



This is a non-official English language
translation by Sava Reinsurance Company.
The official original document is in Slovenian
and is available from the Company.

**TRANSLATION OF THE
UNAUDITED FINANCIAL REPORT OF THE
SAVA RE GROUP AND
SAVA REINSURANCE COMPANY FOR THE
SIX MONTHS TO 30 JUNE 2012**

Ljubljana, 22 August 2012

CONTENTS

INTRODUCTION

1	INTRODUCTION	7
1.1	Summary of key performance indicators.....	9
1.2	Company Profile of Sava Reinsurance Company	10
1.3	Governing bodies of the Company	11
1.4	Significant events in the first half of 2012.....	12
1.5	Significant events after the statement of financial position date	13
1.6	Sava Re Group structure including associate companies	14
2	SHAREHOLDERS AND SHARE TRADING	15

INTERIM MANAGEMENT REPORT

3	SAVA RE GROUP BUSINESS RESULTS	19
3.1	Consolidated net earned premiums.....	20
3.2	Consolidated net claims incurred	21
3.3	Consolidated operating expenses.....	23
3.4	Investment income on the Sava Re Group investment portfolio	24
3.5	Segment reporting	25
3.6	Realisation of the 2012 budget	26
4	FINANCIAL POSITION OF THE GROUP	27
4.1	Composition of assets and liabilities	27
4.2	Financial investments of the Sava Re Group.....	29
4.3	Technical provisions of the Sava Re Group	31
4.4	Capital adequacy	31
4.5	Sources of finance and their maturities	32
4.6	Cash flow.....	32
4.7	Credit rating.....	32
5	PERSONNEL	33
6	RISK MANAGEMENT	34
6.1	Underwriting risk.....	34
6.2	Market risks	34
6.3	Liquidity risk	36
6.4	Credit risk	36
6.5	Operational risks.....	37
6.6	Exposure to risk up until the end of 2012.....	37
6.7	Insolvency risk.....	37

SUMMARY OF SAVA RE GROUP FINANCIAL STATEMENTS WITH NOTES

7	UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS	41
7.1	Unaudited consolidated statement of financial position as at 30 June 2012.....	41
7.2	Unaudited consolidated income statement for the six months to 30 June 2012.....	42
7.3	Unaudited consolidated statement of comprehensive income for the six months to 30 June 2012.....	43
7.4	Unaudited consolidated cash flow statement for the six months to 30 June 2012	44
7.5	Unaudited consolidated statement of changes in equity for the three months to 30 June 2012	45
7.6	Unaudited consolidated statement of changes in equity for the three months to 30 June 2011	45
8	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	46
8.1	Overview of major accounting policies	46
8.2	Seasonality and cyclicity of interim operations	46
8.3	The nature and amount of unusual items	46
8.4	Issuances, repurchases, and repayments of debt and equity securities	46
8.5	Key accounting estimates and judgements	46
8.6	Analysis of operating segments	46
8.7	Notes to significant changes in the statement of financial position.....	52
9	BUSINESS COMBINATIONS	53
10	RELATED-PARTY DISCLOSURES	53

UNAUDITED SEPARATE FINANCIAL STATEMENTS OF SAVA REINSURANCE COMPANY

11	UNAUDITED SEPARATE FINANCIAL STATEMENTS	59
11.1	Unaudited statement of financial position as at 30 June 2012.....	59
11.2	Unaudited income statement for the six months to 30 June 2012..	60
11.3	Unaudited statement of comprehensive income for the six months to 30 June 2012.....	61
11.4	Unaudited statement of changes in equity for the six months to 30 June 2012.....	62
11.5	Unaudited statement of changes in equity for the six months to 30 June 2011	62
11.6	Unaudited statement of cash flows for the six months to 30 June 2012.....	63
11.7	Net earnings/loss per share	64

APPENDIX

APPENDIX – Glossary of selected terms and calculation methodologies for indicators



INTRODUCTION

1 INTRODUCTION

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

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

The Unaudited Financial Report of the Sava Re Group and Sava Reinsurance Company for the Six Months to 30 June 2012 will be available as a hardcopy for viewing at the registered office of Sava Reinsurance Company at Dunajska 56, 1000 Ljubljana on every workday between 9:00 and 15:00 hrs, and as a softcopy on the Company's website at www.sava-re.si as from 31 August 2012.

1.1 Summary of key performance indicators¹

(EUR)	Sava Re Group		Sava Reinsurance Company	
	1-6/2012	1-6/2011	1-6/2012	1-6/2011
Gross premiums written	158,499,574	148,497,613	94,760,029	85,904,059
Year-on-year change	6.7%	1.2%	10.3%	-0.2%
Gross claims paid	62,949,264	63,109,425	33,970,129	34,044,205
Year-on-year change	-0.3%	1.1%	-0.2%	-7.8%
Net incurred loss ratio	59.1%	57.2%	59.2%	57.4%
Operating expenses including reinsurance commission income	42,410,389	41,914,581	22,152,370	19,361,305
Year-on-year change	1.2%	4.7%	14.4%	2.4%
Net expense ratio	35.7%	35.8%	34.9%	32.0%
Net combined ratio (total expenses/total income; except from investments)	96.1%	97.4%	94.1%	90.4%
Net investment income including finance costs*	8,853,041	4,886,674	1,777,667	-37,749
Annualised realised investment return including finance costs*	4.6%	2.7%	1.1%	0.0%
Net investment income excluding finance costs*	9,711,605	5,733,702	2,554,915	808,477
Annualised realised investment return excluding finance costs*	5.0%	3.2%	1.6%	0.5%
Profit/loss, net of tax	10,304,211	3,990,775	4,582,351	4,220,402
Year-on-year change	158.2%	45.9%	8.6%	229.2%
Comprehensive income	15,991,618	2,958,803	8,340,389	3,384,280
Return on equity	6.6%	2.6%	2.8%	2.7%
	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011
Total assets	645,586,482	582,037,026	465,630,546	417,051,465
Change on 31 December	10.9%	0.6%	11.6%	-0.3%
Shareholders' equity	164,066,369	148,080,050	166,794,919	158,454,528
Change on 31 December	10.8%	-4.3%	5.3%	1.5%
Net technical provisions	356,865,357	322,940,184	191,984,613	166,275,281
Change on 31 December	10.5%	5.1%	15.5%	6.3%
No. of employees (full-time equivalent basis)	1,466	1,530	66	66

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

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

1.2 Company Profile of Sava Reinsurance Company

Company name:	Pozavarovalnica Sava, d. d. Sava Reinsurance Company, d.d. Sava Re d.d.
Registered office:	Dunajska 56 1000 Ljubljana Slovenia
Telephone (switchboard):	(01) 47 50 200
Facsimile:	(01) 47 50 264
E-mail:	info@sava-re.si
Website:	www.sava-re.si
Company ID number:	5063825
Tax number:	17986141
Share capital:	EUR 39,069,099
Shares	9,362,519 no-par-value shares
Governance and supervision bodies:	<u>MANAGEMENT BOARD</u> Zvonko Ivanušič (Chairman) Jošt Dolničar Srečko Čebren Mateja Treven <u>THE SUPERVISORY BOARD</u> Branko Tomažič (Chairman) Mateja Lovšin Herič (Deputy Chairperson) Slaven Mičković Gregor Hudobivnik Martin Albreht (employee representative) Samo Selan (employee representative)
Date of entry into court register:	28 Dec. 1990 Ljubljana District Court
Certified auditor:	KPMG, Slovenija, podjetje za revidiranje, d.o.o. Železna cesta 8a 1000 Ljubljana Slovenia
Largest shareholder and holding:	Slovenska odškodninska družba, d.d. 25% + 1 share (2,340,631 no-par value shares)
S&P credit rating:	BBB+ /negative/; August 2012
The Company has no branches.	

1.3 Governing bodies of the Company

The Management Board

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

Members of the Management Board as at 30 June 2012:

Member	Title	Term of office	Beginning of term of office
Zvonko Ivanušič	Chairman of the MB	5 years	31 Dec. 2008
Jošt Dolničar	Member of the MB	5 years	31 Dec. 2008
Srečko Čebroň	Member of the MB	5 years	1 Feb. 2009
Mateja Treven	Member of the MB	5 years	3 Feb. 2011

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

Zvonko Ivanušič:

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

The Supervisory Board

In the first half of 2012 there were no changes in the composition of the Supervisory Board.

Composition of the Supervisory Board at 30 June 2012:

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

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

Branko Tomažič:

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

Slaven Mičković:

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

Gregor Hudobivnik:

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

Supervisory Board Committees

The Audit Committee

In the first six months of 2012, there were no changes in the composition of the Supervisory Board Audit Committee.

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

Mateja Lovšin Herič	Chairperson
Slaven Mičković	Member
Blanka Vezjak	External member

The Nomination Committee

Pursuant to the recommendations of the Corporate Governance Code for Public Joint-Stock Companies, the Supervisory Board appointed a Nomination Committee as a special consultation body for the Supervisory Board for the purpose of carrying out objective and transparent proceedings for the nomination of candidates to fill Supervisory Board vacancies and recommend to the Supervisory Board which candidates to propose to the General Meeting for election.

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

Branko Tomažič	Chairman
Mateja Lovšin Herič	Member
Vesna Razpotnik	Member

The General Meeting of Shareholders

The 25th General Meeting was held at the Horus Hall of the Austria Trend Hotel Ljubljana on 28 May 2012. The Meeting was presented the approved annual report 2011 with the auditor's opinion and with a written report of the Supervisory Board to the annual report and the annual report on internal auditing for 2011 with the opinion of the Supervisory Board thereto. The General Meeting passed a resolution on the appropriation of distributable profit and on granting a discharge to the Management Board and Supervisory Board for 2011. The General Meeting appointed the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o. Železna cesta 8a, Ljubljana as auditor for the financial year 2012.

The representative of the Minor Shareholder Society (Mali delinčarji) announced that he would challenge all adopted General Meeting resolution because the GM Chairman did not take into account his position regarding the concerted action of the shareholders Slovenska odškodninska družba d.d., Nova kreditna banka Maribor d.d., Poštna banka Slovenije d.d., Zavarovalnica Triglav d.d. with both long-term business funds, and the Ljubljana Airport, and subsequently did not revoke such company's voting rights in General Meeting. The VSZMD shareholder representative announced a challenging action against the resolution adopted under agenda point 3.1 – appropriation of distributable profit. At the time of preparing this report, the controlling company is not aware of any of these actions having been filed.

1.4 Significant events in the first half of 2012

S As announced at the end of 2011, in January 2012 S&P reviewed the sovereign credit ratings of euro zone members that had been placed on CreditWatch. Slovenia was downgraded from AA– to A+. In response to the sovereign downgrade of Slovenia, S&P

reaffirmed Sava Reinsurance Company's then credit and financial strength rating of A–, but with a negative outlook.

S In February 2012, the Macedonian subsidiary Sava osigurovanje sold all shares of Goldmak.

S In March 2012, the controlling company recapitalised its Kosovan subsidiary Illyria with EUR 2.2m.

S On 2 April 2012, the POSR share of Sava Reinsurance Company was transferred to the prime market.

S On 2 April 2012, the Management Board of Sava Reinsurance Company adopted the resolution to initiate liquidation proceedings in the company Bro-Dil.

S On 30 April 2012, the controlling company received a decision from the Securities Market Agency. Based on the decision, as of the day of its finality, the following companies:

- Zavarovalnica Triglav, d.d., Miklošičeva cesta 19, Ljubljana,
- Slovenska odškodninska družba, d.d., Mala ulica 5, Ljubljana,
- Nova kreditna banka Maribor, d.d., Vita Kraigherja 4, Maribor,
- Aerodrom Ljubljana, d.d., Zgornji Brnik 130A, Brnik-Aerodrom,
- Poštna banka Slovenije, d.d., the bank group of Nova kreditna banka Maribor, d.d., Ulica Vita Kraigherja 5, Maribor,

were to be prohibited to exercise voting rights arising out of the shares they hold, in total 2,948,414 shares with the POSR ticker symbol, being the equivalent of a 31.4916-percent share of the issuer Sava Reinsurance Company, Dunajska 56, Ljubljana, until they either jointly, individually on behalf and on account of all, or severally on behalf of and on account of them all, make a takeover bid for the shares of the target company Sava Reinsurance Company, Dunajska 56, Ljubljana in accordance with the Mergers and Acquisitions Act or until the above mentioned companies dispose of their POSR shares, such that the companies no longer reach the takeover threshold either jointly, individually or severally. Based on this decision, the Securities Market Agency stopped the procedure for establishing whether companies act in concert, reach the takeover threshold and for the prohibition to exercise the voting rights in the target company Sava Reinsurance Company d.d., Dunajska 56, Ljubljana, initiated against Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d., Dunajska cesta 119, Ljubljana.

S On 23 May 2012, the controlling company filed a request for the convening of the General Meeting of Zavarovalnica Tilia. Sava Reinsurance Company holds 593,654 ordinary, registered no-par value shares of Zavarovalnica Tilia, being the equivalent of 99.71% of the company's share capital. In accordance with the Articles of Association of the majority shareholder, minority shareholders were offered compensation of EUR 70.53 per registered no-par value share for the transfer of shares to Sava Reinsurance Company. The cash compensation was equal to the fair value of the shares of Zavarovalnica Tilia. The calculation was made using a discounted cash flow method at 31 December 2011. Cash-flow projections were made for the period 2011–2016 based on the company's strategic plan, taking into consideration tax. The fair value calculation as the basis for determining an adequate cash compensation included neither factors for marketability nor controllability.

S On 28 May 2012, the 25th General Meeting of Sava Reinsurance Company took place at the Horus Hall of the Austria Trend Hotel in Ljubljana.

1.5 Significant events after the statement of financial position date

S On 10 July 2012, the General Meeting of Zavarovalnica Tilia took place. In the Meeting the resolution was passed to transfer all shares of minority shareholders of Zavarovalnica

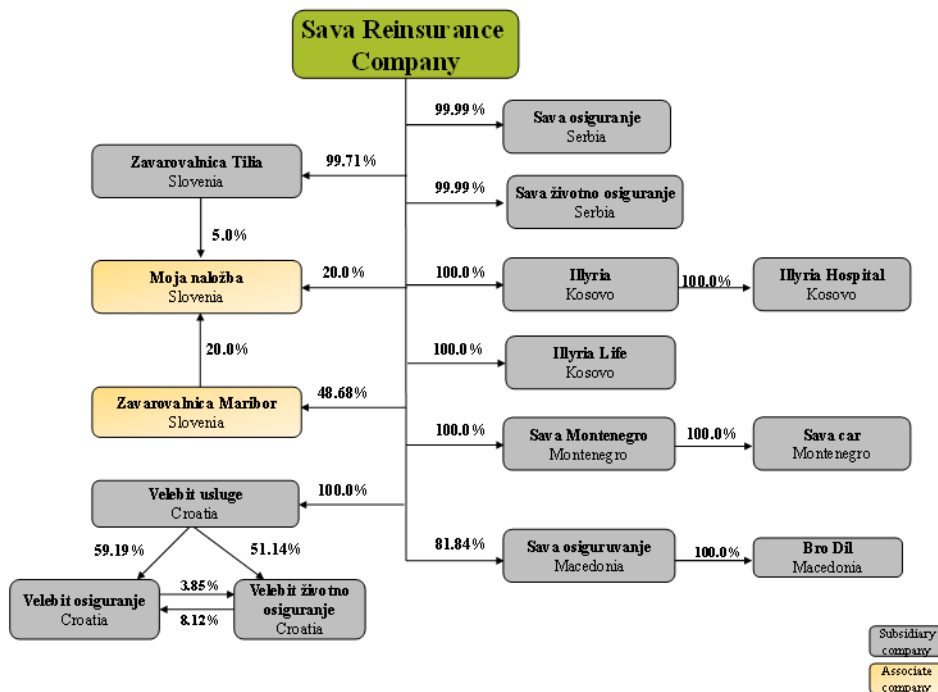
Tilia to majority shareholder Sava Reinsurance Company (99.71%) against adequate cash compensation. The majority shareholder will compensate 244 eligible minority shareholders with EUR 70.53 for each Tilia share, a total of EUR 121,100 for 1,717 shares. Upon entering the resolution on the share transfer in the register of companies, all shares of minority shareholders will have been transferred to the majority shareholder. Following the squeeze-out of minority shareholders, Zavarovalnica Tilia will be wholly owned by Sava Reinsurance Company. No challenging actions were announced in the General Meeting.

- S** In April 2012, the General Meeting of Sava životno osiguranje adopted a resolution to increase its share capital by EUR 0.5m. This capital increase was entered in the Court Register in July.
- S** In August 2012, rating agency Standard & Poor's downgraded Sava Reinsurance Company from A- with a negative outlook to BBB+ with a negative outlook. The downgrading is a result of the downgrading in Slovenia's sovereign rating and is not related to the performance or financial stability of the controlling company.

1.6 Sava Re Group structure including associate companies

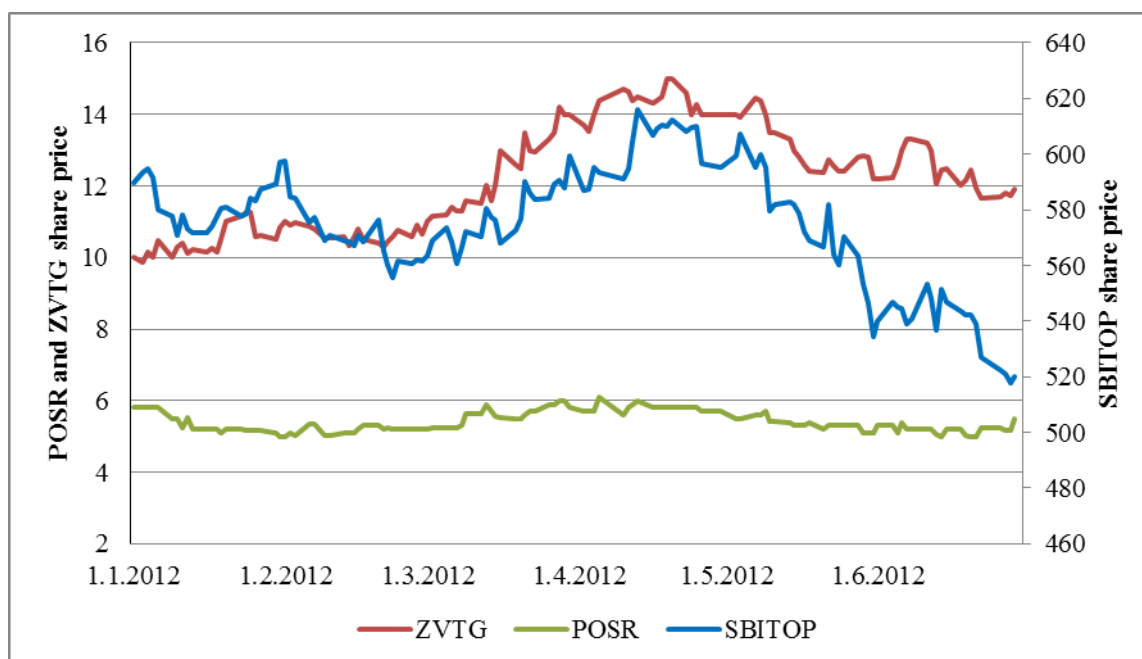
In addition to the controlling company, Sava Reinsurance Company, the Sava Re Group comprises nine insurers based in Slovenia and other countries of the former Yugoslavia. There are also two associate companies: one insurer and one pension company, both Slovenia-based.

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



2 SHAREHOLDERS AND SHARE TRADING

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



Basic details about the POSR share

	30. 6. 2012	30. 6. 2011
Share capital	39,069,099	39,069,099
No. of shares	9,362,519	9,362,519
Ticker symbol	POSR	POSR
No. of shareholders	4,992	5,235
Type of share	ordinary	ordinary
Listing	Ljubljana Stock Exchange prime market	Ljubljana Stock Exchange standard market
Number of treasury shares	210	210
Net earnings/loss per share (EUR)	0.49	0.45
Consolidated net earnings/loss per share (EUR)	1.10	0.43
Book value of shares (EUR)	17.82	17.04
Consolidated book value of shares (EUR)	17.52	16.84
Share price at close of half-year (EUR)	5.49	7.10
Average share price in half-year (EUR)	5.4	7.58
Share price period low (EUR)	5.00	6.80
Share price period high (EUR)	6.1	8.3
Promet z delnico v obravnavanem polletju (v EUR)	1,193,400	1,221,700

The Company paid no interim dividend in 2012. In 2012, the Company did not have conditional equity. As at 30 June 2012, 96.4% of shareholders were Slovenian and 3.6%

foreign. The largest shareholder of the POSR share is the Slovenska odškodninska družba (Slovenian Restitution Fund), which holds 25% plus one share.

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

Shareholder	No. of shares	Holding (%)
Slovenska odškodninska družba, d.d.	2,340,631	25.00
Abanka d.d.	655,000	7.00
Poteza naložbe d.o.o. - in bankruptcy proceedings	468,125	5.00
Pišljarič Marjan	444,345	4.75
Nova KBM d.d.	435,925	4.66
Zavarovalnica Maribor, d.d.	416,433	4.45
NFD 1, delniški podsklad	406,221	4.3
SOP Ljubljana	401,470	4.29
Modra Zavarovalnica d.d. - ZVPS	320,346	3.42
KD Galileo, fleksibilna struktura naložb	250,754	2.68
Total	6,139,250	65.57

Shareholder Structure of Sava Reinsurance Company as at 30 June 2012

	Domestic investors (%)	Foreign investors (%)
Other financial institutions	30.3	2.3
Insurers and pension companies	18.3	0.0
Natural persons	17.3	0.2
Banks	14.4	0.7
Investment funds and mutual funds	13.7	0.4
Other commercial companies	2.4	0.0
Total	96.4	3.6

The "Other financial institutions" item includes the Slovenian Restitution Company with a holding of 25% of shares.

Source: Central securities register KDD d.d. and own sources.

Analyst coverage on the POSR share is regularly provided by the financial institution Alta Invest d.d., which still recommends potential investors to buy the share. The target price is as follows:

Share analyst	Target price
Alta Invest d.d.	9.30

In the first half-year 2012, the Management Board members of Sava Reinsurance Company purchased POSR shares, thus showing their continuous confidence in the future operations of the Company.



INTERIM MANAGEMENT REPORT

3 SAVA RE GROUP BUSINESS RESULTS

Key financials of the Sava Re Group by operating segment (unconsolidated)

(EUR)	Reinsurance business			Non-life insurance business		
	1-6/2012	1-6/2011	Index	1-6/2012	1-6/2011	Index
Net earned premiums	63,409,916	60,419,368	104.9	48,777,612	50,466,225	96.7
Gross premiums written	94,760,029	85,904,059	110.3	70,575,297	68,999,243	102.3
Net claims incurred	-37,558,962	-34,676,834	108.3	-27,677,548	-29,381,992	94.2
Change in other technical provisions	0	0	-	309	-416,959	200.1
Change in technical provisions for policyholders who bear the investment risk	0	0	-	0	0	-
Operating expenses	-23,395,639	-20,633,326	113.4	-20,662,530	-22,143,595	93.3
Other technical income	2,396,671	1,850,733	129.5	4,638,873	3,396,979	136.6
Other technical expenses	-962,765	-977,815	98.5	-3,921,953	-4,155,246	94.4
Underwriting result	3,889,221	5,982,126	65.0	1,154,763	-2,234,588	251.7
Income from investments in affiliates	100,700	0	-	0	0	-
Investment income	5,049,916	3,834,159	131.7	3,440,341	2,523,257	136.3
Expenses for financial assets and liabilities	-3,296,318	-3,797,529	86.8	-718,274	-682,795	105.2
Investment result	1,854,298	36,630	5,062.2	2,722,067	1,840,462	147.9
Other income	7,062	251	2,813.5	307,065	507,701	60.5
Expenses for bonuses and rebates	-8,956	-26,072	34.4	-141,268	-263,150	53.7
Other expenses	-5	-7	71.4	-360,465	-990,892	36.4
Result of other items	-1,899	-25,828	7.4	-194,668	-746,341	26.1
Profit/loss before tax	5,741,620	5,992,928	95.8	3,682,162	-1,140,467	522.9
Income tax expense	-1,159,272	-1,772,527	65.4	-1,126,836	-805,478	139.9
Net profit for the period	4,582,348	4,220,401	108.6	2,555,326	-1,945,945	331.3

(EUR)	Life insurance business			Total		
	1-6/2012	1-6/2011	Index	1-6/2012	1-6/2011	Index
Net earned premiums	6,601,302	6,290,795	104.9	118,739,876	117,052,188	101.4
Gross premiums written	6,514,114	6,412,911	101.6	158,499,574	148,497,613	106.7
Net claims incurred	-3,220,058	-2,325,709	138.5	-68,460,939	-66,384,534	103.1
Change in other technical provisions	-193,153	5,193,609	-203.7	-192,844	4,776,650	-204.0
Change in technical provisions for policyholders who bear the investment risk	-952,727	-7,153,879	13.3	-1,538,725	-5,711,680	26.9
Operating expenses	-3,225,444	-3,150,108	102.4	-43,901,867	-43,423,439	101.1
Other technical income	45,655	23,035	198.2	3,647,190	2,827,356	129.0
Other technical expenses	-106,352	-8,974	1,185.1	-4,902,176	-5,142,035	95.3
Underwriting result	-1,050,777	-1,131,231	92.9	3,390,515	3,994,506	84.9
Income from investments in affiliates	0	0	-	3,307,732	2,492,499	132.7
Investment income	2,781,760	1,191,927	233.4	11,430,847	7,401,182	154.4
Expenses for financial assets and liabilities	-1,520,006	-2,137,643	71.1	-5,324,447	-6,459,207	82.4
Investment result	675,756	496,483	136.1	9,414,132	3,434,474	274.1
Other income	11,563	0	-	324,770	498,725	65.1
Expenses for bonuses and rebates	0	0	-	-150,224	-289,222	51.9
Other expenses	-2,370	-2,125	111.5	-362,839	-1,042,154	34.8
Result of other items	9,193	-2,125	632.6	-188,293	-832,651	22.6
Profit/loss before tax	-365,828	-636,873	57.4	12,616,354	6,596,329	191.3
Income tax expense	-26,035	-27,546	94.5	-2,312,143	-2,605,550	88.7
Net profit for the period	-391,863	-664,419	59.0	10,304,211	3,990,779	258.2

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

Net profits generated by operating segments do not add up to consolidated profit when consolidation adjustments are not included. Profit/loss details by operating segment including consolidation adjustments are given in the Financial Statements section.

3.1 Consolidated net earned premiums

Consolidated net earned premiums

(EUR)	1-6/2012	1-6/2011	Index
Gross premiums written	158,499,574	148,497,613	106.7
Net premiums written	144,292,417	131,543,388	109.7
Change in net unearned premiums	-25,552,541	-14,491,200	176.3
Net premiums earned	118,739,876	117,052,188	101.4

Non-consolidated gross premiums written by Group insurer

(EUR)	1-6/2012	1-6/2011	Index
Sava Reinsurance Company, Slovenia	94,760,029	85,904,059	110.3
Zavarovalnica Tilia, Slovenia	48,138,247	44,721,275	107.6
Sava osiguruvanje, Macedonia	5,343,471	5,925,643	90.2
Sava osiguranje, Serbia	5,517,765	5,901,993	93.5
Illyria, Kosovo	6,396,167	8,120,599	78.8
Velebit osiguranje, Croatia	4,701,620	4,758,168	98.8
Sava Montenegro, Montenegro	5,517,319	4,723,064	116.8
Velebit životno osiguranje, Croatia	642,202	445,805	144.1
Illyria Life, Kosovo	467,967	550,924	84.9
Sava životno osiguranje, Serbia	364,653	264,683	137.8

Consolidated gross premiums written by region

(EUR)	1-6/2012	1-6/2011	Index	Structure 1-6/2012 (%)
Slovenia	76,721,655	79,102,429	97.0	48.4
International	81,777,919	69,395,184	117.8	51.6
Total	158,499,574	148,497,613	106.7	100.0

In the first half 2012, the Sava Re Group wrote EUR 158.5m in gross premiums, up 6.7% compared to the interim period last year. The largest absolute growth was generated by the largest companies in the Group, Sava Reinsurance Company and Zavarovalnica Tilia. Sava Reinsurance Company grew premiums written by 10.3% as a result of expanding its international portfolio by 33.0%. This growth is mostly derived from Asian markets. The largest premium decline was experienced by the Kosovan and Macedonian non-life insurers – in both as a result of excluding major loss-making policyholders from the portfolio.

The change in consolidated net unearned premiums, which together with consolidated net premiums written form net premiums earned, in the 6 months to 30 June 2012 was an increase of EUR 25.5m. The growth is a result of a trend in Sava Reinsurance Company as more business has been underwritten in Asian markets, where business is mainly written in the second quarter (April–July).

Consolidated gross premiums written by operating segment

(EUR)	1-6/2012	1-6/2011	Index	Structure 1-6/2012 (%)
Reinsurance business	81,519,044	73,195,127	111.4	51.4
Non-life insurance business	70,466,416	68,889,575	102.3	44.5
Life insurance business	6,514,114	6,412,911	101.6	4.1
Total	158,499,574	148,497,613	106.7	100.0

Consolidated reinsurance premiums² grew by 11.4% in the first half of 2012, which is a result of an increase in international reinsurance premium. Non-life insurance premiums grew by 2.3%. This modest growth is due to a decline in premium volume in two markets, as mentioned above. The largest absolute increase in gross premiums written was recorded by Zavarovalnica Tilja (EUR 3.5m) and Sava Montenegro (EUR 0.8m). Life premiums generated a year-on-year growth of 1.6% in the first half-year. Sava životno osiguranje and Velebit životno both wrote more premiums, while Zavarovalnica Tilja and Illyria Life experienced a decline in life premiums. Conditions in life insurance markets remain tough as premiums continue to shrink.

3.2 Consolidated net claims incurred*Consolidated net claims incurred*

(EUR)	1-6/2012	1-6/2011	Index
Gross claims paid	62,949,264	63,109,425	99.7
Net claims paid	60,161,272	59,423,545	101.2
Change in the net provision for outstanding claims	8,299,667	6,960,990	119.2
Net claims incurred	68,460,939	66,384,535	103.1

Non-consolidated gross claims paid by Group insurer

(EUR)	1-6/2012	1-6/2011	Index
Sava Reinsurance Company, Slovenia	33,970,129	34,044,205	99.8
Zavarovalnica Tilja, Slovenia	20,216,924	20,983,887	96.3
Sava osiguruvanje, Macedonia	3,670,967	3,692,576	99.4
Illyria, Kosovo	3,311,438	3,389,411	97.7
Sava osiguranje, Serbia	2,324,042	3,562,957	65.2
Sava Montenegro, Montenegro	2,074,491	2,076,418	99.9
Velebit osiguranje, Croatia	1,686,508	1,603,768	105.2
Velebit životno osiguranje, Croatia	120,772	58,269	207.3
Sava životno osiguranje, Serbia	34,746	1,883	1,845.2
Illyria Life, Kosovo	16,850	0	-

² Consolidated reinsurance premiums comprise gross premiums written by Sava Reinsurance Company less premiums received from subsidiaries.

Consolidated gross claims paid by region

(EUR)	1-6/2012	1-6/2011	Index	Structure 1–6/2012 (%)
Slovenia	32,590,815	34,710,551	93.9	51.8
International	30,358,449	28,398,874	106.9	48.2
Total	62,949,264	63,109,425	99.7	100.0

In the first half-year 2012, the Sava Re Group recorded consolidated gross claims paid of EUR 62.9m, a decrease of 0.3% year-on-year. This decline is mainly due to a lowering in claims in the Serbian company Sava osiguranje (by 34.8%) and the Slovenian company Zavarovalnica Tilia (3.7%). In the Serbian insurer, this decline is a combined result of (i) limiting growth in motor TPL over that past two years, (ii) improved claims management and (iii) enhanced fraud prevention. In Zavarovalnica Tilia, improved claims figures were also due to better claims management as well as a result of a favourable loss development. At the half-year, Sava Reinsurance Company recorded a drop of 0.2% in gross claims paid year-on-year.

The change in the consolidated net claims provision, which is used to calculate net claims incurred, was an increase of EUR 8.3m. This increase is mainly due to the increase in the net claims provision of the controlling company (relating to international business – with high growth rates – that incurred some major losses in the prior year) and of Zavarovalnica Tilia.

Consolidated net claims incurred increased by 3.1% year-on-year (net premiums earned grew by 1.4%) as a result of a significantly larger increase in the net claims provision of the controlling company.

Consolidated gross claims paid relating to business written in Slovenia fell by 6.1% year-on-year. Consolidated gross claims paid declined thanks to both Sava Reinsurance Company and Zavarovalnica Tilia as both companies incurred less claims in the first half of 2012 than in the first half of 2011. The 6.9% increase in international gross claims paid was mostly contributed by the controlling company as gross claims paid increased by 20.9% in the first half of 2012, especially in consequence of the floods in Thailand at the end of 2011. Almost all other Group companies experienced a decline in gross claims paid at the half-year compared to the prior first half-year, which is a result of the Group's systematic implementation of information systems and processes for managing claims over the recent years.

Consolidated gross claims paid by operating segment

(EUR)	1-6/2012	1-6/2011	Index	Structure 1–6/2012 (%)
Reinsurance business	29,491,264	27,998,957	105.3	46.8
Non-life insurance business	30,311,685	32,862,181	92.2	48.2
Life insurance business	3,146,315	2,248,287	139.9	5.0
Total	62,949,264	63,109,425	99.7	100.0

3.3 Consolidated operating expenses

Consolidated operating expenses

(EUR)	1-6/2012	1-6/2011	Index
Acquisition costs including change in DAC	28,514,147	25,067,547	113.7
Other operating expenses	15,387,720	18,355,892	83.8
Gross operating expenses	43,901,867	43,423,439	101.1
Income from reinsurance commission	-1,491,478	-1,508,858	98.8
Net operating expenses	42,410,389	41,914,581	101.2

*DAC stands for deferred acquisition costs.

Net operating expenses by operating segment

(EUR)	1-6/2012	1-6/2011	Index	Structure 1-6/2012 (%)
Reinsurance business	19,173,302	17,264,442	111.1	45.2
Non-life insurance business	20,039,744	21,504,765	93.2	47.3
Life insurance business	3,197,343	3,145,374	101.7	7.5
Total	42,410,389	41,914,581	101.2	100.0

Consolidated acquisition costs (including the change in deferred acquisition costs) increased by 13.7% in the first half of 2012, exceeding growth in gross premiums written (6.7%). The largest absolute increase in acquisition costs was recorded by Zavarovalnica Tilia (EUR 4.0m) and Sava Reinsurance Company (EUR 2.7m), who also experienced the largest premium growth.

Other operating expenses (administrative expenses) decreased by 16.2%, which indicates that Group cost management had been successful. The largest drop in administrative expenses was recorded by Zavarovalnica Tilia (EUR 3.3m) and Illyria (EUR 1.3m). In both companies, this drop is a result of cost optimisation efforts.

Reinsurance commission income, which is set off against expenses, decreased 1.2% year-on-year. The largest absolute increase in this type of income was recorded by Zavarovalnica Tilia, the largest drop by the Macedonian subsidiary.

Consolidated expense ratios³

	1-6/2012	1-6/2011
Gross expense ratio	27.7%	29.2%
Administrative expense ratio	9.7%	12.4%
Net expense ratio	35.7%	35.8%

³ The calculation of ratios is explained in the appended glossary.

3.4 Investment income on the Sava Re Group investment portfolio

Consolidated investment income of the Sava Re Group

(EUR)	30.6.2012	Reinsurance business	Non-life ins. business	Life insurance business	Total
Deposits and money market instruments		1,110,019	1,803,146	237,479	3,150,644
Government bonds		807,624	952,360	323,822	2,083,806
Corporate bonds		1,829,711	430,520	105,541	2,365,772
Shares (excluding strategic shares)		-598,684	337,594	-29,207	-290,297
Mutual funds		-844,276	4,708	19,367	-820,201
Loans granted		0	13,966	19,997	33,963
Land and buildings		-137	29,133	0	28,996
Strategic shares and participating interests		3,307,370	0	0	3,307,370
Other		0	-154,248	5,799	-148,449
Total excl. financing costs		5,611,627	3,417,179	682,799	9,711,605
Total incl. financing costs		4,834,379	3,346,199	672,463	8,853,041

(EUR)	30.6.2011	Reinsurance business	Non-life ins. business	Life insurance business	Total
Deposits and money market instruments		1,042,822	1,199,315	146,790	2,388,927
Government bonds		1,018,311	618,187	240,523	1,877,021
Corporate bonds		1,324,768	272,699	84,997	1,682,465
Shares (excluding strategic shares)		-1,056,058	-17,951	-8,183	-1,082,191
Mutual funds		-158,854	-223,836	1,754	-380,936
Loans granted		0	127,212	33,840	161,052
Land and buildings		-686	-11,070	-11,553	-23,310
Strategic shares and participating interests		1,058,216	0	0	1,058,216
Other		0	34,142	18,315	52,458
Total excl. financing costs		3,228,520	1,998,698	506,484	5,733,702
Total incl. financing costs		2,382,293	1,997,896	506,484	4,886,674

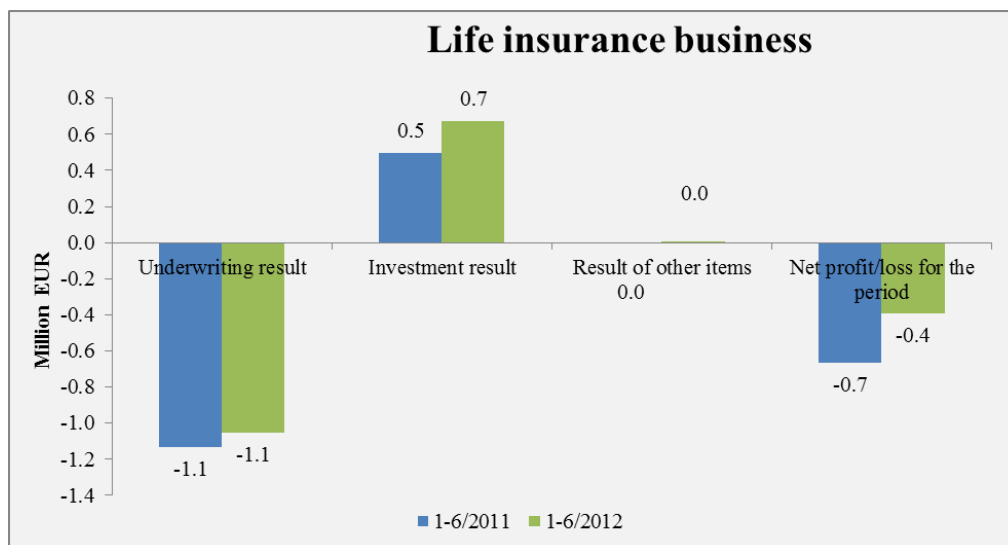
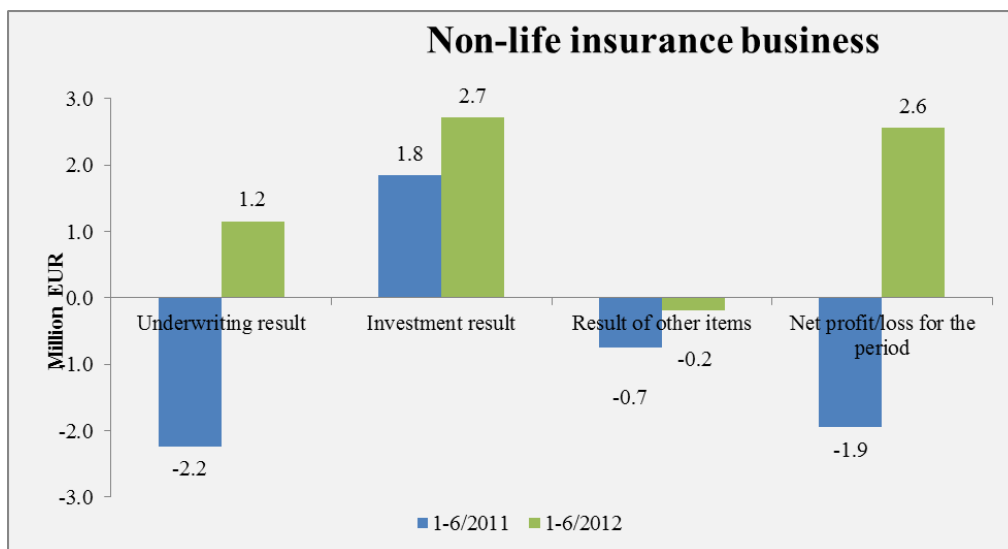
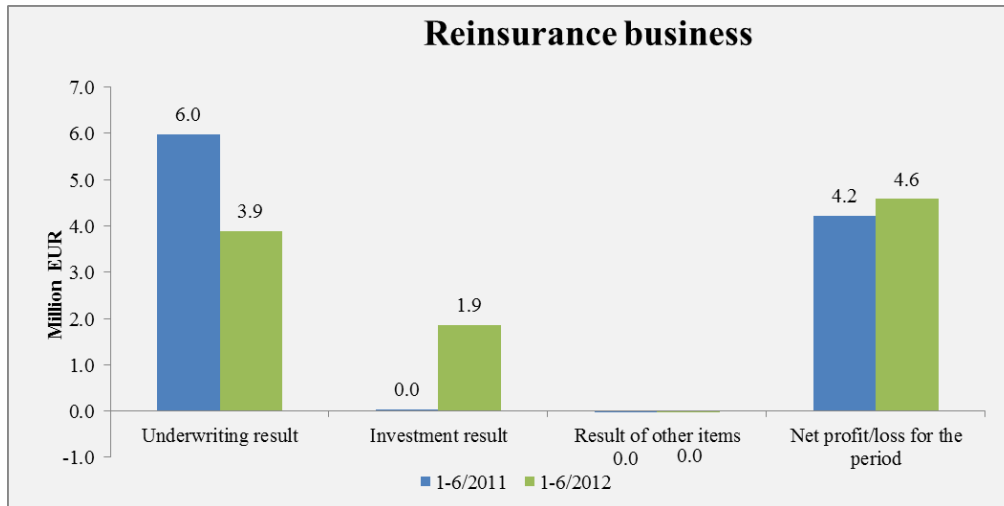
*Investment income does not include investment income of policyholders who bear the investment risk of EUR 589,427 (2011: EUR -1,452,199) since such assets have not effect on the income statement. This is because the mathematical provision of policyholders who bear the investment risk moves in line with this item.

The net investment income including and excluding finance costs increased by EUR 3.97m and EUR 3.98m, respectively, on a year-on-year basis. In the first half of 2012, finance costs were lower due to a drop in the 3-month EURIBOR.

The net investment income exceeded year-on-year figures in all types of investments except with mutual funds, loans granted and other investments. The improved investment figures are partly a result of a growth in invested assets compared to 30 June 2011, partly due to increased interest rates on deposits in Slovenian banks and on corporate bonds and in part a result of a decrease in impairment losses on shares. The lower investment income on mutual funds is due to their sale at a loss.

The investment income from investments in associates of EUR 3.3m relates to the profit of Zavarovalnica Maribor and Moja naložba, which has been consolidated by Sava Reinsurance Company using the equity method.

3.5 Segment reporting⁴



⁴ Net unrealised gains and losses on investments of life insurance policyholders who bear the investment risk are included in the underwriting result.

3.6 Realisation of the 2012 budget

Realisation of planned consolidated gross premiums written by operating segment

(million EUR)	1-6/2012	Plan 2012	%
Reinsurance business	81.5	120.2	67.8%
Non-life insurance business	70.5	135.4	52.0%
Life insurance business	6.5	15.5	42.0%
Total	158.5	271.1	58.5%

In the first half of 2012, gross premiums written reached 58.5% of the annual target. We estimate that our premium growth target can be achieved by the end of the year.

After the first half of 2012, the Sava Re Group expense ratio is slightly higher and the loss ratio slightly lower than planned. The increased expense ratio is a result of increases in this indicator in Sava Reinsurance Company (as commissions to Slovenian cedants increased because of better results) and in the Macedonian subsidiary Sava osiguruvanje (the decrease in expenses was not fully in line with premium decline). The ratios in the table below indicate that Group performance is good and that trends are moving towards achieving target ratios. Loss ratios are showing favourable trends in most subsidiaries.

Realisation of planned ratios

	1-6/2012	Plan 2012	Index
Net expense ratio	35.7%	33.3%	107.3
Net incurred loss ratio	59.1%	62.3%	94.9
Net combined ratio	94.8 %	95.6 %	99.1
Return on equity	6.8%	6.6%	102.6

4 FINANCIAL POSITION OF THE GROUP

4.1 Composition of assets and liabilities

At 30 June 2012, total assets of the Sava Re Group stood at EUR 645.6m, an increase of 10.9% over year-end 2011.

Consolidated total assets by type of investment

(EUR)	30. 6. 2012	Structure 30. 6. 2012	31. 12. 2011	Structure 31. 12. 2011
ASSETS	645,586,482	100.0%	582,037,026	100.0%
Intangible assets	18,185,993	2.8%	18,274,819	3.1%
Property and equipment	24,120,010	3.7%	24,503,335	4.2%
Deferred tax assets	3,701,338	0.6%	4,527,413	0.8%
Investment property	5,733,754	0.9%	6,071,447	1.0%
Financial investments in associate companies	54,471,244	8.4%	49,085,007	8.4%
Financial investments	349,138,982	54.1%	325,188,363	55.9%
Funds for the benefit of policyholders who bear the investment risk	25,787,321	4.0%	24,138,957	4.1%
Reinsurers' share of technical provisions	31,232,930	4.8%	21,608,381	3.7%
Receivables	111,973,476	17.3%	86,266,849	14.8%
Deferred acquisition costs	15,679,713	2.4%	15,938,449	2.7%
Other assets	1,602,489	0.2%	1,338,989	0.2%
Cash and cash equivalents	3,620,122	0.6%	4,710,455	0.8%
Non-current assets held for sale	339,110	0.1%	384,562	0.1%

The largest part of assets are financial investments, which increased by 7.4% compared to end-of 2011. Positive effects on growth came from cash flows from operating activities and fair value revaluations of investments.

The second largest asset item is receivables, which increased in absolute terms (by 33.8%) compared to 31 December 2011 and also relatively compared to other asset items. The increase is due the controlling company (increase of EUR 24.4m) as the time schedule for accounting reinsurance premium is different from the settlement of this premium. The increase in receivables is thus not unusual and does not entail increased risks for bad debts as Sava Reinsurance Company only transacts business with legal persons (insurance and reinsurance companies) and there have been very few write-downs on receivables in the past. In the non-life insurance segment, which had also recorded an increase in receivables compared to end-of-2011, this increase is likewise related to the time schedule in policy underwriting of large policyholders.

Financial investments in associates account for 8.4% of assets, up by 11.0%. This item increased, compared to 31 June 2011, particularly by the amount of profit contributed by both Zavarovalnica Maribor and Moja naložba for the period 1–6/2012.

Another item that changed by more than EUR 5m is the reinsurers' share of technical provisions, which increased by 44.5% or EUR 9.6m. The increase in the retroceded claims provision by EUR 6.6m relates to the protection for the controlling company's portfolio against catastrophic events, which was activated for the Thailand floods of 2011. The increase in retroceded unearned premiums by EUR 3.3m, which is a result of ordinary movements in unearned premiums and affects both liabilities (gross unearned premiums) and assets (reinsurers' share of unearned premiums). Over 50% of the increase of this item relates to the

change in unearned premiums in the controlling company. This item tends to decrease towards the end of the year.

Consolidated liabilities by type

(EUR)	30. 6. 2012	Structure 30. 6. 2012	31. 12. 2011	Structure 31.12. 2011
EQUITY AND LIABILITIES	645,586,482	100.0%	582,037,026	100.0%
Equity	164,066,369	25.4%	148,080,050	25.4%
Subordinated liabilities	31,230,592	4.8%	31,220,817	5.4%
Technical provisions	362,989,304	56.2%	320,875,142	55.1%
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	25,108,983	3.9%	23,673,423	4.1%
Other provisions	779,041	0.1%	795,606	0.1%
Deferred tax liabilities	30,011	0.0%	0	0.0%
Other financial liabilities	6,255,247	1.0%	5,782,075	1.0%
Liabilities from operating activities	45,379,587	7.0%	41,486,025	7.1%
Other liabilities	9,747,348	1.5%	10,123,890	1.7%

The technical provisions item is the largest item of equity and liabilities; at 30 June 2012, the share of technical provisions grew by 1.1 percentage point to account for 56.2% of equity and liabilities. Gross unearned premiums grew by EUR 28.3m or 32.4%. In the first half-year, unearned premiums were rather high and gradually decreased towards the end of the year, which is a result of underwriting time schedules, especially for reinsurance contracts, which are mainly concluded at the beginning of the year. The reinsurance portfolio of the controlling company contains an increasing number of contracts that renew during the year (especially from Asian markets), which is why the growth in unearned premiums was still considerable at the half-year. The increase in technical provisions was contributed also by the claims provision of the controlling company, which is increasing in consequence of both a growing portfolio and an increase in estimated losses for the Thailand floods in 2011. This loss is protected by a catastrophe cover and has mainly being transferred to retrocessionaires.

The next largest item is equity, accounting for 25.4%. The increase in the amount of equity by 10.8% is a result of movements in its components as follows:

- S** net profit as reported in equity totalled EUR 10.7m, an improvement of EUR 9.6m over the net profit for 2011;
- S** there was a decrease in the negative fair value reserve (of EUR 6.5m) as a result of capital market trends with most effects relating to the controlling company.

Liabilities from operating activities, representing 7.0% of the liabilities side, rose by 9.4%. The largest impacts came from increases in liabilities from reinsurance and co-insurance business as the majority of these liabilities relate to the controlling company. As with receivables, this liability item is also large as a result of contractual time-lags in accounting reinsurance liabilities and in their settlement.

4.2 Financial investments of the Sava Re Group

The Sava Re Group pursued a conservative investment policy in the first half of 2012. Group companies with access to developed capital markets focused on increasing fixed-income investments and investments with high quality issuers.

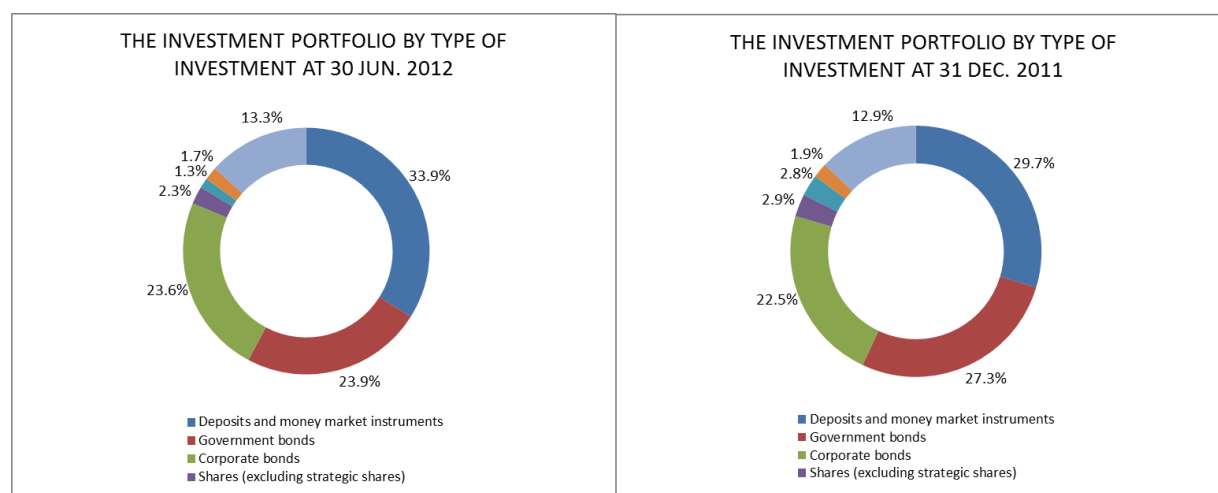
At 30 June 2012, the Sava Re Group portfolio totalled EUR 409.3m, an increase of EUR 29m since year-end 2011. The main growth drivers for the investment portfolio were cash flow from insurance business and gains on fair value revaluations of investments.

In the first half of this year, the portfolio structure changed in favour of bank deposits (from 29.7% to 33.9%). The increase in deposits was partly a result of the increase in call deposits that will be placed in capital markets in the future. Also the share of corporate bonds increased compared to year-end 2011 (by one percentage point). The share of corporate bonds grew due to the decision to buy covered bonds and other highly rated corporate bonds and foreign government guaranteed bonds. The share of government bonds decreased compared to 31 December 2011 (from 27.3% to 23.9%), partly because of the maturity of Slovenian government bonds in February 2012. The share of marketable and unmarketable shares decreased from 2.9% at year-end 2011 to 2.3% at the half-year 2012 as a result of impairment losses. There was also drop in the share of mutual funds due to a decision to sell this type of investment. Owing to the volatility in capital markets, the Sava Re Group changed the portfolio structure to increase portfolio liquidity and decrease exposure to variable-income investments.

Because of the debt crisis and high sovereign indebtedness, the Sava Re Group keeps monitoring exposure to individual countries. Most Group investments are placed within the European Union.

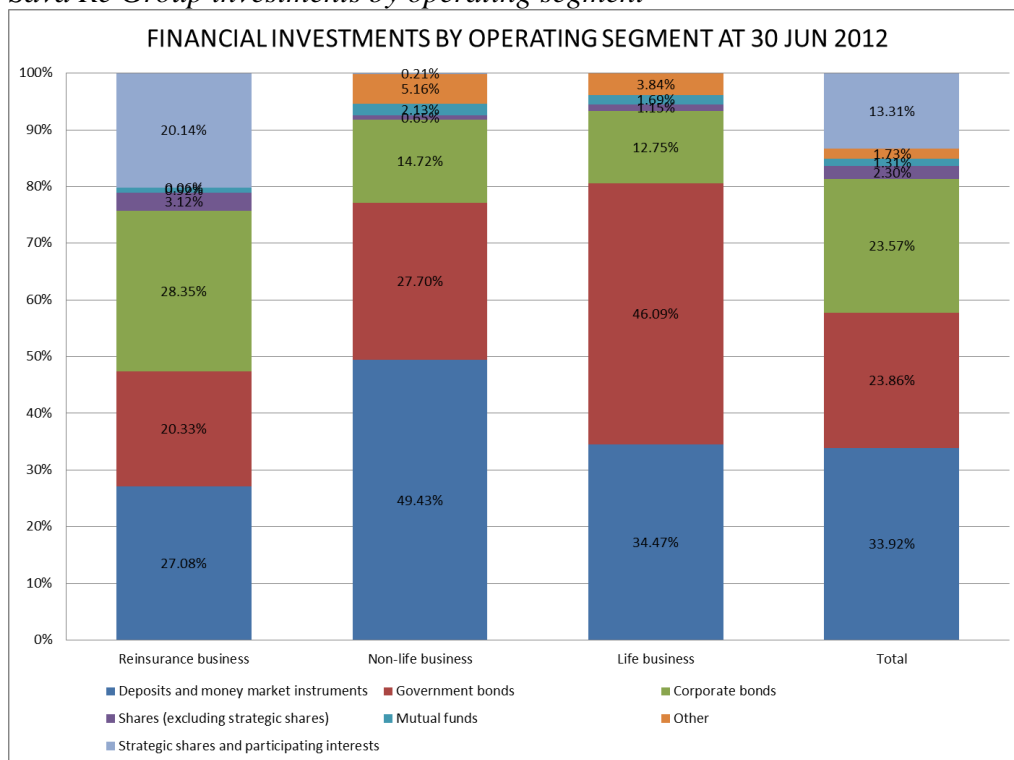
The increase in strategic investments (of 0.4 percentage points compared to 31 December 2011) relates to the profits of associate companies Zavarovalnica Maribor and Moja naložba.

Sava Re Group investment portfolio by type

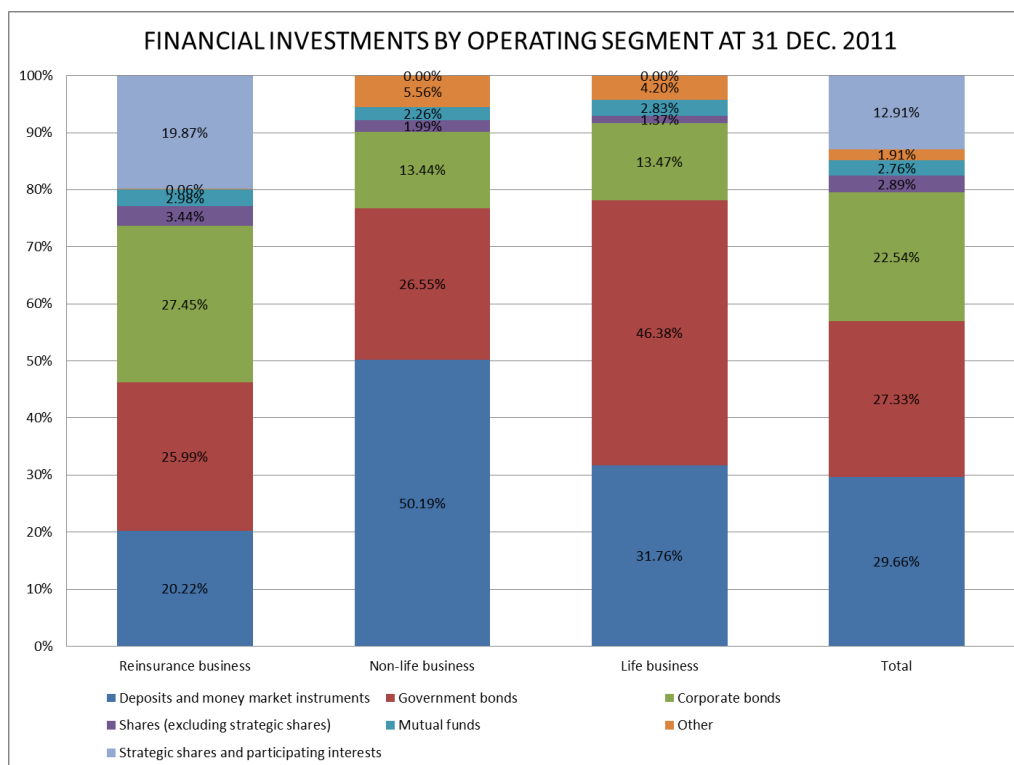


*Deposits and CDs include Sava Reinsurance Company's deposits with cedants totalling EUR 9.7m (2011: EUR 8.6m).

Sava Re Group investments by operating segment



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



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

4.3 Technical provisions of the Sava Re Group

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

Movements in consolidated gross technical provisions (TP)

(EUR)	Sava Re Group		Sava Reinsurance Company	
	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011
Unearned premiums	115,660,668	87,330,269	63,158,932	40,897,411
Mathematical provisions	16,689,240	16,503,688	0	0
Provision for outstanding claims	227,692,904	213,830,875	154,354,641	142,394,053
Other technical provisions	2,946,492	3,210,310	608,534	599,578
Total	362,989,304	320,875,142	218,122,108	183,891,042
Net technical provisions for the benefit of life insurance policyholders who bear the investment risk	25,108,983	23,673,423	0	0

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

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business	
	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011
Unearned premiums	52,726,629	33,290,100	62,597,723	53,660,457	336,316	379,712
Mathematical provisions	0	0	0	0	16,689,240	16,503,688
Provision for outstanding claims	140,109,023	128,442,010	87,314,132	85,190,619	269,749	198,246
Other technical provisions	428,692	452,888	2,517,800	2,757,422	0	0
Gross technical provisions	193,264,344	162,184,998	152,429,655	141,608,498	17,295,305	17,081,646
Technical provisions for the benefit of life insurance policyholders who bear the investment risk	0	0	0	0	25,108,983	23,673,423

Consolidated gross unearned premiums grew by 32.4% compared to year-end 2011, which is mostly due to Sava Reinsurance Company: growth in international premium, ordinary interim movement, more premium from Asian markets where renewals are in the second quarter, causing unearned premiums to peak at the half-year.

Consolidated gross claims provisions grew by 6.5%, which is also mostly due to the controlling company. Provisions for Slovenian cedants dropped by 1.3%, while provisions for international business grew by 17.8% in response to the change in the portfolio structure. Incidentally, the increased loss estimate for the Thailand floods had a very small effect on the claims provision as the majority of the increase was transferred to retrocessionaires.

4.4 Capital adequacy

At 30 June 2012, Sava Reinsurance Company recorded a EUR 20.5m surplus of available solvency margin over minimum capital, with the solvency ratio at 188.6%. The ratio compares favourably with the ratios of other European reinsurers and ensures stable operations. In the third and fourth quarter, Sava Reinsurance Company is planning to recapitalise some of its subsidiaries, which will result in a lower solvency ratio since the current profit or loss can only be included in the calculation at the year-end after allocation of profit to profit reserves.

In the first half of 2012, all Group companies were adequately capitalised except Sava osiguruvanje, Macedonia, where proceedings are underway to recapitalise the company.

4.5 Sources of finance and their maturities

At 30 June 2012, the Sava Re Group had EUR 164.1m of equity, EUR 31.2m subordinated liabilities and EUR 6.2m of other financial liabilities. From the above, it is evident that debt accounts for 18.6% of equity (year-end 2011: 20%). Sava Reinsurance Company and other Group companies are planning to reduce the debt-to-equity ratio as equity will suffice for day-to-day operations of the Group.

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

Financial liabilities to banks are EUR 6.3m and are all due in 2012.

At 30 June 2012, intra-Group loans totalled EUR 7.0m (year-end 2011: EUR 10.9m).

4.6 Cash flow

Net cash from operating activities totalled EUR 5.2m, while net cash used in financing activities totalled EUR 5.5m.

Sava Reinsurance Company generated a positive cash-flow from operating activities of EUR 7.7m.

4.7 Credit rating

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

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

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

5 PERSONNEL

No. of employees in the Sava Re Group⁵

	30. 6. 2012	31. 12. 2011	Change
Zavarovalnica Tilia, Slovenia	366	378	-12
Sava osiguranje, Serbia	246	266	-20
Sava Montenegro, Montenegro	147	140	7
Velebit osiguranje, Croatia	144	147	-3
Illyria, Kosovo	121	141	-20
Sava osiguruvanje, Macedonia	111	120	-9
Illyria Life, Kosovo	90	98	-8
Sava životno osiguranje, Serbia	86	84	2
Velebit životno osiguranje, Croatia	78	79	-1
Sava Reinsurance Company, Slovenia	66	66	0
Sava Car, Montenegro	9	9	0
Bro-Dil, Macedonia	2	2	0
Total	1,466	1,530	-64

Compared to year-end 2011, the number of employees in the Group decreased by 64. The movement in the number of employees largely relates to changes in agency networks, where we aim at increased efficiency.

⁵ No. of employees on a full-time equivalent basis.

6 RISK MANAGEMENT

6.1 Underwriting risk

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

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

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

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

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

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

6.2 Market risks

In their financial operations, some Group companies are exposed to market risks that comprise primarily interest rate risk, equity securities risk, currency risk, concentration risk and asset-liability mismatch risk.

6.2.1 Interest rate risk

Interest rate risk is the risk of exposure to losses resulting from fluctuations in interest rates. These can cause a decrease in investments or an increase in liabilities.

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

In the first half of 2012, interest rate risk for non-life business decreased slightly due to the purchase of short-term bonds.

Interest rate risk affects both mathematical provisions of life contracts as well as the value of investments supporting mathematical provisions. An increase in interest rates would result in a decrease in both the mathematical provision as well as in invested assets. An increase in invested assets would fully offset an increase in mathematical provisions only if maturities of liabilities and investments were fully matched.

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

6.2.2 Equity securities risk

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

Equity securities risk is measured through a stress test assuming a 10-percent drop in equity prices. Equity securities risk affects equities, equity mutual funds and mixed mutual funds (in stress tests, we include half of the amount).

To assess the Group's sensitivity of investments to equity securities risk, we assume a 10% drop in the value of all equity securities. At 30 June 2012, this would have decreased the value of the Group portfolio by EUR 1.1m (31 March 2012: EUR 1.4m). The reduced potential drop in the portfolio value is a result of disposals of some mutual fund investments. The value of the equity portfolio changes linearly with stock prices.

6.2.3 Currency risk

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

The Group has a surplus of euro-denominated assets over euro-denominated liabilities. In contrast, there are shortages with other currencies, especially with the US-dollar, which is related to the increased business volume generated by the controlling company in Asian markets. In the second quarter 2012, the controlling company has continued investing in dollar-denominated investments to mitigate matching risk.

6.2.4 Concentration risk

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

The Group's investment portfolio is reasonably diversified in order to avoid large concentration of a certain type of investment, large concentration of a certain counterparty or industry or other potential forms of concentration. Thus assets are diversified by type of

investment (e.g., time deposits, debt and equity securities, structured products, mutual funds), by maturity and by currency.

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

In terms of geography, the Group is most strongly exposed to Slovenia (65% of the investment portfolio), while by industry, its largest exposure is to the banking sector and to government bonds.

The largest single issuer of debt or equity securities that the Group is exposed to is the Republic of Slovenia, an exposure that decreased by EUR 12.8m from EUR 74m at year-end 2011. The remaining portfolio is diversified between over 30 countries.

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

6.3 Liquidity risk

Liquidity risk is the risk that an entity will not have sufficient liquid assets to meet its obligations as they fall due, and will have to sell its less liquid assets at an inopportune time or raise loans outside the schedule.

The Group mitigates liquidity risk by having Group companies draw up annual liquidity plans with daily planned cash-flows (investments, reinsurance, expenses). In addition, the Group avoids liquidity risk by diversifying the maturities of deposits, which serve to meet day-to-day liquidity needs. The bond portfolio consists mainly of highly liquid listed bonds. Sudden liquidity needs arising in any Group subsidiary could be met by the controlling company through short-term bridge loans. In the event of large losses, so-called cash call provisions in reinsurance contracts are triggered and provide for immediate payments in the chain cedant–controlling company–retrocessionaire. For extraordinary liquidity situations, the controlling company has arranged a credit line with a commercial bank in the total amount of EUR 5m.

We consider liquidity risk to be low in the first half of 2012 and not substantially different from the prior year.

6.4 Credit risk

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

In accordance with local legislations, implementing regulations and internal acts, Group members invest their cash surpluses only in (i) deposits with adequately performing banks (as per local credit rating standards), (ii) debt securities issued exclusively by entities with an adequate rating (if existing in local markets), and (iii) adequately liquid equity securities of companies with sufficient market capitalisation.

The Group is also exposed to credit risk in relation to its retrocession programme. As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company, unless they are subject to localisation requirements. Even if this is the case, the subsidiary would still transfer at least part of its risk exposure to the controlling company so that the actual exposure of reinsurers to credit risk is smaller than the otherwise correctly reported one.

Retrocession programmes are mostly placed with first-class reinsurers with an adequate credit rating. This is at least A– according to Standard & Poor's for long-term business, and at least BBB+ for short-term business. Reinsurers rated A– or better accounted for over 80% of the credit risk exposure relating to reinsurers.

Given the large diversification and the low probability of default by reinsurers rated BBB+ or better, this part of credit risk is deemed to be low and substantially the same as in 2011.

6.5 Operational risks

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

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

6.6 Exposure to risk up until the end of 2012

We expect that in the remaining six months of the year, the exposure of Sava Reinsurance Company and the Sava Re Group to risks will not change significantly. Due to the nature of its business, the main risks that the Group is exposed to are underwriting risks followed by market risks. The realisation of underwriting risks is fortuitous and only for certain classes of insurance seasonal. A major increase in realised risks may be expected as a result of an increased frequency of storms with massive losses or as a result of unfavourable trends in financial markets.

6.7 Insolvency risk

Sava Reinsurance Company meets capital adequacy requirements and so do all its subsidiary companies under local provisions (including one subsidiary that at 30 June 2012 was in the final stage of being recapitalised). Sava Reinsurance Company's surplus of available solvency margin over the required solvency margin increased by EUR 0.8m compared to 31 December 2011. The available solvency margin is still well above (EUR 20.5m) the required solvency margin of EUR 23.1m.

Statement of capital adequacy for Sava Reinsurance Company
(EUR)

		30. 6. 2012	30. 6. 2011
CORE CAPITAL (Article 106 of the Insurance Act ("ZZavar"))			
Subscribed capital other than share capital subscribed based on cumulative preference shares, or founding capital	1	39,069,099	39,069,099
Capital reserves other than capital reserves related to cumulative preference shares	2	33,003,752	33,003,752
Profit reserves other than reserve for treasury shares and credit risk equalisation & catastrophe equalisation reserves	3	79,811,779	75,848,910
Retained earnings	4	7,915,508	3,596,862
Fair value reserve relating to assets not financed by technical provisions	5	-343,674	-2,350,752
Treasury shares and own interests	6	1,774	1,774
Intangible assets	7	140,593	210,546
Core capital (1+2+3+4+5-6-7)	8	159,314,098	148,955,551
Minimum guarantee fund	9	7,705,848	6,927,057
Meeting the requirement under paragraph 4 of Article 106 of the ZZavar (8 – 9)	10	151,608,250	142,028,494
ADDITIONAL CORE CAPITAL (Article 107 of the ZZavar)			
Subordinated debt	11	5,779,386	5,195,292
Additional core capital (11), however not more than 50% of the lower of core capital and minimum guarantee fund	12	5,779,386	5,195,292
AVAILABLE SOLVENCY MARGIN AND STATEMENT OF CAPITAL ADEQUACY (Article 108 of the ZZavar)			
Total of core and additional core capital (8 + 12)	13	165,093,484	154,150,843
Participation according to Article 108, paragraph 1, indent 1 of the ZZavar	14	118,593,247	107,769,052
Participation according to Article 108, paragraph 1, indent 2 of the ZZavar	15	2,902,293	1,512,507
Available solvency margin of insurer (13 – 14 – 15)	16	43,597,944	44,869,284
Required solvency margin	17	23,117,544	20,781,170
Surplus/deficit of available solvency margin (16 – 17)	18	20,480,400	24,088,114



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

7 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7.1 Unaudited consolidated statement of financial position as at 30 June 2012

(EUR)	30. 6. 2012	31. 12. 2011
ASSETS	645,586,482	582,037,026
Intangible assets	18,185,993	18,274,819
Property and equipment	24,120,010	24,503,335
Deferred tax assets	3,701,338	4,527,413
Investment property	5,733,754	6,071,447
Financial investments in associate companies	54,471,244	49,085,007
Financial investments:	349,138,982	325,188,363
- Loans and deposits	136,318,529	107,037,143
- Held to maturity	15,629,147	15,420,514
- Available for sale	194,324,019	198,012,939
- At fair value through profit or loss	2,867,287	4,717,767
Funds for the benefit of policyholders who bear the investment risk	25,787,321	24,138,957
Reinsurers' share of technical provisions	31,232,930	21,608,381
Receivables	111,973,477	86,266,849
Receivables arising out of primary insurance business	32,000,677	26,342,606
Receivables arising out of reinsurance and co-insurance business	72,775,708	52,698,920
Current tax assets	118,931	295,638
Other receivables	7,078,161	6,929,685
Deferred acquisition costs	15,679,713	15,938,449
Other assets	1,602,489	1,338,989
Cash and cash equivalents	3,620,122	4,710,455
Non-current assets held for sale	339,110	384,562
EQUITY AND LIABILITIES	645,586,482	582,037,026
Equity	164,066,369	148,080,050
Share capital	39,069,101	39,069,098
Capital reserves	25,417,397	25,417,397
Profit reserves	90,142,066	90,243,081
Treasury shares	-1,774	-1,774
Fair value reserve	-4,286,086	-10,809,738
Retained earnings	4,028,392	2,878,547
Net profit/loss for the period	10,753,386	1,147,011
Translation reserve	-3,189,990	-2,338,002
Equity attributable to the equity holders of the controlling company	161,932,492	145,605,620
Non-controlling interest in equity	2,133,877	2,474,430
Subordinated liabilities	31,230,592	31,220,817
Technical provisions	362,989,304	320,875,142
Unearned premiums	115,660,668	87,330,269
Mathematical provisions	16,689,240	16,503,688
Provision for outstanding claims	227,692,904	213,830,875
Other technical provisions	2,946,492	3,210,310
Technical provision for the benefit of life insurance policyholders who bear the investment risk	25,108,983	23,673,423
Other provisions	779,041	795,606
Other financial liabilities	6,255,247	5,782,075
Liabilities from operating activities	45,379,587	41,486,025
Liabilities from primary insurance business	1,513,555	1,397,404
Liabilities from reinsurance and co-insurance business	42,586,695	37,621,182
Current income tax liabilities	1,279,337	2,467,439
Other liabilities	9,747,348	10,123,890

7.2 Unaudited consolidated income statement for the six months to 30 June 2012

(EUR)	1-6/2012	1-6/2011
Net earned premiums	118,739,876	117,052,188
Gross premiums written	158,499,574	148,497,613
Written premiums ceded to reinsurers and co-insurers	-14,207,157	-16,954,225
Change in net unearned premiums	-25,552,541	-14,491,200
Income from investments in associates	3,307,732	2,492,499
Profit from investments in equity-accounted associate companies	3,307,732	2,492,499
Dividend income from associate companies	0	0
Investment income	11,430,847	7,401,182
Interest income	6,874,911	6,044,551
Other investment income	2,551,918	801,675
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	2,004,018	554,956
Other technical income	3,647,190	2,827,356
Commission income	1,491,478	1,508,858
Other technical income	2,155,712	1,318,498
Other income	324,770	498,725
Net claims incurred	-68,460,939	-66,384,535
Gross claims paid less income from recourse receivables	-62,949,264	-63,109,425
Reinsurers' and co-insurers' share of claims paid	2,787,992	3,685,880
Change in the net provision for outstanding claims	-8,299,667	-6,960,990
Change in other technical provisions	-192,844	-1,023,160
Change in technical provisions for policyholders who bear the investment risk	-1,538,725	88,130
Expenses for bonuses and rebates	-150,224	-289,221
Operating expenses	-43,901,867	-43,423,439
Acquisition costs	-28,514,147	-25,067,547
Other operating expenses	-15,387,720	-18,355,892
Expenses for investments in affiliates	0	0
Losses from investments in equity-accounted associate companies	0	0
Expenses for financial assets and liabilities	-5,324,447	-6,459,207
Impairment losses on financial assets not measured at fair value through profit or loss	-773,582	-2,753,908
Interest expense	-867,049	-910,961
Other investment expenses	-2,265,796	-797,183
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	-1,418,020	-1,997,155
Other technical expenses	-4,902,176	-5,142,035
Other expenses	-362,839	-1,042,157
Profit/loss before tax	12,616,354	6,596,325
Income tax expense	-2,312,143	-2,605,551
Net profit for the period	10,304,211	3,990,774
Net profit/loss for the period attributable to equity holders of the controlling company	10,652,370	4,868,827
Net profit/loss for the period attributable to non-controlling interest	-348,159	-878,052

7.3 Unaudited consolidated statement of comprehensive income for the six months to 30 June 2012

(EUR)	1-6/2012	1-6/2011
PROFIT/LOSS FOR THE PERIOD, NET OF TAX	10,304,211	3,990,775
OTHER COMPREHENSIVE INCOME, NET OF TAX	5,687,408	-1,031,972
Net change in fair value of available-for-sale financial assets	4,613,840	-1,520,737
Net change recognised in the fair value reserve	4,613,330	-943,822
Net change transferred from fair value reserve to profit or loss	511	-576,915
Net gains/losses from non-current assets available for sale	16,607	0
Gains/losses recognised in the fair value reserve	16,607	0
Net gains/losses attributable to the Group recognised in the fair value reserve and retained profit/loss relating to investments in equity-accounted associate companies	2,078,504	-604,618
Tax on other comprehensive income	-174,632	248,395
Net gains/losses from translation of financial statements of non-domestic companies	-846,911	844,988
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	15,991,618	2,958,802
Share attributable to controlling interest	16,332,178	3,820,265
Share attributable to non-controlling interest	-340,560	-861,462

7.4 Unaudited consolidated cash flow statement for the six months to 30 June 2012

(EUR)		1-6/2012	1-6/2011
A. Cash flows from operating activities			
a.)	Items of the income statement	34,723,850	19,571,174
1.	Net premiums written	144,292,417	126,613,819
2.	Investment income (other than financial income), financed from:	4,543,448	3,564,311
	- technical provisions	987,100	708,556
	- other sources	3,556,348	2,855,755
3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	3,647,190	3,326,081
4.	Net claims paid	-60,161,272	-59,423,545
5.	Expenses for bonuses and rebates	-150,224	-289,221
6.	Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	-43,643,815	-41,315,281
7.	Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:	-3,678,290	-4,115,247
	- technical sources	-1,957,597	-97,629
	- other sources	-1,720,693	-4,017,618
8.	Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	-7,813,461	-6,184,192
9.	Tax on profit and other taxes not included in operating expenses	-2,312,143	-2,605,551
	Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the statement of financial position	-29,492,120	-20,872,824
1.	Change in receivables from primary insurance	-5,658,070	-1,348,916
2.	Change in receivables from reinsurance	-20,076,788	-12,408,986
3.	Change in other receivables from re/insurance business	-150,293	-1,615,666
4.	Change in receivables and assets	-3,566,778	-8,454,682
5.	Change in deferred tax assets	853,103	-56,271
6.	Change in inventories	40,032	-66,807
7.	Change in liabilities arising out of primary insurance	116,151	21,448
8.	Change in liabilities arising out of reinsurance business	4,965,514	5,218,275
9.	Change in other operating liabilities	-6,430,458	-2,229,651
10.	Change in other liabilities (except unearned premiums)	412,484	186,412
11.	Change in deferred tax liabilities	2,983	-117,980
c.)	Net cash from/used in operating activities (a + b)	5,231,730	-1,301,650
B. Cash flows from investing activities			
a.)	Cash receipts from investing activities	283,375,512	229,392,970
1.	Interest received from investing activities relating to:	6,190,639	6,044,551
	- investments financed from technical provisions	5,364,216	5,021,779
	- other investments	826,423	1,022,772
2.	Cash receipts from dividends and from participation in the profit of others, relating to:	305,089	284,818
	- investments financed from technical provisions	70,724	249,088
	- other investments	234,365	35,730
3.	Proceeds from sale of intangible assets, financed from:	16,533	0
	- technical provisions	16,533	0
	- other sources	0	0
4.	Proceeds from sale of property and equipment, financed from:	925,785	32,429
	- technical provisions	878,480	0
	- other sources	47,305	32,429
5.	Proceeds from sale of long-term financial investments, financed from:	62,219,367	30,231,458
	- technical provisions	51,924,254	14,034,899
	- other sources	10,295,113	16,196,559
6.	Proceeds from sale of short-term financial investments, financed from:	213,718,099	192,799,714
	- technical provisions	194,789,837	146,139,438
	- other sources	18,928,262	46,660,276
b.)	Cash disbursements in investing activities	-288,830,524	-229,908,023
1.	Purchase of intangible assets	-155,888	-461,939
2.	Purchase of property and equipment, financed from:	-845,279	-621,502
	- technical provisions	-148,104	-22,470
	- other sources	-697,175	-599,032
3.	Purchase of long-term financial investments, financed from:	-60,967,954	-56,744,937
	- technical provisions	-60,892,293	-47,548,164
	- other sources	-75,661	-9,196,773
	Purchase of financial investments in subsidiaries, financed from:	0	0
	- technical provisions	0	0
	- other sources	0	0
4.	Purchase of short-term financial investments, financed from:	-226,861,402	-172,079,644
	- technical provisions	-199,338,397	-133,916,063
	- other sources	-27,523,005	-38,163,581
c.)	Net cash from/used in investing activities (a + b)	-5,455,012	-515,053
C. Cash flows from financing activities			
a.)	Cash receipts from financing activities	5,000,000	4,351,587
1.	Proceeds from paid-in capital	0	0
2.	Proceeds from long-term borrowing	0	110,000
3.	Proceeds from short-term borrowing	5,000,000	4,241,587
b.)	Cash disbursements in financing activities	-5,867,049	-3,339,643
1.	Interest paid	-867,049	-910,961
2.	Redemption of equity	0	0
3.	Repayment of long-term financial liabilities	0	-80,097
4.	Repayment of short-term financial liabilities	-5,000,000	-2,348,585
5.	Dividends and other profit participations paid	0	0
c.)	Net cash from/used in financing activities (a + b)	-867,049	1,011,944
C2. Closing balance of cash and cash equivalents			
		3,620,121	3,221,845
C3. Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)			
		-1,090,330	-804,758
D. Opening balance of cash and cash equivalents			
		4,710,452	4,026,604

7.5 Unaudited consolidated statement of changes in equity for the three months to 30 June 2012

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	VII. Treasury shares (contra account)	VIII. Translation reserve	IX. Total Group equity	X. Non-controlling interest in equity	Total (13 + 14)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risks	Catastrophe equalisation reserve	Other								
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
Opening balance in financial period	39,069,099	25,417,396	16,673,828	1,774	745,290	7,996,935	64,825,254	-10,809,738	2,878,547	1,147,009	-1,774	-2,338,007	145,605,616	2,474,433	148,080,052
Comprehensive income for the year, net of tax	0	0	0	0	0	0	0	6,531,797	0	10,652,372	0	-851,983	16,332,181	-340,560	15,991,620
Payout of (accounting for) dividends									-5,300				-5,300	0	-5,300
Allocation of net profit to profit reserve	0	0	0	0	20,784	61,632	0	0	0	-82,416	0	0	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve			0	0	-183,431		0	0	0	183,431	0	0	0	0	0
Transfer of profit/loss									1,147,009	-1,147,009		0	0	0	0
Other	0	0	0	0	0	0	0	-8,145	8,145	0	0	0	0	0	0
Closing balance in financial period	39,069,099	25,417,397	16,673,828	1,774	582,643	8,058,567	64,825,254	-4,286,086	4,028,392	10,753,386	-1,774	-3,189,990	161,932,492	2,133,877	164,066,369

7.6 Unaudited consolidated statement of changes in equity for the three months to 30 June 2011

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	VII. Treasury shares	VIII. Translation reserve	IX. Total Group equity	X. Non-controlling interest in equity	Total (13 + 14)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risks	Catastrophe equalisation reserve	Other								
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
Opening balance in financial period	39,069,099	25,417,397	16,660,613	1,774	1,261,187	6,576,060	60,862,385	-121,459	557,800	2,370,698	-1,774	-2,412,023	150,241,757	4,442,851	154,684,608
Comprehensive income for the year, net of tax	0	0	0	0	0	0	0	-651,153	0	2,384,050	0	248,156	1,981,053	-499,258	1,481,795
Settlement of loss from previous years	0	0	-259,688	0	0	0	0	0	259,688	0	0	0	0	0	0
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-307,775	25,215	0	0	0	282,560	0	0	0	0	0
Transfer of profit/loss	0	0	0	0	0	0	0	0	2,370,698	-2,370,698	0	0	0	0	0
Closing balance in financial period	39,069,099	25,417,397	16,400,925	1,774	953,412	6,601,275	60,862,385	-772,613	3,188,186	2,666,610	-1,774	-2,163,867	152,222,810	3,943,593	156,166,403

8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8.1 Overview of major accounting policies

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

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

The half-yearly financial statements with notes have not been audited.

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

8.2 Seasonality and cyclicity of interim operations

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

8.3 The nature and amount of unusual items

There were no unusual events that by their nature, scope or manner of occurrence would affect the assets, liabilities, equity, net profit or cash flows in the first half-year 2012.

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

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

No dividends have been paid out.

8.5 Key accounting estimates and judgements

The Group is predominately composed of financial companies that invest their assets (those supporting liabilities as well as capital funds) in financial instruments. If the fair value of any financial instrument falls below its cost, the Group – pursuant to applicable accounting rules – considers whether the decrease is a significant and long-term one, in the event of which the financial instrument is impaired. In the first half of 2012, the Group recognised impairment losses on investments, mainly equities, of EUR 774k.

8.6 Analysis of operating segments

Operating segments disclosed and monitored were determined based on the various activities carried out in the Group. Segments have been formed based on types of services provided by

companies, features of insurance products, market networks and the environment in which companies operate.

In view of the nature, scope and organisation of work, CODM⁶ (Chief Operating Decision Maker) is a group composed of management board members, director of finance, director of accounting, director of controlling, and director of risk management. CODM can monitor quarterly the profit/loss generated by operations by segments. These results include technical results, net investment income and other aggregated performance indicators, as well as the amounts of assets, equity and technical provisions.

Operating segments include reinsurance, non-life business, life business, and other. Performance of these segments is monitored based on different indicators, a common performance indicator for all segments being net profit, calculated in accordance with IFRSs. The reinsurance segment mainly relates to the controlling company; the non-life segment relates to non-life business of Group companies and to the non-life business of Zavarovalnica Tilia, a composite insurance company; the life segment relates to life business of Group companies and to the life business of Zavarovalnica Tilia. The "other" segment relates to a stock broking company and other Group companies. This segment does not meet the materiality threshold but is presented separately because of the large difference in the nature of activities carried on.

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

⁶ Chief Operating Decision Maker (senior executive with decision making power or management board including executive directors who allocate resources and assess performance).

Statement of financial position by operating segment as at 30 June 2012

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Consolidation adjustment		Total	
	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011
ASSETS	465,630,549	417,051,465	221,758,596	203,991,844	56,869,220	55,339,001	14,499,323	14,107,563	-113,171,206	-108,452,846	645,586,482	582,037,026
Intangible assets	140,593	175,779	1,713,565	1,794,545	257,018	233,455	2,623	3,046	16,072,194	16,067,994	18,185,993	18,274,819
Property and equipment	2,392,598	2,367,170	15,406,971	15,434,217	4,372,464	4,774,256	1,947,977	1,927,692	0	0	24,120,010	24,503,335
Deferred tax assets	3,274,754	4,064,272	344,145	342,089	82,441	121,052	0	0	0	0	3,701,338	4,527,413
Investment property	157,420	158,587	5,412,480	5,749,289	163,854	163,571	0	0	0	0	5,733,754	6,071,447
Financial investments in associate companies	117,329,511	114,423,243	2,937,923	2,926,546	861,269	859,074	11,710,301	11,680,470	-78,367,760	-80,804,326	54,471,244	49,085,007
Financial investments:	221,821,880	208,748,194	111,774,430	105,526,148	22,167,066	21,807,711	647,106	277,810	-7,271,500	-11,171,500	349,138,982	325,188,363
- Loans and deposits	76,841,844	57,859,936	58,220,244	52,987,374	7,880,835	7,212,843	647,106	148,490	-7,271,500	-11,171,500	136,318,529	107,037,143
- Held to maturity	6,549,849	7,513,050	6,525,504	5,012,364	2,553,794	2,895,100	0	0	0	0	15,629,147	15,420,514
- Available for sale	138,359,751	143,375,208	45,304,861	44,238,494	10,659,407	10,269,917	0	129,320	0	0	194,324,019	198,012,939
- At fair value through profit or loss	70,436	0	1,723,821	3,287,916	1,073,030	1,429,851	0	0	0	0	2,867,287	4,717,767
Funds for the benefit of policyholders who bear the investment risk	0	0	0	0	25,787,321	24,138,957	0	0	0	0	25,787,321	24,138,957
Reinsurers' share of technical provisions	26,137,495	17,615,761	29,899,203	25,645,091	53,994	53,573	0	0	-24,857,764	-21,706,044	31,232,930	21,608,381
Assets from investment contracts	0	0	0	0	0	0	0	0	0	0	0	0
Receivables	84,841,692	59,848,462	43,863,629	35,143,479	1,506,798	1,699,095	151,341	104,422	-18,389,984	-10,528,609	111,973,477	86,266,849
Receivables arising out of primary insurance business	0	0	31,746,701	25,934,918	281,414	349,718	147,818	102,007	-175,257	-44,037	32,000,677	26,342,606
Receivables arising out of reinsurance and co-insurance business	83,432,099	58,948,939	6,286,947	3,987,706	10,608	18,230	0	0	-16,953,946	-10,255,955	72,775,708	52,698,920
Current tax assets	0	0	117,639	294,490	0	0	1,292	1,148	0	0	118,931	295,638
Other receivables	1,409,593	899,523	5,712,342	4,926,365	1,214,776	1,331,147	2,231	1,267	-1,260,781	-228,617	7,078,161	6,929,685
Deferred acquisition costs	9,043,370	9,305,676	6,654,825	6,565,482	337,910	377,652	0	0	-356,392	-310,361	15,679,713	15,938,449
Other assets	187,065	190,408	1,340,402	1,094,523	75,022	54,058	0	0	0	0	1,602,489	1,338,989
Cash and cash equivalents	304,171	153,912	2,071,913	3,385,873	1,204,063	1,056,547	39,975	114,123	0	0	3,620,122	4,710,455
Non-current assets held for sale	0	0	339,110	384,562	0	0	0	0	0	0	339,110	384,562

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Consolidation adjustment		Total	
	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011	30. 6. 2012	31. 12. 2011
EQUITY AND LIABILITIES	465,630,549	417,051,465	221,758,596	203,991,844	56,869,220	55,339,001	14,499,323	14,107,563	-113,171,206	-108,452,846	645,586,482	582,037,026
Equity	166,794,916	158,454,528	32,166,261	27,481,892	13,185,911	13,071,188	14,208,555	13,816,944	-62,289,274	-64,744,503	164,066,369	148,080,050
Share capital	166,794,916	39,069,099	32,166,261	42,750,538	13,185,911	22,086,990	14,208,555	14,153,845	-62,289,274	-78,991,374	164,066,369	39,069,098
Capital reserves	39,069,099	33,003,753	44,950,528	0	21,966,869	57	14,153,845	0	-81,071,240	-7,586,413	39,069,101	25,417,397
Profit reserves	120,377,172	87,556,850	2,198,210	2,115,554	336,548	336,491	90,189	90,189	-7,442,656	143,997	115,559,463	90,243,081
Treasury shares	-1,774	-1,774	0	0	0	0	0	0	0	0	-1,774	-1,774
Fair value reserve	-5,330,869	-9,088,908	1,246,095	630,488	-318,186	-400,356	-124	9,828	116,998	-1,960,790	-4,286,086	-10,809,738
Retained earnings	7,915,508	3,596,862	-16,547,468	-12,788,554	-7,403,917	-5,969,149	-27,329	24,003	20,091,598	18,015,385	4,028,392	2,878,547
Net profit/loss for the period	4,765,780	4,318,647	2,472,671	-3,652,911	-391,863	-2,261,027	350,706	-61,284	3,556,092	2,803,586	10,753,386	1,147,011
Translation reserve	0	0	-2,153,775	-1,573,223	-1,003,540	-721,818	-358,732	-399,637	326,057	356,676	-3,189,990	-2,338,002
<i>Equity attributable to the equity holders of the controlling compan</i>	<i>166,794,916</i>	<i>158,454,530</i>	<i>32,166,261</i>	<i>27,481,892</i>	<i>13,185,911</i>	<i>13,071,188</i>	<i>14,208,555</i>	<i>13,816,944</i>	<i>-64,423,151</i>	<i>-67,218,933</i>	<i>161,932,492</i>	<i>145,605,620</i>
<i>Non-controlling interest in equity</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>2,133,877</i>	<i>2,474,430</i>	<i>2,133,877</i>	<i>2,474,430</i>
Subordinated liabilities	31,226,246	31,220,817	4,346	0	0	0	0	0	0	0	31,230,592	31,220,817
Technical provisions	218,122,107	183,891,042	152,429,654	141,608,498	17,295,304	17,081,646	-1	0	-24,857,765	-21,706,044	362,989,303	320,875,140
Unearned premiums	63,158,932	40,897,411	62,597,723	53,660,457	336,316	379,712	0	0	-10,432,303	-7,607,311	115,660,668	87,330,267
Mathematical provisions	0	0	0	0	16,689,240	16,503,688	0	0	0	0	16,689,240	16,503,688
Provision for outstanding claims	154,354,641	142,394,053	87,314,132	85,190,619	269,749	198,246	0	0	-14,245,618	-13,952,043	227,692,904	213,830,875
Other technical provisions	608,535	599,578	2,517,800	2,757,422	0	0	0	0	-179,843	-146,690	2,946,492	3,210,310
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	0	0	25,108,983	23,673,423	0	0	0	0	25,108,983	23,673,423
Other provisions	157,542	143,730	545,242	573,772	75,457	77,323	800	781	0	0	779,041	795,606
Deferred tax liabilities	0	0	30,011	0	0	0	0	0	0	0	30,011	0
Other financial liabilities	1,200,411	729	12,185,321	13,997,498	0	0	271,500	0	-7,401,985	-8,216,152	6,255,247	5,782,075
Liabilities from operating activities	46,527,928	42,059,351	15,633,041	9,309,278	260,413	372,080	13,701	13,700	-17,055,493	-10,268,384	45,379,589	41,486,025
Liabilities from primary insurance business	0	0	1,394,542	1,250,730	110,103	136,321	13,701	13,700	-4,787	-3,347	1,513,556	1,397,404
Liabilities from reinsurance and co-insurance business	46,527,623	40,374,262	13,003,430	7,375,999	106,347	135,958	0	0	-17,050,706	-10,265,037	42,586,695	37,621,182
Current income tax liabilities	305	1,685,089	1,235,069	682,549	43,963	99,801	0	0	0	0	1,279,338	2,467,439
Other liabilities	1,601,397	1,281,268	8,764,720	11,020,906	943,152	1,063,341	4,768	276,138	-1,566,689	-3,517,763	9,747,348	10,123,890

Income statement for the six months to 30 June 2012 by operating segment

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Total	Consolidation adjustment		Total	
	1-6/2012	1-6/2011	1-6/2012	1-6/2011	1-6/2012	1-6/2011	1-6/2012	1-6/2011		1-6/2012	1-6/2011	1-6/2012	1-6/2011
Net earned premiums (1)	63,409,916	60,419,368	48,777,612	50,466,225	6,601,302	6,290,795	0	0	118,788,830	-48,954	-124,200	118,739,876	117,052,188
Gross premiums written	94,760,029	85,904,059	70,575,297	68,999,243	6,514,114	6,412,911	0	0	171,849,440	-13,349,866	-12,818,600	158,499,574	148,497,613
- of this third-party clients	81,410,163	73,195,127	70,575,297	68,889,575	6,514,114	6,412,911	0	0	158,499,574	0	0	158,499,574	148,497,613
Written premiums ceded to reinsurers and co-insurers	-11,497,182	-14,755,846	-15,951,518	-14,839,975	-62,435	-52,804	0	0	-27,511,135	13,303,978	12,694,400	-14,207,157	-16,954,225
Change in net unearned premiums	-19,852,931	-10,728,845	-5,846,167	-3,693,043	149,623	-69,312	0	0	-25,549,475	-3,066	0	-25,552,541	-14,491,200
Net claims incurred (2)	-37,558,962	-34,676,834	-27,677,548	-29,381,992	-3,220,058	-2,325,709	0	0	-68,456,568	-4,371	0	-68,460,939	-66,384,534
Gross claims paid less income from subrogation receivables	-33,970,130	-34,044,206	-30,310,423	-33,120,882	-3,146,315	-2,248,287	0	0	-67,426,868	4,477,604	6,303,950	-62,949,264	-63,109,424
Reinsurers' and co-insurers' shares	2,258,613	3,242,712	5,010,780	6,744,620	298	2,498	0	0	7,269,691	-4,481,699	-6,303,950	2,787,992	3,685,880
Change in the net provision for outstanding claims	-5,847,445	-3,875,340	-2,377,905	-3,005,730	-74,041	-79,920	0	0	-8,299,391	-276	0	-8,299,667	-6,960,990
Change in other technical provisions (3)	0	0	309	-416,959	-193,153	5,193,609	0	0	-192,844	0	0	-192,844	4,776,650
Change in the technical provision for policyholders who bear the investment risk (4)	0	0	0	0	-1,538,725	-5,711,680	0	0	-1,538,725	0	0	-1,538,725	-5,711,680
Operating expenses (5)	-23,395,639	-20,633,326	-20,662,530	-22,143,595	-3,225,444	-3,150,108	-133,579	-47,500	-47,283,613	3,515,325	2,551,090	-43,901,867	-43,423,439
Depreciation/amortisation	-101,005	-104,525	-716,761	-997,003	-78,594	-71,020	-796	-796	-896,360	0	0	-897,156	-1,173,344
Other technical income (6)	2,396,671	1,850,733	4,638,873	3,396,979	45,655	23,035	91,623	0	7,081,199	-3,525,632	-2,443,391	3,647,190	2,827,356
Other technical expenses (7)	-962,765	-977,815	-3,921,953	-4,155,246	-106,352	-8,974	0	0	-4,991,070	88,894	0	-4,902,176	-5,142,035
A) Underwriting result (1 + 2 + 3 + 4 + 5 + 6 + 7)	3,889,221	5,982,126	1,154,763	-2,234,588	-1,636,775	310,968	-41,956	-47,500	3,407,209	25,262	-16,501	3,390,515	3,994,506
Income from investments in affiliates (8)	100,700	0	0	0	0	0	0	0	100,700	3,207,032	2,492,499	3,307,732	2,492,499
Shares in profit/loss of equity-accounted associates	0	0	0	0	0	0	0	0	0	3,307,732	2,492,499	3,307,732	2,492,499
Investment income (9)	5,049,916	3,834,159	3,440,341	2,523,257	2,781,760	1,191,927	390,597	4,684	11,272,017	-231,767	-152,845	11,430,847	7,401,182
- Interest income	3,976,628	3,412,208	2,589,005	2,232,632	520,545	534,215	8,036	4,684	7,086,178	-219,303	-139,188	6,874,911	6,044,551
Expenses for investments in affiliates (10)	0	0	0	0	0	0	0	0	0	0	0	0	0
Shares in profit/loss of equity-accounted associates	0	0	0	0	0	0	0	0	0	0	0	0	0
Expenses for financial assets and liabilities (11)	-3,296,318	-3,797,529	-718,274	-682,795	-1,520,006	-2,137,643	0	0	-5,534,598	210,151	158,760	-5,324,447	-6,459,207
- Interest expense	-777,248	-868,441	-281,130	-182,684	-18,822	-18,596	0	0	-1,077,200	210,151	158,760	-867,049	-910,961
- Impairment loss on goodwill	0	-1,433,000	0	0	0	0	0	0	0	0	0	0	-1,433,000
B) Investment result (8 + 9 + 10 + 11)	1,854,298	36,630	2,722,067	1,840,462	1,261,754	-945,716	390,597	4,684	5,838,119	3,185,416	2,498,414	9,414,132	3,434,474
Other income (12)	7,062	251	307,065	507,701	11,563	0	2,064	18,938	325,690	-2,984	-28,165	324,770	498,725
Expenses for bonuses and rebates (13)	-8,956	-26,072	-141,268	-263,150	0	0	0	0	-150,224	0	0	-150,224	-289,222
Other expenses (14)	-5	-7	-360,465	-990,892	-2,370	-2,125	1	-49,130	-362,840	0	0	-362,839	-1,042,154
C) Result of other items (12 + 13 + 14)	-1,899	-25,828	-194,668	-746,341	9,193	-2,125	2,065	-30,192	-187,374	-2,984	-28,165	-188,293	-832,651
D) Profit/loss before tax (A + B + C)	5,741,619	5,992,928	3,682,162	-1,140,467	-365,828	-636,873	350,706	-73,008	9,057,953	3,207,694	2,453,748	12,616,354	6,596,329
E) Income tax expense	-1,159,272	-1,772,527	-1,126,836	-805,478	-26,035	-27,546	0	0	-2,312,143	0	0	-2,312,143	-2,605,550
F) Net profit/loss for the period (D+E)	4,582,347	4,220,401	2,555,326	-1,945,945	-391,863	-664,419	350,706	-73,008	6,745,810	3,207,694	2,453,748	10,304,211	3,990,779

Inter-segment business

(EUR)	Reinsurance business		Non-life insurance business		Life insurance business		Other		Consolidation adjustment		Total	
	1-6/2012	1-6/2011	1-6/2012	1-6/2011	1-6/2012	1-6/2011	1-6/2012	1-6/2011	1-6/2012	1-6/2011	1-6/2012	1-6/2011
Net earned premiums	13,240,985	12,708,932	108,881	109,668	0	0	0	0	-13,349,866	-12,818,600	0	0
Net claims incurred	-4,481,103	-6,303,679	3,797	-271	-298	0	0	0	4,477,604	6,303,950	0	0
Operating expenses	-3,369,009	-2,510,965	-114,568	-18,788	-28,101	-21,337	-3,647	0	3,515,325	2,551,090	0	0
Investment income	231,767	146,836	0	6,009	0	0	0	0	-231,767	-152,845	0	0
Other income	2,984	0	0	26,134	0	0	0	2,031	-2,984	-28,165	0	0

8.7 Notes to significant changes in the statement of financial position

8.7.1 Financial investments in associate companies

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

8.7.2 Financial investments

Financial investments increased by EUR 24m in the first half-year: there were some increases in loans and deposits, while held-to-maturity financial assets and assets at fair value through profit or loss shrank.

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

(EUR)	1-6/2012	1-6/2011
Shares	749,958	1,093,342
Mutual funds	0	227,565
Strategic shares and participating interests	0	1,433,000
Loans	23,624	0
Total impairment loss	773,582	2,753,907

8.7.3 Receivables

The largest increase in receivables was recorded in receivables arising out of reinsurance and co-insurance. These are receivables of the controlling company who increased its reinsurance business volume in the first half of 2012 compared to the first six months of 2011.

Receivables are discussed in greater detail in section 4.1.

8.7.4 Technical provisions

Compared to year-end 2011, the largest increase in the first half of 2012 was in gross unearned premiums, which is a normal trend.

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

8.7.5 Liabilities from operating activities

Liabilities from operating activities increased as a result of growth in reinsurance business.

9 BUSINESS COMBINATIONS

In the first half of 2012, the controlling company participated in the recapitalisation of two Group companies:

- S** Sava životno osiguranje in the amount of EUR 0.7m and
- S** Illyria in the amount of EUR 2.2m.

Subsequent to capital injection, ownership relations in the above companies remained unchanged.

10 RELATED-PARTY DISCLOSURES

Key management personnel

Fixed remunerations received by Members of the Management Board in the first half of 2012 amounted to EUR 297,591 (first half of 2011: EUR 311,884), while bonuses and other income were EUR 17,561 (first half of 2011: EUR 19,278). No variable remunerations were paid out.

Remunerations paid to Supervisory Board members and members of the Supervisory Board Audit Committee in the first half of 2012 amounted to EUR 65,245 (first half of 2011: EUR 38,260).

Transactions with associates

Investments in and amounts due from associates

(EUR)		30. 6. 2012	31. 12. 2011
Debt securities and loans granted to Group companies	gross	1,512,293	1,512,404
	allowance	0	0
	net	1,512,293	1,512,404
Receivables for premiums arising out of reinsurance assumed	gross	15,722,952	13,010,377
	allowance	0	0
	net	15,722,952	13,010,377
Total		17,235,245	14,522,781

Liabilities to associates

(EUR)	30. 6. 2012	31. 12. 2011
Liabilities for shares in reinsurance claims	8,636,708	10,749,608
Other short-term liabilities	3,666,665	2,966,760

Operating Income from and expenses for associate companies

(EUR)	1-6/2012	1-6/2011
Gross premiums written	27,711,725	32,944,399
Gross claims paid	-11,469,349	-14,251,459
Income from recourse receivables	465,442	1,393,487
Income from shares in associates	3,307,732	2,492,499
Interest income	56,765	56,458
Acquisition costs	-5,666,508	-5,325,409
Additional pension insurance premium	32,409	31,193

Transactions with Group companies

Investments in and amounts due from Group companies

(EUR)		30. 6. 2012	31. 12. 2011
Debt securities and loans granted to Group companies	gross	7,000,000	10,900,000
	allowance	0	0
	net	7,000,000	10,900,000
Receivables for premiums arising out of reinsurance assumed	gross	11,688,210	7,015,448
	allowance	0	0
	net	11,688,210	7,015,448
Short-term receivables arising out of financing	gross	65,989	170,550
	allowance	0	0
	net	65,989	170,550
Other short-term receivables	gross	0	1,739
	allowance	0	0
	net	0	1,739
Short-term deferred acquisition costs	gross	2,331,735	1,900,221
	allowance	0	0
	net	2,331,735	1,900,221
Total		21,085,934	19,987,958

Liabilities to Group companies

(EUR)	30. 6. 2012	31. 12. 2011
Liabilities for shares in reinsurance claims due to Group companies	2,993,495	2,329,272
Other liabilities due from co-insurance and reinsurance	2,283,664	924,970
Other short-term liabilities	0	8,673
Total (excl. provisions)	5,277,159	3,262,915

Intra-group transactions

(EUR)	1-6/2012	1-6/2011
Gross premiums written	13,240,985	21,872,461
Gross claims paid	-4,699,061	-13,879,561
Income from recourse receivables	220,196	107,051
Other operating expenses	35,968	51,512
Dividend income	100,700	0
Other investment income	0	29,025
Interest income	219,303	223,057
Acquisition costs	-3,377,750	-4,735,981

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



**UNAUDITED
SEPARATE FINANCIAL STATEMENTS OF
SAVA REINSURANCE COMPANY**

11 UNAUDITED SEPARATE FINANCIAL STATEMENTS

11.1 Unaudited statement of financial position as at 30 June 2012 – Sava Reinsurance Company

(EUR)	30. 6. 2012	31. 12. 2011
ASSETS	465,630,546	417,051,466
Intangible assets	140,593	175,779
Property and equipment	2,422,598	2,367,170
Deferred tax assets	3,274,754	4,064,272
Investment property	157,420	158,587
Financial investments in Group companies and in associates	117,329,511	114,423,243
Financial investments:	221,821,880	208,748,194
- Loans and deposits	76,841,844	57,859,936
- Held to maturity	6,549,849	7,513,050
- Available for sale	138,359,751	143,375,208
- At fair value through profit or loss	70,436	0
Reinsurers' share of technical provisions	26,137,495	17,615,761
Receivables	84,811,691	59,848,463
Receivables arising out of reinsurance and co-insurance business	83,432,099	58,948,939
Other receivables	1,379,592	899,527
Deferred acquisition costs	9,043,370	9,305,676
Other assets	187,065	190,409
Cash and cash equivalents	304,171	153,913
EQUITY AND LIABILITIES	465,630,546	417,051,466
Equity	166,794,919	158,454,528
Share capital	39,069,099	39,069,099
Capital reserves	33,003,752	33,003,752
Profit reserves	87,373,418	87,556,850
Treasury shares	-1,774	-1,774
Fair value reserve	-5,330,868	-9,088,908
Retained earnings	7,915,508	3,596,862
Net profit/loss for the period	4,765,784	4,318,646
Subordinated liabilities	31,226,246	31,220,817
Technical provisions	218,122,108	183,891,042
Unearned premiums	63,158,932	40,897,411
Provision for outstanding claims	154,354,641	142,394,053
Other technical provisions	608,534	599,578
Other provisions	157,542	143,730
Other financial liabilities	1,200,411	729
Liabilities from operating activities	46,527,931	42,059,351
Liabilities from reinsurance and co-insurance business	46,527,626	40,374,262
Current income tax liabilities	305	1,685,089
Other liabilities	1,601,389	1,281,268

11.2 Unaudited income statement for the six months to 30 June 2012 – Sava Reinsurance Company

(EUR)	1-6/2012	1-6/2011
Net earned premiums	63,409,918	60,419,368
Gross premiums written	94,760,029	85,904,059
Written premiums ceded to reinsurers and co-insurers	-11,497,182	-14,755,846
Change in net unearned premiums	-19,852,930	-10,728,845
Income from investments in subsidiaries and associates	100,700	0
Investment income	5,049,918	3,834,159
Interest income	3,976,628	3,412,208
Other investment income	1,073,290	421,951
Other technical income	2,396,735	1,850,733
Commission income	1,240,133	1,272,020
Other income	1,156,602	578,713
Other income	3,933	251
Net claims incurred	-37,558,962	-34,676,832
Gross claims paid less income from recourse receivables	-33,970,129	-34,044,205
Reinsurers' and co-insurers' share of claims paid	2,258,613	3,242,712
Change in the net provision for outstanding claims	-5,847,446	-3,875,340
Expenses for bonuses and rebates	-8,956	-26,071
Operating expenses	-23,392,503	-20,633,326
Acquisition costs	-20,247,721	-17,607,710
Other operating expenses	-3,144,782	-3,025,616
Expenses for investments in affiliates	0	-1,433,000
Expenses for financial assets and liabilities	-3,296,318	-2,364,528
Impairment of financial assets not measured at fair value through profit or loss	-749,958	-1,320,908
Interest expenses	-777,248	-846,227
Other expenses	-1,769,112	-197,394
Other technical expenses	-962,837	-977,815
Other expenses	-5	-10
Profit/loss before tax	5,741,623	5,992,929
Income tax expense	-1,159,272	-1,772,527
Net profit for the period	4,582,351	4,220,402
Net diluted earnings/losses per share	0.49	0.45

11.3 Unaudited statement of comprehensive income for the six months to 30 June 2012
Sava Reinsurance Company

(EUR)	1-6/2012	1-6/2011
PROFIT/LOSS FOR THE PERIOD, NET OF TAX	4,582,351	4,220,402
OTHER COMPREHENSIVE INCOME, NET OF TAX	3,758,038	-836,122
Net change in fair value of available-for-sale financial assets	4,697,549	-1,045,152
Net change recognised in the fair value reserve	3,445,270	-786,798
Prenos dobičkov/izgub iz presežka iz prevrednotenja v poslovni izid	1,252,279	-258,354
Tax on other comprehensive income	-939,510	209,030
COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	8,340,389	3,384,280

**11.4 Unaudited statement of changes in equity for the six months to 30 June 2012 –
Sava Reinsurance Company**

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	VII. Treasury shares (contra account)	Total (1–11)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risks	Catastrophe equalisation reserve	Other					
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
Opening balance in financial period	39,069,099	33,003,752	14,986,525	1,774	745,290	6,998,007	64,825,254	-9,088,910	3,596,862	4,318,646	-1,774	158,454,526
Comprehensive income for the period, net of tax	0	0	0	0	0	0	0	3,758,042	0	4,582,351	0	8,340,392
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-183,432	0	0	0	0	183,432	0	0
Transfer of profit/loss	0	0	0	0	0	0	0	0	4,318,646	-4,318,646	0	0
Closing balance in financial period	39,069,099	33,003,752	14,986,525	1,774	561,858	6,998,007	64,825,254	-5,330,868	7,915,508	4,765,782	-1,774	166,794,918
Distributable profit	0	0	0	0	0	0	0	0	7,915,508	4,765,782	0	12,681,290

**11.5 Unaudited statement of changes in equity for the six months to 30 June 2011 –
Sava Reinsurance Company**

(EUR)	I. Share capital	II. Capital reserves	III. Profit reserves					IV. Fair value reserve	V. Retained earnings	VI. Net profit/loss for the period	VII. Treasury shares (contra account)	Total (1–11)
			Legal reserves and reserves provided for in the articles of association	Reserve for treasury shares	Reserves for credit risks	Catastrophe equalisation reserve	Other					
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
Opening balance in financial period	39,069,099	33,003,752	14,986,525	1,774	1,261,187	6,126,333	60,862,385	-2,767,816	0	3,596,862	-1,774	156,138,328
Comprehensive income for the period, net of tax	0	0	0	0	0	0	0	-836,121	0	4,220,401	0	3,384,280
Additions/uses of credit risk equalisation reserve and catastrophe equalisation reserve	0	0	0	0	-270,704	0	0	0	0	270,704	0	0
Carry forward of net profit for the period	0	0	0	0	0	0	0	0	3,596,862	-3,596,862	0	0
Closing balance in financial period	39,069,099	33,003,752	14,986,525	1,774	990,483	6,126,333	60,862,385	-3,603,937	3,596,862	4,491,105	-1,774	159,522,608
Distributable profit	0	0	0	0	0	0	0	0	3,596,862	4,491,105	0	8,087,967

11.6 Unaudited statement of cash flows for the six months to 30 June 2012 – Sava Reinsurance Company

(EUR)	1-6/2012	1-6/2011
A. Cash flows from operating activities		
a.) Items of the income statement	26,727,424	6,584,871
Net premiums written	83,262,848	35,153,367
Investment income (other than financial income), financed from:	908,584	207,332
- technical provisions	889,587	44,888
- other sources	18,997	162,444
Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	2,400,668	602,155
Net claims paid	-31,711,516	-16,556,553
Expenses for bonuses and rebates	-8,956	-10,931
Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs	-23,483,020	-10,890,018
Investment expenses (excluding depreciation/amortisation and financial expenses), financed from:	-2,519,069	-1,017,529
- technical sources	-1,648,376	-52,596
- other sources	-870,693	-964,933
Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions)	-962,842	-567,199
Tax on profit and other taxes not included in operating expenses	-1,159,272	-335,754
b.) Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the statement of financial position	-18,982,309	-3,525,817
Change in receivables from reinsurance	-24,026,326	-1,368,780
Change in other receivables from re/insurance business	0	-110,838
Change in receivables and assets	-1,733,885	3,902,489
Change in deferred tax assets	789,518	-80,074
Change in liabilities arising out of reinsurance business	6,153,364	-9,465,680
Change in other operating liabilities	-507,698	3,463,756
Change in other liabilities (except unearned premiums)	342,717	314,700
Change in deferred tax liabilities	0	-181,388
c.) Net cash from/used in operating activities (a + b)	7,745,115	3,059,054
B. Cash flows from investing activities		
a.) Cash receipts from investing activities	161,127,313	104,912,482
Interest received from investing activities relating to:	3,899,997	1,636,774
- investments financed from technical provisions	3,135,124	1,199,330
- other investments	764,874	437,444
Cash receipts from dividends and from participation in the profit of others, relating to:	265,406	923
- investments financed from technical provisions	31,244	923
- other investments	234,162	0
Proceeds from sale of property and equipment, financed from:	0	0
- other sources	0	0
Proceeds from sale of long-term financial investments, financed from:	57,718,775	11,662,944
- technical provisions	47,936,728	3,829,042
- other sources	9,782,047	7,833,902
Proceeds from sale of short-term financial investments, financed from:	99,243,135	91,611,841
- technical provisions	83,405,558	48,718,696
- other sources	15,837,577	42,893,145
b.) Cash disbursements in investing activities	-167,094,922	-105,628,917
Purchase of intangible assets	0	0
Purchase of property and equipment, financed from:	-102,079	0
- other sources	-102,079	0
Purchase of long-term financial investments, financed from:	-55,544,944	-30,701,157
- technical provisions	-52,563,131	-23,312,398
- other sources	-2,981,813	-7,388,759
Purchase of short-term financial investments, financed from:	-111,447,899	-74,927,760
- technical provisions	-91,285,799	-40,246,145
- other sources	-20,162,100	-34,681,615
c.) Net cash from/used in investing activities (a + b)	-5,967,609	-716,436
C. Cash flows from financing activities		
a.) Cash receipts from financing activities	1,200,000	0
Proceeds from long-term borrowing	0	0
Proceeds from short-term borrowing	1,200,000	0
b.) Cash disbursements in financing activities	-2,827,248	-2,218,028
Interest paid	-777,248	-407,444
Redemption of equity	0	0
Repayment of long-term financial liabilities	0	0
Repayment of short-term financial liabilities	-2,050,000	-1,810,584
Dividends and other profit participations paid	0	0
c.) Net cash from/used in financing activities (a + b)	-1,627,248	-2,218,028
C2. Closing balance of cash and cash equivalents	304,171	293,783
x.) Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)	150,258	124,590
D. Opening balance of cash and cash equivalents	153,913	169,193

11.7 Net earnings/loss per share

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

Net earnings/loss per share

(EUR)	30. 6. 2012	30. 6. 2011
Net earnings/losses for the period	4,582,351	4,220,402
Weighted number of shares	9,362,309	9,362,309
Net earnings/loss per share	0.49	0.45

Comprehensive income per share

(EUR)	30. 6. 2012	30. 6. 2011
Comprehensive income	8,340,389	3,384,280
Weighted number of shares	9,362,309	9,362,309
Comprehensive income per share	0.89	0.36



APPENDIX

Glossary of selected terms and calculation methodologies for indicators

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

Affiliate

An entity in which the investor has significant influence (through ownership of 20–100 percent of voting rights).

Associate

In accordance with IAS 28, associates are entities in which the investor has significant influence on the financial and operating policy decisions and which is not a subsidiary. If a shareholding corresponds to 20–50% of the voting rights, the entity is deemed to be an associate.

Capital fund

Assets representing the capital of the Company.

Cedant, cede, cession

A cedant is the client of a reinsurance company. To cede is to transfer part of any risk an insurer has underwritten to a reinsurer. The part thus transferred to any reinsurer is called a cession.

Claims incurred

Claims paid in that period including loss adjustment expenses plus the change in the provision for outstanding claims and less recourse receivables during that period. Gross/net – before/after deduction of reinsurance.

Claims paid

Claims and benefits liquidated during a given period for claims resolved either fully or in part including loss adjustment expenses. Gross/net – before/after deduction of reinsurance.

Combined ratio

the aggregation of the loss ratio and the expense ratio.

Net (incurred) combined ratio = $\text{net claims incurred} + \text{operating expenses} - (\text{reinsurance}) \text{ commission income} / \text{net premiums earned}$.

Composite insurer

Insurer that writes both life and non-life business.

Excess of loss reinsurance

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

Expense ratio

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

Facultative reinsurance

A type of reinsurance under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks of the underlying policy. Typically used to reinsure large individual risks or for amounts in excess of limits on risks already reinsured elsewhere.

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

Gross/net

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

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

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

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

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

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

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

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

Liability fund

Assets supporting technical provisions.

Life insurance liability fund

Assets supporting mathematical provisions.

Loss ratio (Incurred loss ratio)

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

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

Non-proportional reinsurance (excess reinsurance)

A reinsurance arrangement whereby the reinsurer indemnifies a ceding company above a specified level (usually a monetary amount) of losses that the ceding company has underwritten. A deductible amount is set and any loss exceeding that amount is paid by the reinsurer.

Paid loss ratio

Gross paid loss ratio = gross claims paid / gross premiums written

Net paid loss ratio = net claims paid / net premiums written

Premiums earned

The portion of premiums written that relates to the expired portion of the policy period for a given period adjusted for change in unearned premiums. Gross/net – before/after deduction of reinsurance.

Premiums written

The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Gross/net – before/after deduction of reinsurance.

Primary insurer

Insurance company that has a direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

Proportional reinsurance

A reinsurance arrangement whereby the reinsurer indemnifies a ceding company for a pre-agreed proportion of premiums and losses of each policy that the ceding company has underwritten. It can be subdivided into two main types: quota-share reinsurance and surplus reinsurance.

Required solvency margin

The minimum solvency margin capital requirement calculated in accordance with the rules based on Solvency I. The capital level representing the first threshold that triggers measures related to the Insurance Supervision Agency in the event that it is breached.

Retention ratio = net premiums written / gross premiums written

Retention

The amount or portion of risk (loss) that a ceding company retains for its own account, and does not reinsure. Losses and loss expenses in excess of the retention level are then paid by the reinsurer to the ceding company up to the limit of indemnity, if any, set out in the reinsurance contract. In proportional reinsurance, the retention may be a percentage of the original policy's limit. In non-proportional insurance, the retention is usually a monetary amount of loss, a percentage of loss or a loss-to-premium ratio.

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

Retrocession

The reinsurance bought by reinsurers; a transaction by which a reinsurer cedes risks to another reinsurer.

Recourse receivables

Amount of recourse claims which were recognised in the period as recourse receivables based on (i) any agreement with any third parties under recourse issues, (ii) court decisions, or (iii) for credit business – settlement of insurance claim.

Strategic shares

Shares of subsidiary and associate companies.

Subsidiary entity

An entity that is controlled by an investor (through ownership of more than 50 percent of voting shares).

Technical result

The aggregation of underwriting result and insurance investment income.

Underwriting result

Profit or loss realised from insurance operations as opposed to that realised from investments. The excess of premiums over claims (losses) and expenses.

Unearned premium

The portion of premiums written that applies to the unexpired portion of the policy period and is attributable to and recognised as income in future years.

DECLARATION OF THE MANAGEMENT BOARD

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

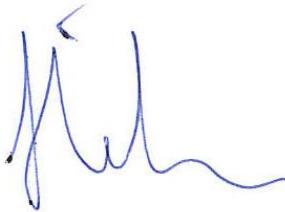
Zvonko Ivanušič, Chairman of the Management Board



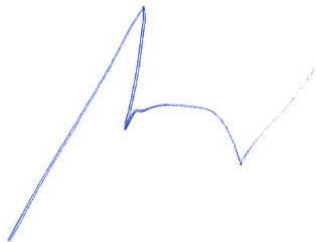
Jošt Dolničar, Member of the Management Board



Srečko Čebren, Member of the Management Board



Mateja Treven, Member of the Management Board



Ljubljana, 22 August 2012