follows:

In thousands of RSD	2010	2009
Other insurance		
Motor casco	177,758	195,026
Transportation	2,036	25,502
Property – fire and other risks	57,659	26,628
Other property insurance	25,664	6,410
Road assistance insurance	6,495	-
Third party liability insurance	556	1,212
Accident	4,732	15,643
<b>Total</b>	<b>274,900</b>	<b>270,421</b>
Compulsory insurance		
Motor third party liability (MTPL) and Green Card	75,220	87,971
<b>Total</b>	<b>75,220</b>	<b>87,971</b>
Life insurance		
Life insurance	56,538	41,902
Additional life insurance	27,008	27,958
<b>Total</b>	<b>83,546</b>	<b>69,860</b>
<b>Balance as at 31 December</b>	<b>433,666</b>	<b>428,252</b>

The Company made provision for reported but not settled claims by assessing every single claim. The average of settled claims for non-life insurance amounts to RSD 68 thousand (2009: RSD 72 thousand), while the average of reserved claims for non-life insurance amounts to RSD 159 thousand (2009: RSD 159 thousand).

## 29 Contingent liabilities and receivables

The Company is defendant in 12 court cases as at 31 December 2010 with total value in amount of RSD 39,904 thousand and EUR 4.4 thousand. For court cases brought against the Company no provision was made, primarily based on the assessment that the outcome of these disputes is probably positive for the Company, i.e. the Company will not have to make any payments for these court proceedings or that these potential liabilities will be of less importance, for which no provisions needs to be made.

The total number of outstanding claims in dispute in life insurance is 27, with provisioned amount RSD 30,586,002.27.

In non-life insurance, as at 31 December the Company has 155 outstanding claims in dispute in the amount of RSD 164,092,114.00.

**30 Related party transactions**

Balance of receivables and liabilities to related parties at 31 December 2010, including with income and expenses arising from transactions with related parties during 2010, were as follows:

In thousands of RSD	2010	2009
<b>BALANCE SHEET</b>		
<b>Assets</b>		
Wiener RE AD for reinsurance	521,731	351,623
Receivables for reinsurance share in claim settlements	178,701	99,652
Receivables for reinsurance commission	119,581	73,577
Other trade receivables	33	175
Reinsurer's share of unearned premium	114,375	77,670
Accrued provisions for outstanding claims reported to reinsurance	107,539	100,542
Accrued commission from reinsurance business	-	7
Claims for reinsurance and retrocession in the country	1,502	-
VIG Real Estate DOO	52	2,745
Other trade receivables	52	141
Other accruals	-	2,604
<b>Total assets</b>	<b>521,783</b>	<b>354,368</b>
<b>Liabilities and equity</b>		
VIG Real Estate DOO	12,006	8,006
Trade payables for goods and services - in country	12,006	8,006
Wiener Städtische Allgemeine Versicherung AG Vienna	26,103	6,041
Trade payables - foreign	26,103	6,041
Wiener RE AD for reinsurance	462,393	277,215
Reinsurance and retrocession premium liabilities – domestic	435,182	254,473
Liabilities from recourse claims	10,329	5,358
Liabilities for reinsurance provision	2,395	13,334
Deferred income from reinsurance and retrocession commission	6,509	4,050
Deposit	7,978	-
<b>Total liabilities and equity</b>	<b>500,502</b>	<b>291,262</b>

In thousands of RSD	2010	2009
<b>INCOME STATEMENT</b>		
Income	1,019,591	411,718
Wiener RE AD for reinsurance	1,019,156	411,083
VIG Real Estate DOO	196	349
Wiener Städtische Allgemeine Versicherung AG Vienna	239	286
Expenses	1,555,542	763,539
VIG Real Estate DOO	70,025	237
Wiener RE AD for reinsurance	1,450,767	754,709
Wiener Städtische Allgemeine Versicherung AG Vienna	34,750	8,593
<b>(Loss)</b>	<b>-535,951</b>	<b>(351,821)</b>

### 31 Investment of technical reserves

Structure of technical reserves as at 31 December 2010 relates to:

In thousands of RSD	2010	2009
Mathematical reserve	7,394,284	5,492,073
Unearned premium	1,366,942	1,446,810
Provisions for outstanding claims	612,791	630,406
Equalisation reserves	74,396	85,338
<b>Total</b>	<b>9,448,413</b>	<b>7,634,427</b>

The company places technical reserves in the following most significant investments:

In thousands of RSD	2010		2009		Legal limit
	Amount	%	Amount	%	
Deposits	3,139,194	35.68	2,764,475	39.91	40% for non-life insurance and 30% for life insurance
Savings bonds of Republic of Serbia	3,943,016	44.82	3,511,623	50.69	No limit
Foreign currency account	1,602,542	18.22	650,681	9.39	No limit
Domestic currency account	5,638	0.06	1,007	0.01	No limit
Shares	5,212	0.06	-	-	-
Bonds that are not traded on a public market	101,781	1.16	-	-	-
<b>Total</b>	<b>8,797,383</b>	<b>100</b>	<b>6,927,786</b>	<b>100</b>	

The structure of investment of technical reserves is in accordance with Article 114 of the Insurance Law and Decision of the Governor of the National Bank of Serbia on the Limitations of Certain Types of Deposit and Investment Technical Reserves (Official Gazette of RS, no. 111/2009).

The structure of the deposit at 31 December 2010 is in accordance with the Decision of the Governor of the National Bank of Serbia on the Limitations of Certain Types of Deposit and Investment Technical Reserves (Official Gazette of RS, no. 111/2009) regarding the maximum investment funds from technical reserves deposits in one bank, which is limited to a maximum of 10% of total technical reserves, as shown in the following table:

**Technical reserve of life insurance is RSD 7,537,460 thousand.**

In thousands of RSD	Amount	% of technical reserve
VOLKSBANKA	196,754	2.61
PROCREDIT BANKA	318,473	4.23
RAIFFEISEN BANK	192,007	2.55
UNI CREDIT	253,196	3.36
ERSTE BANKA	596,065	7.91
EFG EUROBANK	299,614	3.98
KOMERCIJALNA BANKA	445,632	5.91
NLB BANKA	12,660	0.16
AIK BANKA	92,838	1.23
ČAČANSKA BANKA	210,996	2.80
<b>Total deposits</b>	<b>2,618,236</b>	<b>34.74</b>

**Technical reserve of non- life insurance is RSD 1,910,953 thousand.**

In thousands of RSD	Amount	% of technical reserve
PROCREDIT BANKA	63,431	3.32
UNI CREDIT	63,299	3.31
EFG EUROBANK	142,406	7.45
KOMERCIJALNA BANKA	131,442	6.88
AIK BANKA	105,498	5.52
RAIFFEISEN BANKA	14,882	0.78
<b>Total deposits</b>	<b>520,958</b>	<b>27.26</b>

**32 Insurance risk management****Risks arising from insurance**

Risks arising from insurance are defined in the Decision on the System of Internal Control and Risk Management in the Insurance Business (Official Gazette of the RS no. 12/2007). These are the following risks:

- insurance risk,
- market risk,
- operating risk,
- risk of mismatch in maturities of assets and liabilities,
- risk of deposit and investment Company assets,
- legal risk and
- reputation risk.

Risk management is carried out for life and non-life insurance. Risks to which life insurance is exposed are presented in the following summary:

## Insurance risk

Risk type	Measures taken
Risk of inadequate determination of premiums	Ongoing training was organised to introduce agents to the applicable rates adjusted to different levels of knowledge and experience. The training is conducted by managers with experience who are full time employees of WSO. In addition to training, two permanent level control input documents were set up: the first level is the coordinators or employee in charge of external sales and the second level are underwriters within the insurance sector, that are completely independent of the sales network and whose task is to control each insurance policy that has been concluded. The last level of control is automated control in the corresponding entries in the program so that this risk is reduced to a minimum.
Risk of inadequate assessment of underwritten risk	For certain categories of insurers a doctor's opinion is required. These are insurers above the age of 50 for whom the insured sums range between 20,000 – 40,000 EUR, while for insured sums in excess of 40,000 EUR a medical exam is mandatory, regardless of the age of the insured. For all other categories of insurers we rely on the system of internal control within Sales and Underwriting. In the case of accident insurance control is preformed using the table of professions and sports for rating risk categories.
Risk of inadequate determination of level of self-retention	Risk control is ensured through continuous monitoring of technical results which are also regularly reported to the NBS through reports signed by an authorised actuary.

Risk of Company insurance rate policy that is unadjusted, inappropriate and economically detrimental	Measures of risk management consist of permanent monitoring of changes in the market and adjusting tariff policy to client needs.
Risk of inadequate insurance company technical reserves	Risk control is ensured through training of actuaries in improving the technical basis for insurance as well as through strict compliance with NBS regulations.
The risk of inadequate determination of the scope and complexity of work	Measures of risk management consist of continuous monitoring of the volume of business created through internal norms.

## Market risk

<b>Risk type</b>	<b>Measures taken</b>
The risk of competition and inadequate response to the requirements of insurance customers	Risk management is ensured through close cooperation with all sales channels that are the principle sources of information on potential need for adjustment in tariff policy, where justified.
Interest risk	Risk management is ensured through restrictive setting of the minimum interest rate. In the event of drastic change in interest rate, tariffs are adjusted.

## Operational risk

<b>Risk type</b>	<b>Measures taken</b>
Risk of wrong, inadequate selection and assignment of employees; Risk of inadequate organisation of operations	Measures relate to monitoring of employee performance, periodic training and testing of abilities for conducting life insurance activities.
Risk of concluding detrimental and economically harmful contracts	Risk management is carried out through control of input documents from all sales channels: underwriters exercise control of each policy; logical controls are performed during data input in appropriate application.
Risk of fraud, abuse and other illegal actions by employees	Highest intensity of risk is present when processing claims. For this reason claims processing is divided into three phases: settlement, control and approval. None of the phases involve the same individuals and each phase relies on the "four eyes principle".

## Risk of mismatch in maturities of assets and liabilities

<b>Risk type</b>	<b>Measures taken</b>
Solvency and liquidity risk	Measures for managing risk are based on daily exchange of information with the finance department with a view to ensure assets and liabilities matching.

## Legal risk

<b>Risk type</b>	<b>Measures taken</b>
Risk of potential loss of court cases	Risk management is ensured by defining precisely terms and conditions of insurance. Informing clients about terms and conditions, with strict adherence to terms of insurance during claims liquidation. In the event of a court case, outcomes are also evaluated. If negative outcome is certain, activities are undertaken to secure out of court settlement, in order to avoid unnecessary expenses.

## Reputation risk

<b>Risk type</b>	<b>Measures taken</b>
Risk from operations with people who can be associated with illegal activities	This risk is quantified as high and control measures are directed monitoring of unusually high insured amounts, reporting to the money laundering directorate and control of the work of insurance agencies. For these types of cases WSO has a Department for Insurance Fraud which also conducts periodic and independent controls, as well as controls ordered by the Managing Board.

Risks to which non-life insurance is exposed are presented in the following summary:

Insurance Risk

<b>Risk type</b>	<b>Measures taken</b>
Risk of inadequate premiums	Risk management is done in several ways: continuous training of employees working in various sales channels, multiple levels of control (coordinators and underwriters) and logical controls during input of documents in programs for keeping records of concluded insurance contracts.
Risk of inadequate assessment of underwritten risk	For large risks the statutory obligation is for a large team to be engaged in analysing the risk, which ensures professional and independent opinion on whether or not to underwrite the risk. Limits for engaging a team for analysing risks are prescribed by the Procedure for Engaging a Risk Team, and they differ for different types of insurance. For risks for which engagement of a risk team is not necessary, two levels of control are used – coordinators, whose job consists of verification and approval into insurance, and underwriters, whose job is to check all essential elements of the offer/insurance policy.
Risk of inadequate level of self-retention	Managing this kind of risk is done through continuous monitoring of technical results in all types of non-life insurance. Thanks to very extensive and detailed analysis of the overall casco portfolio, the technical result in this type of insurance improved significantly and information was obtained that allows more efficient and even preventive risk management.
Risk of Company insurance tariff policy that is unadjusted, inappropriate and economically detrimental	Tariff policy depends on movements in technical results and on market conditions. Internal portfolio analysis, feedback information from various sales channels, such as market analysis, represent measures taken to control these forms of risk.
Risk of inadequate technical reserves	Improvements in actuarial bases for calculating a part of the technical reserve, proper calculation of provisions for claims.
The risk of inadequate determination of the scope and complexity of work	Measures of risk management consist of continuous monitoring of the volume of business using internally defined regulations.
Risk of inadequately determined general, specific, supplementary or individual terms and conditions of insurance	Adequacy of terms and conditions of insurance is assessed through the claims settlement process and in a way that each of the terms and conditions must be presented to the NBS.

## Market risk

Risk type	Measures taken
The risk of competition and inadequate response to the requirements of insurance customers	Risk management is ensured through close cooperation with all sales channels that are the principle sources of information on potential need for adjustment in tariff policy, where justified.

## Operating risk

Risk type	Measures taken
Risk of wrong, inadequate selection and assignment of employees; Risk of inadequate organisation of operations	Measures relate to monitoring of employee performance, periodic training and testing of abilities for conducting non-life insurance activities.
Risk of concluding detrimental and economically harmful contracts	Risk management is carried out through control of input documents from all sales channels: underwriters exercise control of each policy; logical controls are performed during data input in appropriate application; engagement of risk analysis team based on internal regulations and insured amounts per insurance type.
The risk of fraud, abuse and other illegal actions by employees	Application of the "four eyes principle" ensures conditions for conducting basic measures for managing the potential risk of insurance fraud. The highest level of risk is present during risk acceptance and data entry into the operating system. Risks of errors during data entry into the operating system are controlled through periodic checks using random samples, as well as through analysis of database access.

## Reputation risk

Risk type	Measures taken
Risk from operations with people who can be associated with illegal activities	Exchange of information with other insurance companies; special emphasis on control of external sales channels (agents and representatives): checks of unusually large insured amounts.

Risk management objectives are based on the fact that the Company is required to identify, assess and measure risks it is exposed to in its operations and to manage those risks in a way that will ensure permanent levels of risk exposure that will not jeopardise the Company's property and business operations, and that will ensure the protection of the interests of insurers/policy holders, third parties who sustained claims and other creditors of the Company – in compliance with the law and other regulations, including internal Company regulations.

Underwriting strategy is centralized and is set by each individual offer of insurance, regardless of whether it is life or non-life insurance, and is subject to control before entry into the database.

## Reinsurance strategy

Reinsurance coverage of life insurance is carried out through the cedent system of reinsurance for the duration of the period of insurance, and at most for the duration of the risk capital above the insurer's self-retention.

Reinsurance coverage of life insurance is carried out through the cedent system of reinsurance for the duration of the period of insurance, and at most while the sum insured is above the insurer's self-retention.

During 2010 the Company's portfolio was secured with the following reinsurance program:

NAME OF CONTRACT	TYPE CONTRACT	COVER PERIOD	STRUCTURE	PARTICIPATION WSO
QUOTA CASKO	quota	01/01/10-31/12/10	EUR 200,000 xs EUR 200,000	50%
XL CASKO	non-proportional	01/01/10-31/12/10	EUR 100,000 xs EUR 100,000 (for 50% quota)	/
NatCat XL	non-proportional	01/01/10-31/12/10	I/ EUR 50,000 xs EUR 300,000 II/ EUR 929,650,000 xs EUR 350,000	/
PROPERTY	excedent quota	01/01/10-31/12/10	I/ MPL over RSD 40,000,000 to RSD 1,200,000,000 II/ MPL to RSD 40,000,000	/
RISK XL	non-proportional	01/01/10-31/12/10	RSD 20,000,000 xs RSD 20,000,000 net claims	/
ACCIDENT	quota	01/01/10-31/12/10	I/ to EUR 100,000 net claims	50%
	non-proportional		II/ 1. EUR 300,000 xs EUR 100,000 2. EUR 600,000 xs EUR 400,000 3. EUR 4,000,000 xs EUR 1,000,000	/
RESPONSIBILITY	quota	01/01/10-31/12/10	I/ SI to EUR 500,000 (inclusive) II/ SI from EUR 500,000 to EUR 1,000,000	45% 22.5%
CARGO AND RESPONSIBILITY OF CARRIER	excedent	01/01/10-31/12/10	I/ Cargo RSD 299,000,000 xs RSD 23,000,000	RSD 16,000,000
	excedent		II/ CMR EUR 120,000,000 xs EUR 12,000,000	RSD 7,000,000
RESPONSIBILITY FROM USE OF MTPL	quota	01/01/10-31/12/10	EUR 70,000 for MTPL up to 30 April 2010	50%
			USD 400,000 for MTPL, 1 May - 31 December 2010	50%
			EUR 300,000 claims due to green card	50%
LIFE	excedent	01/01/10-31/12/10	EUR 500,000 xs EUR 60,000	EUR 60,000/

Green card reinsurance is operated through the Association of Insurers of Serbia. For other cases with terms of insurance outside the limits established by the above program, reinsurance coverage is optional, where the Company ensured excess risk through coinsurance.

The objective of the mentioned programs:

- ensuring additional capacity of the Company under most favourable terms, which are sufficient for competitiveness in the market;
- protection of the Company against claims accumulation due to events that impact multiple insured risks;
- providing of simplified procedures for undertaking risks.

Responsibility for risk management is focused primarily on the managing board of the Company and the departments, but also in each part of the organization within the WSO.

As of 2008 the system of risk management was decentralized and the responsibility for reporting is located in each sector. Starting in 2009 a certain level of centralisation was achieved through the setting up of the Risk Management Committee, whose basic task is risk reporting, while the responsibility for minimising risks remains with individual sectors.

The reporting system is organized so that each director of the Management Committee submits quarterly reports on the internal controls and risk management.

#### ***The role of internal audit***

Internal audit is organized as independent and autonomous in doing its work. Internal audit is performed by the Internal Audit Department, as a separate organizational unit that is directly accountable to the Company's Supervisory Board.

Internal audit conducts a comprehensive and continuing control of all of the Company's business activities, in particular:

- 1) continuous monitoring, verification and improvement of work;
- 2) identification of risks to which the Company is exposed or could potentially be exposed to;
- 3) assessment and evaluation of the established system of internal control;
- 4) issuing appropriate recommendations for correcting irregularities and shortfalls observed and improvement in procedures and systems of work.

### **33 RISK MANAGEMENT – LIFE INSURANCE**

The Company identifies and assesses insurance risks to which it is exposed in its operations to minimize their negative effects on business results and enable the fulfilment of obligations. The risks to which the insurance company has been exposed to can be divided into the risk of insufficient risk premiums and the insufficiency of mathematical reserves.

#### **Insufficient risk premiums**

Insufficient premiums could arise due to inadequately determined insurance premiums and inadequate assessment of risk insurance.

For tariff setting, external statistical data are used (tables of mortality and morbidity) in accordance with the NBS's Decision on Specific Criteria and Method of Calculating Mathematical Reserves and Profit Share. Appropriateness of statistical data is monitored through the portfolio statistics and determines the mortality tables portfolio.

Assessment and risk control is provided through the training of agents, control of input documents in the underwriting process, involvement of medical experts, and application of Special conditions for assessment and control of undertaken risk.

#### **The risk of insufficient mathematical reserves**

Mathematical reserves are calculated based on the gross prospective method. In calculating the mathematical reserves mortality tables and interest rates are used for preparation of tariffs.

In 2010 a new tariff system was made, based on mortality tables of the Republic of Serbia 2000-02 and in accordance with the NBS's Decision on Criteria and Method of Calculating Mathematical Reserves and Profit Share. The new tariff system applies to all contracts signed after 30 November 2010. Adequacy of the amount of calculated reserve is monitored by the LAT tests. For testing purposes, statistical data used to generate tariffs and the calculation of mathematical reserves was not used, but statistics of the portfolio.

#### Mortality tables

The Company's portfolio is still young and small, so it is not suitable for the application of some methods for determining mortality tables. Therefore, by comparing the number of deceased individuals and the expected number of deceased individuals, the reduction factor is determined. Applying the reduction factor to the statistical mortality tables, the mortality tables portfolio was established.

#### Overhead additions

Estimates of future costs were made on the basis of the current ratio of overhead additions prescribed by tariff and actual insurance costs. Overhead addition prescribed by tariff is adjusted with the correction factor which is determined by comparing the overhead additions and actual insurance costs.

#### Purchase and reduction

The test takes into account the assumption that a number of policies will be reduced or redeemed before the expiration of insurance. Rates of purchase and reduction have been established on the basis of previous number of reduced and purchased contracts.

#### Interest rate

Premiums and the insured amounts are expressed in EUR. The interest rate is the non-risk interest rate published by CEIOPS for Solvency II.

#### Future profits

Future participation of the contractor/beneficiary of insurance is also taken into account, where the rate of return used for the calculation of future profits is equal to the interest rate in the previous paragraph.

According to the results of the test, the mathematical reserve makes 78.16% of mathematical reserves, calculated as at 31 December 2010, which means that it is sufficient to cover future obligations.

In addition, it is tested if the calculated mathematical reserves would be sufficient to meet the obligations made in the case of changing parameters that affect the amount of reserves calculated as follows:

- Increase in mortality rates 15%,
- Decrease in mortality rate 20%,
- Increase in repurchase rate 50%,
- Decrease in repurchase rate of 50%,

- Increase in reduction rate of 50%,
- Decrease in reduction rate of 50% and
- Increase in costs by 10%.

By setting of each risk separately, the amount of mathematical reserves required to cover future liabilities in case of realization of these risks and amounts to:

- 79% of the calculated mathematical reserves as at 31 December 2010 in case of increase in mortality rate 15%,
- 77.06% of the calculated mathematical reserves as at 31 December, in case of decrease in mortality rate by 20%,
- 79% of the calculated mathematical reserves as at 31 December 2010 in case of increase in repurchase rate by 50%,
- 80.75% of the calculated mathematical reserves as at 31 December 2010 in case of increase in reduction rate by 50% and
- 79.94% of the calculated mathematical reserves as at 31 December 2010 in case of cost increase by 10%.

which shows that the calculated mathematical reserve is sufficient to cover liabilities in case of realization of these risks.

## FINANCIAL RISK MANAGEMENT

### Market risk

Market risk includes three types of risk:

- Foreign currency risk,
- Interest risk, and
- Price risk, i.e. risk of change in value of financial instruments.

### Foreign currency risk

The Company is exposed to currency risk through investments and transactions in foreign currency. Changes in foreign exchange rates affect the amount of gains and losses from exchange rate differences in the income statement.

The Company is exposed to the foreign currency risk through investment activities, as well as through premium income, the calculation of technical provisions and claims paid by insurance policies denominated in foreign currency.

The Company manages foreign currency risk by trying to reduce the difference between assets and liabilities in EUR or denominated in EUR.

The following table shows the relationship between the most important position of foreign currency assets and liabilities as at 31 December 2010:

<b>Assets</b>	
Deposits	32,090,878.02
Cash	15,187,976.07
Securities	37,375,194.31
Other assets	118,211.90
Other investments	1,400.00
Receivables	3,648,846.64
Interest receivables	1,431,292.62
<b>Total assets</b>	<b>89,853,799.56</b>
<b>Liabilities</b>	
Mathematical reserves	-70,088,898.81
Liabilities for claims	-2,198.43
Other liabilities	-1,367,757.03
Unearned premium	-415,416.77
Revaluation reserve	-1,363,497.19
Provision for claims	-941,728.54
<b>Total liabilities</b>	<b>-74,179,496.77</b>
<b>Net exposure</b>	<b>15,674,302.79</b>

Increase or decrease in the exchange rate in amount of 1% would affect the gain/loss on foreign exchange transactions in amount of RSD 16,536 in thousand.

#### Interest rate risk

The Company is exposed to interest rate risk through changes in interest rates of financial investments.

However, this risk is limited, as all interest-bearing assets of the Company at the reporting date have fixed interest rates. The Company is only exposed to interest rate risk through a possible decrease in EURIBOR for investment in corporate bonds Telefonija a.d. (which is part of the return on fixed interest rate), but given that the total investments in corporate bonds amounted to 2.85% of total investments, we believe that the Company is not exposed to interest rate risk as of 31 December 2010.

The Company tries to match future inflows with outflows by investing in government bonds. However, given the relatively short maturity of bonds and long-term maturity of liabilities arising from life insurance, the Company is exposed to interest rate risk.

Given that all interest-bearing assets of the Company on 31 December 2010 were placed at a fixed rate, there would be no direct effect on profit or loss of the Company in the event of changes in interest rates. The indirect effect would be a change in market value that would have impact on the securities traded or available for sale. The table below shows the financial assets that are on the basis of management assessment exposed to risk changes in interest rates as at 31 December 2010:

	Up to 1 month	Up to 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Not declared	Total
Financial assets							0
Financial assets at fair value							0
Securities						91,386,360	91,386,360
Investment funds							0
Shares							0
Financial assets available for sale							0
Securities			92,769,771	649,982,023	896,356,914		1,639,108,708
Investment funds						19,604,911	19,604,911
Securities held to maturity							0
Securities			155,308,704	1,902,825,117	428,338,081		2,486,471,902
Other long-term investments					56,177,832	12,411,924	68,589,756
A vista deposits						1,585,490,649	1,585,490,649
Term deposits	14,882,000	561,250,423	1,830,904,382	973,220,894			3,380,257,700
Advances			1,217,808	22,155,470	188,400,234		211,773,512
Cash						22,688,996	22,688,996
<b>Total financial assets</b>	<b>14,882,000</b>	<b>561,250,423</b>	<b>2,080,200,665</b>	<b>3,548,183,504</b>	<b>1,569,273,061</b>	<b>1,731,582,840</b>	<b>9,505,372,495</b>

### Price risk

Foreign currency savings bonds, which are carried at fair value or as available for sale, represent 17.91% of the total portfolio. Those are exposed to price risk. This is the risk that the value of an instrument will change as a result of changes in market prices.

The Company simulated increase / decrease in price by 5% on the portfolio of foreign currency saving bonds, which represent 16.97% of the Company's Portfolio. Impact on the revaluation reserve, which would eventually, in the case of the sale affected the profit / loss amounts to EUR 776 thousand.

### ASSETS AND LIABILITIES MATCHING

The Company actively manages its assets in a manner that ensures the quality, diversification, assets and liabilities matching, liquidity and return on investment. The goal of investing is to optimize the return on investment and to ensure that the assets and liabilities managed on the basis of cash flows and maturity. Management determines the investment policies and limits in accordance with the law.

### Credit Risk

#### Definition

Credit risk is defined as the risk that one party in a financial contract causes losses to another party by not fulfilling its obligations.

Credit risk is present in three segments:

- premium receivables,
- placements with banks and
- securities.

Responsibility for the management of credit risk in receivables premium belongs to different sales channels: internal and direct sales in branch offices, specialized branch offices and external sales channels. In 2010 the department for debt collection was established with primary task to reduce exposure and actively manage credit risk on receivables of the Company from policyholders. Market situation makes it necessary to conclude insurance contracts with the option of paying in monthly instalments, which requires increased commitment of resources to monitor and collect receivables.

The policy of investment in securities is conservative and most of the assets relating to investments in bonds backed by the taxation power of the state have the highest rating and are considered to be bonds without credit risk. This type of investment is attractive because of tax relief, as prescribed by the state. The Company had the following concentration of receivables from the Republic of Serbia based on foreign currency saving bonds as at 31 December 2010:

	2010
Government bonds	3,207,168,945
Interest from government bonds (in thousands of euro)	735,846,780

Total credit risk exposure to the Republic of Serbia is 33.89%.

Credit rating of investments in this case represents the credit rating of the Republic of Serbia (BBB-).

In 2010, the Company made advance payment to the extent of the amount insured up to repurchase value specified in the contract of life insurance-advances in the amount of RSD 211,773 thousand (2009: RSD 111,462 thousand, 2008: RSD 20,540 thousand). Advances were paid in amount of repurchase value with interest rate of 7%. The insured has no obligation to repay the insured amount. The insured has the obligation to pay interest in defined periods. Non-payment of interest implies a reversal of a life insurance contract and payment of the repurchase value.

Credit risk management of placements with banks is the responsibility of the Financial Department. The policy of lending to banks is limited only to the placement with a first class bank and best possible interest rates, respecting the need for diversification of risk on a more banks.

#### Liquidity risk

Liquidity risk is the probability of occurrence of shortage of funds for business operations. Cash deficits can result from different reasons: delays in collection of receivables from buyers increase in operating expenses, and short period for trade payables payments compared to the period of collection of trade receivables, inadequate maturities of sources of financing compared to turnover of fixed assets, etc.

Liquidity risk occurs in the Company's financing activities and management of balance sheet items. It includes the risk of the inability to finance property within appropriate timeframes and interest rates, including the inability to dispose of property at a reasonable price and within a reasonable time period.

The Company has a portfolio of liquid assets as part of its strategy for liquidity risk management, ensuring continued operation and fulfilment of statutory requirements.

Liquidity risk management presumes respect for the principle of security, instability/variation in return and in cases where liquid assets have an inherent risk of investment.

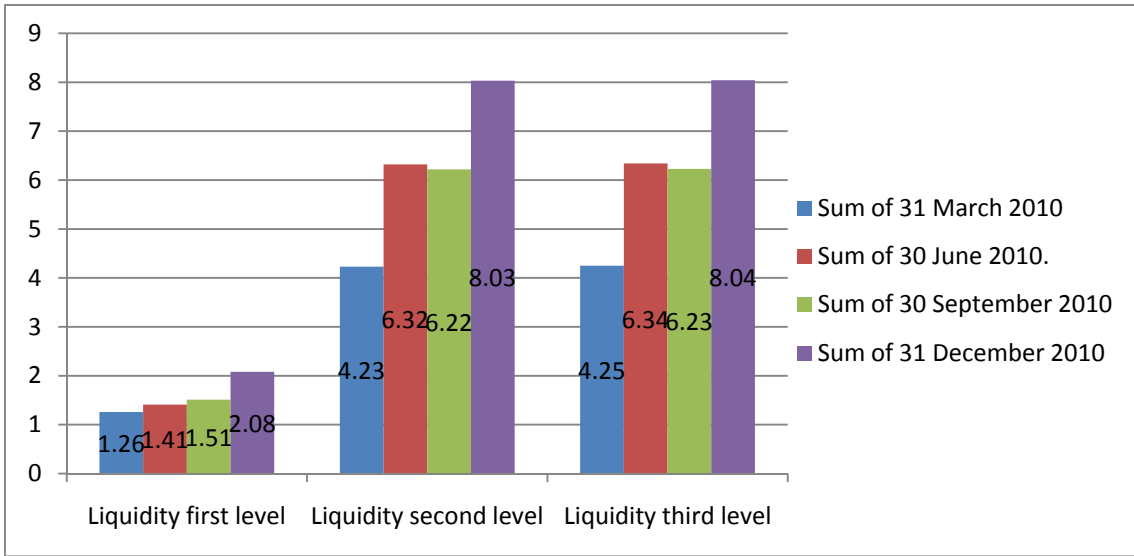
Liquidity risk is not the same as capital. By contrast with risks which impact an insurance company's capital, liquidity requirements are sudden: they often arise within short time intervals, less than one year, which is a typical time interval for testing capital adequacy. Equity items can become liquid. Holding sufficient capital therefore does not ensure sufficiency of liquid funds, neither additional nor necessary transfers of capital into additional liquid funds. It is very important to foresee the amount of capital necessary for protecting the company from potential financial stresses caused by liquidity risk.

In compliance with the National Bank of Serbia's Decision on the Method for Ascertainment and Monitoring of the Insurance Company Liquidity the Company performed analysis of liquidity of its assets. Also, it was noted that the Company ensured daily liquidity during the reporting period under consideration.

Based on the above decision, the liquidity ratio as at 31 December 2010 amounted to 7.

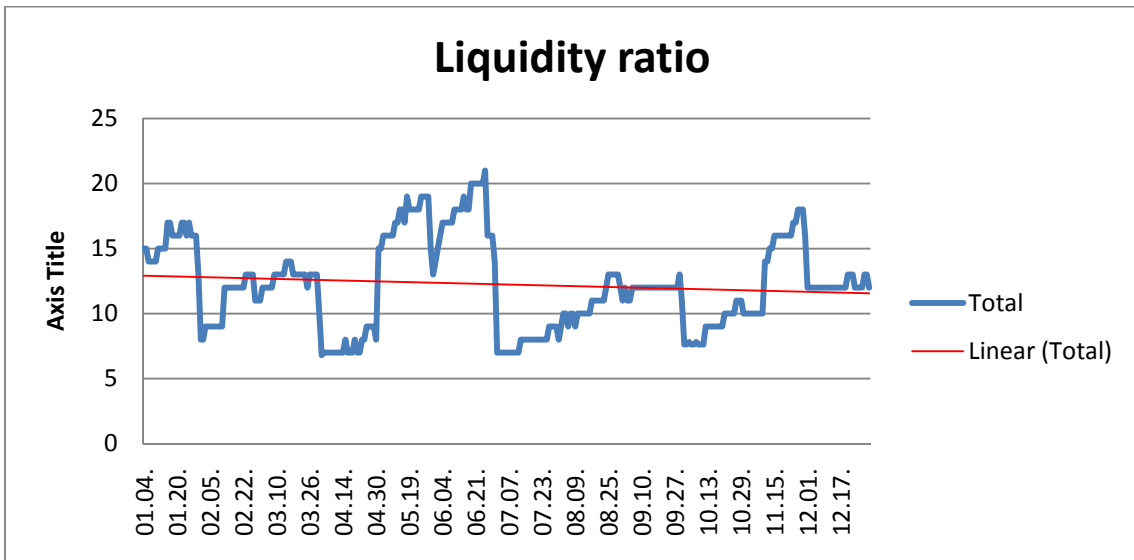
Liquidity Ratio, which demonstrates ratio of settled assets relative to current Company's liabilities, shows good trends:

Liquidity first level	31 Mar 2010	30 Apr 2010	30 Jun 2010	31 Dec 2010
a. AOP 028	710,901	1,025,559	1,147,362	1,608,180
b. AOP 128	564,942	727,160	759,174	773,289
a/b	1.26	1.41	1.51	2.08
Liquidity second level				
a. AOP 018	2,401,951	4,610,597	4,731,328	6,217,474
b. AOP 019	10,924	10,652	7,435	6,442
a-b	2,391,027	4,599,945	4,723,893	6,211,032
c. AOP 128	564,942	727,160	759,174	773,289
(a-b)/c	4.23	6.33	6.22	8.03
Liquidity third level				
a. AOP 018	2,401,951	4,610,597	4,731,328	6,217,474
b. AOP 128	564,942	727,160	759,174	773,289
a/b	4.25	6.34	6.23	8.04



Third level liquidity which demonstrates the ability of the Company to cover its current liabilities with cash amounted to 8.12 as at 31 December 2010.

Chart of Daily liquidity ratio:



*Asset liability matching*

The Company calculated the mismatch in maturities of assets and liabilities based on remaining contractual maturities, where assets are presented with the latest date of maturity, while liabilities are presented with their earliest date of maturity.

<b>Assets</b>	<b>to 1 year</b>	<b>1 to 5 year</b>	<b>Over 5 year</b>	<b>No maturity</b>	<b>Total</b>
Intangible assets				100,300,213	100,300,213
Long-term investments – prepayments	1,217,808	22,155,470	188,400,234		211,773,512
Short-term investments – prepayments					0
Securities held to maturity		2,486,471,902			2,486,471,902
Securities available for sale	92,769,771	649,982,023	896,356,913	5,672,809	1,693,781,517
Securities held for trading				91,386,360	91,386,360
A vista deposits				1,585,490,649	1,585,490,649
Term deposits	2,407,036,806	973,220,894			3,380,257,700
Other long-term investment		68,589,756			68,589,756
Accrued provisions for outstanding claims and UP charged to reinsurance and coinsurance	274,094,364				274,094,364
Receivables from reinsurance and coinsurance	332,111,938				332,111,938
Receivables for insurance premiums	792,847,302	93,622			793,781,924
Other receivables	228,808,933				228,808,933
Interest receivables	17,243,125	199,670,983			216,914,107
Cash				22,688,996	22,688,996
Property, plant and equipment and inventories	130,831,130				130,831,130
Prepaid expenses	17,080,999				17,080,999
<b>TOTAL ASSETS</b>	<b>4,294,042,177</b>	<b>4,401,025,650</b>	<b>1,084,757,147</b>	<b>1,854,539,028</b>	<b>11,634,364,002</b>
<b>Liabilities</b>	<b>to 1 year</b>	<b>1 to 5 year</b>	<b>Over 5 year</b>	<b>No maturity</b>	<b>Total</b>
Unearned premium	(1,177,479,973)	(189,308,826)	(153,449)		(1,366,942,248)
Mathematical reserves	(700,978,126)	(2,620,534,259)	(4,072,771,642)		(7,394,284,027)
Provisions for outstanding claims	(612,791,018)				(612,791,018)
Other provisions - technical	(74,396,165)				(74,396,165)
Employee benefit provisions			(13,430,362)		(13,430,362)
Liabilities from reinsurance and coinsurance	(460,718,028)				(460,718,028)
Liabilities for claims	(1,062,441)				(1,062,441)
Other liabilities	(447,316,419)				(447,316,419)
Deferred tax liabilities	(7,860,007)				(7,860,007)
<b>TOTAL LIABILITIES</b>	<b>(3,482,602)</b>	<b>(2,809,843,086)</b>	<b>(4,086,355,454)</b>	<b>0</b>	<b>(10,378,800,717)</b>
<b>EQUITY</b>				<b>(1,255,563,285)</b>	<b>(1,255,563,285)</b>
<b>EQUITY AND LIABILITIES</b>	<b>(3,482,602)</b>	<b>(2,809,843,086)</b>	<b>(4,086,355,454)</b>	<b>(1,255,563,285)</b>	<b>(11,634,364,002)</b>
<b>Liquidity gap at 31.12.2010</b>	<b>(811,440,000)</b>	<b>1,591,182,564</b>	<b>(3,001,598,306)</b>	<b>598,975,743</b>	<b>-</b>

**34 Claims rate I - Incurred claims / Earned premium**

(in thousands RSD)

TYPE OF INSURANCE		Claims settled with expenses + CHC – Recourse – Vehicles found	Prevention costs + Guarantee fund costs + Fire insurance costs	Gross change in provisions for outstanding claims (RBNS + IBNR)	Gross incurred claims (1+2+3)	Gross earned premium (GP + UP change + DAC change + LAT change)	Claims rate (4 / 5)
		1	2	3	4	5	6
1	Accident	58,867,129	0	2,731,156	61,598,286	123,458,275	49.89%
2	Health	13,010,030	0	1,228,539	14,238,569	20,107,471	70.81%
3	Motor Casco	762,309,364	166,129	-20,879,909	741,595,584	1,147,273,520	64.64%
7	Transport	36,194,293	0	-23,012,856	13,181,437	152,835,248	8.62%
8	Property – fire	108,398,796	15,062,427	33,402,470	156,863,696	367,247,692	42.71%
9	Property – other	109,080,811	441,732	20,190,748	129,713,291	286,274,597	45.31%
10	MTPL	150,913,261	14,523,456	-35,301,480	130,135,237	317,710,197	40.96%
12	Liability – boats	0	16,934	0	16,934	1,526,491	1.11%
13	Responsibility	5,233,280	0	-955,775	4,277,505	76,773,201	5.57%
14	Loans						
16	Financial losses	37,820	0	-2,078	35,742	50,619,333	0.07%
18	Road assistance	69,050,481	0	-12,378,648	56,671,833	110,088,300	51.48%
<b>Total:</b>		<b>1,313,095,265</b>	<b>30,210,679</b>	<b>-34,977,832</b>	<b>1,308,328,114</b>	<b>2,653,914,326</b>	<b>49.30%</b>

**35 Claims rate II - (Incurred claims – Reinsurance claims) / (Earned premium – Reinsurance premium)**

(in thousands RSD)

TYPE OF INSURANCE		Incurred claims (gross amount)	RE settled claims reduced for recourse returned to reinsurer	Change in RE provisions for outstanding claims (RBNS)	Earned premium (gross amount)	Earned reinsurance and coinsurance premium	Claims rate (1-2-3 / 4-5)
		1	2	3	4	5	6
1	Accident	61,598,286	24,926,544	1,465,418	123,458,275	61,778,001	57.08%
2	Health	14,238,569	34,448	0	20,107,471	196,651	71.34%
3	Motor Casco	741,595,584	337,036,414	-29,235,802	1,147,273,520	550,699,452	72.71%
7	Transport	13,181,437	29,427,045	-19,382,675	152,835,248	116,449,766	8.62%
8	Property – fire	156,863,696	60,419,321	4,391,067	367,247,692	220,532,427	62.74%
9	Property – other	129,713,291	50,194,170	15,070,706	286,274,597	174,028,627	57.42%
10	MTPL	130,135,237	44,228,169	7,978,500	317,710,197	159,438,923	49.24%
12	Liability - Boats	16,934	0	0	1,526,491	0	1.11%
13	Responsibility	4,277,505	3,594,493	-635,900	76,773,201	45,901,396	4.27%
14	Loans						
16	Financial losses	35,742	32,191	0	50,619,333	47,733,947	0.12%
18	Road assistance	56,671,833	0	0	110,088,300	212,677	51.58%
<b>Total:</b>		<b>1,308,328,114</b>	<b>549,892,794</b>	<b>-20,348,686</b>	<b>2,653,914,326</b>	<b>1,376,971,868</b>	<b>60.99%</b>

Belgrade, 28 February 2011

Responsible Person