

SAVA RE D.D.

www.sava-re.si

LJSE ticker: POSR
Bloomberg: POSR SV

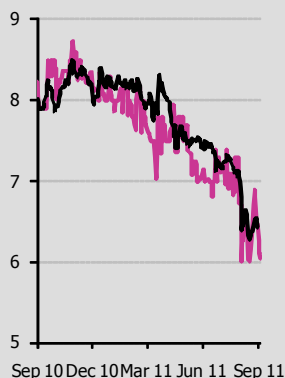
9th September 2011

Target price:
9.4 EUR

Previous target price:
10.6 EUR (11.04.11)

Recommendation:
BUY

12 months stock performance in EUR



— POSR — SBI TOP

Regional growth opportunities.

Dominant position in reinsurer business.

Owner of Zavarovalnica Maribor.

Regional risks remain.

Turnaround story.

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Stock data as of 9th September 2011

| | | | |
|---------------------------------|-----------|------------------|-------|
| Market price (EUR) | 6.0 | Market Cap (EUR) | 56.5m |
| 52 week range (EUR) | 6.0 – 8.7 | No. of Shares | 9.4m |
| Avg. daily trade vol., EUR(k) | 13.7 | Free float | 75% |
| Average daily % of stock traded | 0.019% | Dividend yield | 0% |

| Price performance | Multiples: | | TTM | 2011F |
|---------------------------|------------|-----------|------------|-------|
| | 3 months | 12 months | | |
| price change in % | -13.9% | -23.8% | P/E 6.7 | 7.7 |
| SBI TOP index change in % | -12.8% | -18.3% | P/B 0.37 | 0.37 |
| relative to SBI TOP in % | -1.3% | -6.7% | P/GWP 0.22 | 0.22 |
| | | | P/NEP 0.24 | 0.25 |

Key figures (According to International Accounting Standards) Consolidated data in EURm

| Income statement | Balance sheet: | | | | | | | |
|------------------|----------------|--------|--------|--------|-------------|-----------|--------|--------|
| | million € | FY2009 | FY2010 | 2011F | 2012F | million € | FY2009 | FY2010 |
| GPW | 251.4 | 259.1 | 262.3 | 276.0 | Equity Inv. | 47.7 | 35.6 | n.p. |
| Growth YoY | 9.5% | 3.1% | 1.2% | 5.2% | Fin.assets | 341.6 | 371.5 | 374.7 |
| NPE | 217.4 | 231.9 | 231.5 | 242.5 | Techprov. | 306.2 | 326.9 | 353.7 |
| Growth YoY | 12.0% | 6.6% | -0.2% | 4.8% | Equity | 161.7 | 150.2 | 154.1 |
| Claims paid | 147.8 | 140.0 | 144.0 | 155.0 | Assets | 560.7 | 578.4 | 611.2 |
| Claims ratio | 68.0% | 60.4% | 62.2% | 63.9% | Inv./Prov. | 1.12 | 1.14 | 1.06 |
| Net income | -25.1 | 7.5 | 7.5 | 5.9 | E/A | 28.8% | 26.0% | 25.2% |
| Growth YoY | 182.2% | n.m. | 0.1% | -20.6% | E/Prov. | 52.8% | 46.0% | 43.6% |
| EPS | -4.03 | 0.80 | 0.80 | 0.63 | ROE | -15.5% | 5.0% | 5.0% |

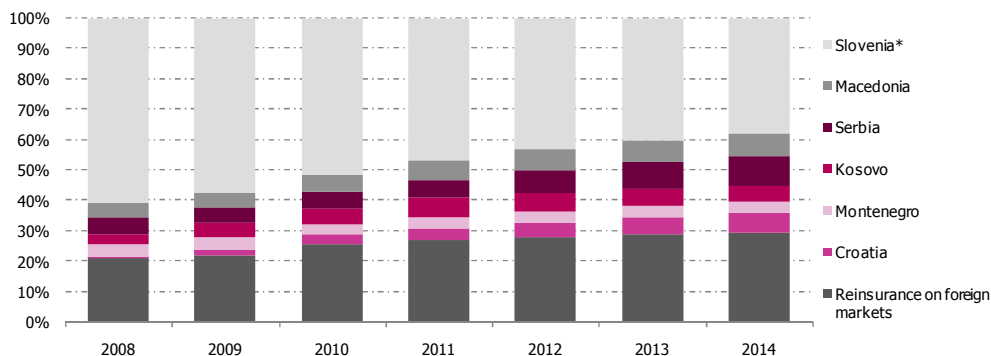
Investment Thesis:

- Growth through regional presence:** Sava Re Group has, through its subsidiaries, strong presence in the SEE region, which still has significant growth potential, since insurance and reinsurance services are still underdeveloped.

| Country data | Slovenia | Croatia | Serbia | BIH | Montenegro | Macedonia |
|-----------------------------|---------------|---------------|-------------|-------------|------------|-------------|
| Premium to GDP (in 2009) | 6.0% | 2.9% | 1.8% | 1.8% | 1.8% | 1.6% |
| Total premiums | 1.942 mio EUR | 1.268 mio EUR | 426 mio EUR | 244 mio EUR | 63 mio EUR | 105 mio EUR |
| change YoY | 1% | -2% | 6% | 4% | -4% | 5% |
| Insurance per capita in EUR | 1,022 | 288 | 78 | 65 | 104 | 49 |

Source: Zavarovalnica Triglav

- Dominant domestic position and gradual global diversification:** The local Slovenian market has only two reinsurance companies. Of the two, Sava Re has a market share of around 55%. For the reinsurance market, expected growth rates in terms of gross premium written will stand at around 1-2% (2011-2013). Group's new strategy indicates that Reinsurance will lower its dependence on domestic market and try to substantially increase the share of written premiums from foreign markets. In the next 5 years, reinsurance GWP growth in Slovenia is likely to be negative, whereas, collected GWP from foreign markets could grow around 8% annually.



*including reinsurance

- **Zavarovalnica Maribor:** Sava Re owns 48.68% of Zavarovalnica Maribor (third biggest insurance company in Slovenia with 12.4% market share; Sava RE also owns Tilia an insurance company with around 5% market share) while NKBM owns 51.00%. Disposing of this stake could give a significant cash flow to the Group since Zavarovalnica Maribor had a GWP EUR 259.6m in 2010. Although Sava Re announced that they are seriously considering the sale of ZM, they decided to keep its share in Slovenian insurance company. On the meeting in March 2011 management explained that NKBM could not meet their asking price and payment type. They also explained that 2010 results of ZM significantly improved and no longer justifies previously negotiated transaction prices (in 2010, Sava Re valued its share in ZM at EUR 70-80m).

On the latest analyst meeting in September the management explained that they could be a long time shareholder of ZM; however, they will have set some ground rules which will enable efficient joint control of the company. Although Sava Re in the last months increased its share (from 45.79% to 48.68%) they are not in a position to take over ZM. Since ZM performance is very good and positively affects Sava Re's profitability, we don't see current situation as problematic. On the other hand this asset could be eventually sold out (current value of share in ZM could be above Sava Re's market cap). Money could be used for more aggressive expansion of reinsurance operations or even extra dividend.

We should note that Sava Re's ownership of ZM is still posing some risks to Sava's credit rating. In previous years, the credit agency S&P warned Sava Re that the interconnection between insurance company ZM and Sava Re d.d. (reinsurance) is too high and negatively affects risk diversification. On the latest meeting management argue that reinsurance operations in Slovenia are decreasing and that also S&P's statements indicates there is no need to hurry with the sale of share in ZM. Also we must note again that with 51% stake, NKBM has the upper hand in ZM.

Risks:

- **Region is still unstable:** Although region presents an opportunity, SEE region is also highly macroeconomic and politically unstable region with legal system and controlling mechanism still in early stages of development. Since approximately 50% of Sava Re value is directly related to SEE region growth, any form of economic slowdown and wealth growth stagnation would have a negative impact on the value of Sava Re share price. In some countries there are also risks related to a subjective regulatory behaviour which could limit Sava Re's growth. Here a slowdown of global growth will also hamper already weak recovery in the region.
- **New acquisitions:** Sava Re is increasing its presence in SEE region. In 2010 Group increased its share in Kosovo insurance company and will probably maintain its focus on the consolidation and supporting of Group subsidiaries. Since we don't expect Sava Re to sale ZM, there is only a small chance Group will pursue new acquisitions with all its positive and negative effects.
- **High combined ratio and low profitability:** In the years 2008, 2009, combined ratio of the Group remained near 100% or above, therefore together with impairments pushed Sava Re Group into net loss. Due to more conservative approach in 2010 combined ratio significantly improved; however long term sustainability remains questionable. In the same way it is expected the improvement of profitability and achievement of long term ROE above 8%. Nevertheless risks of not improving profitability remain. Group's future performance depends on the economical and political stability in SEE region; hence, return to long term profitability could take longer than expected, given current situation.

1H11 Results and Recent news

Continuation of positive trend from 2010

| million € | 1H2010 | 1H2011 | YOY | 1H2010 | 2H2010 | 1H2011 | QoQ | YOY |
|---------------|--------|--------|-------|--------|--------|--------|-------|-------|
| GWP | 141.8 | 143.6 | 1.2% | 141.8 | 117.3 | 143.6 | 22.4% | 1.2% |
| NPE | 109.2 | 117.1 | 7.2% | 109.2 | 122.6 | 117.1 | -4.6% | 7.2% |
| Claims | 67.4 | 66.4 | -1.5% | 67.4 | 72.6 | 66.4 | -8.6% | -1.5% |
| Claims Ratio | 61.7% | 56.7% | | 61.7% | 59.2% | 56.7% | | |
| Expenses | 37.3 | 40.6 | 8.8% | 37.3 | 43.1 | 40.6 | -5.7% | 8.8% |
| Expense Ratio | 34.1% | 34.7% | | 34.1% | 35.1% | 34.7% | | |
| Net income | 3.8 | 4.9 | 27.5% | 3.8 | 3.6 | 4.9 | 33.9% | 27.5% |
| Margin | 2.7% | 3.4% | | 2.7% | 3.1% | 3.4% | 9.4% | 26.0% |

High growth in reinsurance and non-life insurance segment.

Net claims ratio improved.

Weak income from investments.

Net income above expectations.

Dividends in 2012.

- In the first half 2011, Sava Re collected gross written premium in total amount of EUR 143.5m or 1.2% more than in the same period last year. From the GWP perspective, both reinsurance and non-life segments were above plans, whereas life insurance was significantly below company plans (36% of yearly realization).
- Due to lower change in net unearned premiums, net earned premiums increased even more and jumped for 7.2% YoY. According to the management, discrepancy will be only temporary and we will see the leveling through the second part of the year.
- In the non-life insurance segment, the highest growth was seen in Slovenia, Kosovo and Croatia, where Tilia, Illyria and Velebit achieved growth of 16.3%, 17.5% and 13.5%, respectively.
- The first half of this year was very successful also from the claims perspective. Since there were no significant weather events in Slovenia consolidated net claims incurred decreased by 1.5%. Net claims ratio hence improved from 61.7% to 56.7%.
- During first six months 2011, net investment result was lower than in the same period last year. On the income side negative affect came from lower yields on the fixed income markets and weak equity market performance, on the other hand investment expenses increased mainly due to impairments. The largest contribution in the amount of EUR 1.4m came from impairment of Sava Tabak. Investment return was hence 1.9 percentage points lower than in the same period last year when the return was 4.6%.
- Below the line Sava Re Group generated net profit (equity holders) in total amount of EUR 4.8m. We should note that result was above our expectations, although the net income was affected by weak performance of insurance companies on markets in SEE and write off of receivables in Slovenia.
- On the balance sheet there were no significant changes. Sava Re adjusts portfolio allocation according to the sales trends and to the redemptions of life insurance costumers. Accordingly the exposure to riskier assets (funds and equity investments) reduced.
- During the first six months, equity increased by 2.6% to EUR 154.1m. The increase from retained earnings was partly offset by net change in fair value of AFS assets.
- Given the high level of capital, the management confirmed they are thinking about share buyback activities; however they believe this suggestion wouldn't be positively accepted by the largest owners. On the other hand the management said that in 2012 Sava Re will start with dividend policy.

Relative valuation:

| Company name | P/E | | | P/B | | | ROE TTM | | |
|-----------------------|------|-------|-------|------|-------|-------|---------|-------|-------|
| | TTM | 2011F | 2012F | TTM | 2011F | 2012F | TTM | 2011F | 2012F |
| Uniqua | 41.3 | 23.0 | 14.0 | 1.5 | 0.8 | 0.8 | 3.6% | 4.6% | 5.8% |
| VIG | 9.6 | 8.5 | 7.7 | 0.8 | 0.8 | 0.7 | 8.5% | 9.5% | 9.9% |
| Generali | 11.1 | 7.4 | 6.9 | 1.0 | 0.8 | 0.8 | 9.4% | 12.6% | 11.6% |
| Anadolu Sigorta | 10.5 | 6.3 | 5.6 | 0.6 | 0.5 | 0.5 | 6.1% | 8.7% | 8.5% |
| SCOR | 9.8 | 5.8 | 5.5 | 0.8 | 0.6 | 0.6 | 7.7% | 12.0% | 11.5% |
| Swiss Re | 18.9 | 6.5 | 6.0 | 0.7 | 0.6 | 0.6 | 3.6% | 9.6% | 9.8% |
| Hannover Re | 5.6 | 5.7 | 5.4 | 0.9 | 0.7 | 0.7 | 15.2% | 13.9% | 13.2% |
| MunichRe | 55.9 | 5.8 | 5.5 | 0.8 | 0.7 | 0.6 | 1.4% | 12.0% | 11.6% |
| Zavarovalnica Triglav | 7.1 | 7.9 | 6.4 | 0.6 | 0.7 | 0.6 | 8.8% | 8.0% | 10.0% |
| Sava Re | 6.7 | 7.7 | 9.7 | 0.37 | 0.37 | 0.37 | 5.5% | 4.8% | 3.8% |
| Median | 10.5 | 6.5 | 6.0 | 0.76 | 0.66 | 0.63 | 7.7% | 9.6% | 10.0% |

| Company name | Div. yield (%) | | Assets/ Equity (%) | Price to GWP | Price to Net Prem. Earned |
|-----------------------|----------------|-------|--------------------|--------------|---------------------------|
| | TTM | 2011F | | | |
| Uniqua | 3.0 | 0.0 | 0.0 | 22.7 | 0.35 |
| VIG | 3.4 | 4.1 | 4.6 | 8.6 | 0.44 |
| Generali | 3.8 | 5.3 | 5.8 | 24.8 | 0.27 |
| Anadolu Sigorta | 2.0 | 8.0 | 9.6 | 2.8 | 0.35 |
| SCOR | 6.9 | 7.5 | 7.9 | 7.3 | 0.44 |
| Swiss Re | 2.2 | 7.6 | 8.3 | 9.0 | 0.86 |
| Hannover Re | 7.5 | 6.9 | 7.4 | 10.6 | 0.32 |
| MunichRe | 7.3 | 7.6 | 7.9 | 11.8 | 0.32 |
| Zavarovalnica Triglav | 3.0 | 3.0 | 3.8 | 6.4 | 0.30 |
| Sava Re | 0.0 | 0.0 | 3.9 | 4.0 | 0.22 |
| Median | 3.4 | 6.9 | 7.4 | 9.0 | 0.35 |

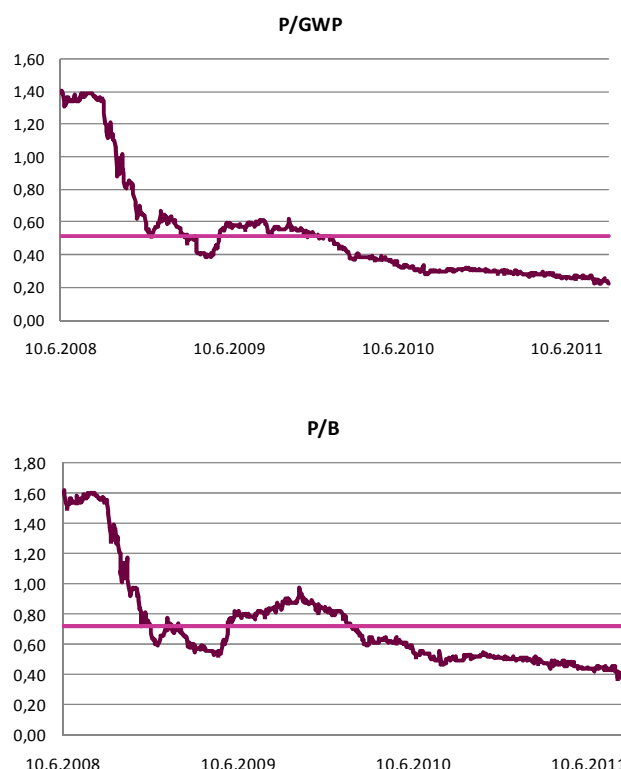
Multiples at discount, but profitability ratios also lower.

Sava Re operates in both, insurance and reinsurance business. In 2010 around half of the collected gross written premium came from reinsurance operations, the other half came from life and non-life insurance. Reinsurance premiums primarily came from developed countries (including Slovenia), however this trends could change in future years. Sava Re will gradually lower the share of reinsurance GWP from Slovenia and increase their presence on global reinsurance market (including emerging markets like China, India, S. Korea etc). Other insurance segments are more focused on developing SEE region which is a source of around half of non-life GWP and is gaining its importance also in life insurance segment. Due to Groups' diversified operations, peer group consists of the comparable insurers which operate in CEE and SEE countries and reinsurers which collect its premiums mostly in developed countries. We believe selected peer group companies are the most suitable for peer group valuation.

The peer comparison analysis shows that Sava Re currently trades at discount. Among multiples the P/NPE indicates the highest discount. The company's multiple stood at 0.24, whereas median value of the peer group stood at 0.48. Lower are also P/E and P/B which stood at 64% and 49% of the peer group multiples. Given low ROE and dividend yield lower Sava Re's P/B ratios are somewhat justified. Although SEE markets gives high growth opportunity, we believe low profitability (especially in life segment) will prevent substantial expansion of P/E multiple, hence P/E ratio could also remain below peer group median in the mid-term period.

In our peer valuation model we used all mentioned TTM multiples and forward multiples for P/E and P/B. Based on our peer group valuation model we derived a target price of EUR 8.8 per share.

Peer valuation target: 8.8 EUR



To be small and flexible seems to be advantage.

Higher growth will take its costs.

Dividends in 2012.

ZM as long term investment.

Outlook:

- In the first half of 2011 the major surprise came from markets where we expect a short term stagnation. GWP growth in first part of the year was driven by better than expected growth of non-life insurance in Slovenia and reinsurance business. The management explained that they are very successful on foreign reinsurance market where they use their flexibility as advantage against larger layers. This trend was seen also in 2011 when Sava Re saw an opportunity on Australian market where reinsurance premiums surged due to floods on domestic market and earthquakes in New Zealand and Japan. Our view now is that activity on foreign markets could more than offset shrinking domestic reinsurance business.
- In line with GWP growth we expect higher operating expenses in reinsurance segment, but on the short term we expect fewer costs in life segment. This part of the operations is especially hit by redemptions which are seen in change in other technical provisions. Although it's not clear whether this is due to weak macroeconomic conditions or aggressive competitors, it is unlikely that there will be fast reversion of this trend.
- Although 1H2011 underwriting result was very strong we expect some evening effects to come in the second half of the year. Accordingly, bottom line results will largely depend on investment income which was disappointing in the first six months of the year. Hence we now expect net income to reach EUR 7.5m.
- Although we see Sava Re as a growth story, on the last analyst meeting the management announced that in 2012 the reinsurance company will start with dividend payout. They said that for now they can't comment how high the dividend will be. We expect that dividend payout ratio could be around 30%.
- Given recent talks with the management we don't believe Sava Re will sell stake in Zavarovalnica Maribor. Insurance company was hence considered as long term strategic investment consolidated by using the equity method.
- We also don't expect the reinsurance company to additionally increase its share in ZM. Hence issuing of subordinated debt or equity won't be necessary.
- For the reinsurance operation it is necessary that Sava Re maintains current credit ratings (A- / stabile). The management warned that one important element of their S&P rating is also the involvement of Republika Slovenia in the ownership structure and that possible exit could endanger reinsurer's credit rating. For now we did not project this scenario. We also think that stand alone credit rating could be strengthened by sale of ZM.

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 490.1 | 535.3 | 560.6 | 578.4 | 588.8 | 611.2 | 643.0 | 681.3 | 723.7 |
| Total investment assets | 301.3 | 275.3 | 302.4 | 329.1 | 331.2 | 345.9 | 364.9 | 387.9 | 425.4 |
| Financial investments in assoc. | 31.0 | 33.1 | 37.6 | 42.3 | 44.4 | 45.8 | 47.1 | 48.6 | 50.0 |
| Cash and cash equivalents | 4.6 | 14.1 | 5.6 | 4.0 | 3.0 | 3.1 | 3.3 | 3.5 | 3.8 |
| Technical reserves | 235.2 | 267.1 | 306.2 | 326.9 | 330.0 | 350.0 | 374.1 | 402.1 | 432.9 |
| Equity | 169.5 | 167.1 | 152.4 | 150.2 | 154.4 | 156.4 | 160.4 | 165.3 | 171.1 |
| Solvency ratio | 106.9% | 89.7% | 74.3% | 66.7% | 67.9% | 65.4% | 63.3% | 60.9% | 58.6% |

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------|-------|---------|--------|---------|-------|--------|-------|-------|-------|
| Gross written premiums | 188.6 | 229.6 | 251.4 | 259.1 | 262.3 | 276.0 | 292.2 | 313.3 | 337.8 |
| Growth (%) | 34.3% | 21.7% | 9.5% | 3.1% | 1.3% | 5.2% | 5.9% | 7.2% | 7.8% |
| Net earned premiums | 157.7 | 194.1 | 217.4 | 231.9 | 231.5 | 242.5 | 257.0 | 276.2 | 298.4 |
| Growth (%) | 34.7% | 24.8% | 7.9% | 5.2% | -0.2% | 4.9% | 5.9% | 7.3% | 7.9% |
| Net claims | 97.9 | 121.8 | 147.8 | 140.0 | 144.0 | 155.0 | 163.2 | 172.8 | 186.4 |
| Loss ratio | 62.0% | 62.8% | 68.0% | 60.4% | 62.2% | 63.9% | 63.5% | 62.6% | 62.4% |
| Expense ratio | 33.8% | 36.5% | 35.3% | 34.7% | 34.5% | 34.1% | 33.2% | 32.1% | 31.0% |
| Combined ratio | 95.8% | 99.3% | 103.3% | 95.0% | 96.7% | 98.1% | 96.7% | 94.7% | 93.5% |
| Net investment result | 27.1 | -3.9 | -1.4 | 14.7 | 7.9 | 12.5 | 12.8 | 13.7 | 14.7 |
| Profit/(loss) before tax | 27.2 | -8.8 | -28.3 | 8.8 | 7.2 | 6.7 | 7.2 | 9.2 | 10.7 |
| Net income | 20.8 | -8.9 | -25.1 | 7.5 | 7.5 | 5.9 | 5.8 | 6.6 | 7.7 |
| Growth (%) | 61.0% | -142.7% | 182.2% | -129.7% | 0.1% | -20.6% | -2.4% | 14.7% | 16.4% |

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------|-------|---------|--------|---------|------|--------|-------|-------|-------|
| EPS | 2.65 | -1.13 | -2.68 | 0.80 | 0.80 | 0.63 | 0.62 | 0.71 | 0.82 |
| EPS growth | 61.0% | -142.7% | 137.0% | -129.7% | 0.1% | -20.6% | -2.4% | 14.7% | 16.4% |
| ROE | 12.4% | -5.3% | -15.7% | 4.9% | 4.9% | 3.8% | 3.7% | 4.1% | 4.6% |

Excess Return Valuation:

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Net profit | 7.5 | 5.9 | 5.8 | 6.6 | 7.7 | 8.7 | 9.8 | 11.1 | 12.6 | 15.4 |
| Cost of Equity | -14.0 | -14.4 | -14.6 | -14.9 | -15.4 | -15.7 | -16.1 | -16.5 | -16.9 | -17.1 |
| Excess return | -6.5 | -8.5 | -8.8 | -8.3 | -7.7 | -7.0 | -6.3 | -5.4 | -4.4 | -1.8 |
| Long-term cost of capital | | | | | | | | | | |
| Equity Invested | 150.2 | | | | | | | | | |
| Period PV of Equity Excess Return | -47.6 | | | | | | | | | |
| Terminal PV of Equity Excess Return | -13.6 | | | | | | | | | |
| Value of Equity | 89.0 | | | | | | | | | |
| Equity value per share | 9.5 | | | | | | | | | |

| Cost of equity | 2010 | TV |
|-------------------------------|-------------|-------------|
| Leveraged beta | 1.1 | 1.1 |
| Risk free rate | 2.8% | 2.8% |
| Premiums | 6.2% | 5.5% |
| Cost of equity | 9.3% | 8.6% |
| Perpetuity growth rate | 2.5% | |

ERM target price is set at EUR 9.5.

Based on our excess return model we set Sava Re Group's target price at EUR 9.5. We believe that Sava Re's activities are going in the right direction; however we remain cautious about subsidiaries in SEE countries. It is very likely that especially life segment will need substantially more time to stabilize or even improve. Accordingly we slightly lower our target price from EUR 10.0 to EUR 9.5.

| | 2010 | | 2011 | | 2012 | |
|---------------|------|------|------|------|------|------|
| | P/B | P/E | P/B | P/E | P/B | P/E |
| Current price | 0.37 | 7.5 | 0.36 | 7.5 | 0.36 | 9.5 |
| Target price | 0.59 | 11.9 | 0.58 | 11.9 | 0.57 | 15.0 |

Our final target price is set at EUR 9.4.

For our final target price we used a combination of relative and excess return valuation model. Since we believe that excess return is more appropriate approach (Sava Re's bussiness model is somewhat unique) we assign 80% weight to excess return valuation and 20% to relative valuation target price. Accordingly we set our new target price at EUR 9.4.

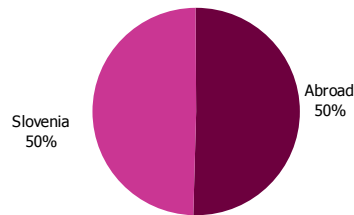
Top5 shareholders:

| | |
|-----------------------|-------|
| SOD | 25.0% |
| Abanka | 7.0% |
| Poteza Naložbe d.o.o. | 5.0% |
| Pišljari Marjan | 4.8% |
| NKBM d.d. | 4.7% |

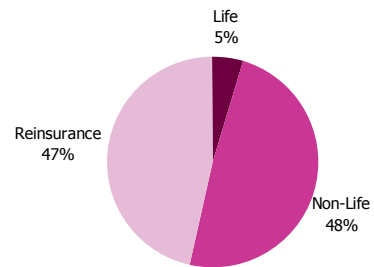
Brief Company profile

Reinsurance Co Sava (Sava Re) is the leading Slovenian company in reinsurance business with more than 50% market share and largest locally-based non-captive reinsurer in the CEE region. It operates in Slovenia and Western Balkans (Serbia, Macedonia, Montenegro and Kosovo). Together with its subsidiaries the company offers all kind of reinsurance and insurance services (life and non-life) and investment fund products. It also holds minority share in the Slovenian second biggest insurance company Zavarovalnica Maribor (48.68%). It has 1619 employees.

Group sales by region (2010)



Group sales by segment (2010)



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Matej Šimnic, Analyst

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Sašo Stanovnik, Head of research

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