Annual Report & Accounts 2006

Reinsurance Company Sava

SAVA
Pozavarovalnica Sava d.d.
Reinsurance Company Sava Limited.

ANNUAL REPORT & ACCOUNTS 2006
International Edition

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THE GROUP

The Sava Re Group comprises the parent company Sava Re (professional reinsurer) and the subsidiaries Tilia Insurance Company (composite insurer), Sava Insurance Company in Belgrade (non life insurer), Dukagjini Insurance Company in Priština (non life insurer) and since the beginning of 2007, Tabak Insurance Company in Skopje. However, the following companies are often grouped together due to their capital links:

Pozavarovalnica Sava, d.d., Ljubljana

Reinsurance Company Sava Limited (Sava Re)
Type of company: professional reinsurance company
Origin: 1977
Head office: Dunajska 56, 1000 Ljubljana, Slovenia
Called-up capital: SIT 7,862,519,000 (EUR 32,809,710.40)
Holdings by Group Members: Maribor Insurance Company – 0.0066%

Zavarovalnica Maribor, d.d., Maribor

Maribor Insurance Company
Type of company: composite insurance company
Established: 1991
Head office: Cankarjeva 3, 2507 Maribor, Slovenia
Called-up capital: SIT 6,812,050,000 (EUR 28,426,180.94)
Holdings by Group Members:
Reinsurance Company Sava: 45.64%
Board of Management: Drago Cotar (Chairman), Srečko Čebron, Darko Tolar, David Kastelic, Srečko Čarni
Chairman of the Supervisory Board: Zvonko Ivanušič

Zavarovalnica Tilia, d.d., Novo mesto

Tilia Insurance Company
Type of company: composite insurance company
Established: 1991
Head office: Seidlova 5, 8001 Novo mesto, Slovenia
Called-up capital: SIT 4,930,000,000 (EUR 20,572,525.45)
Holdings by Group Members:
Reinsurance Company Sava: 99.61%
Board of Management: Adolf Zupan (Chairman), Janez Balkovec, Primož Močivnik
Chairman of the Supervisory Board: Sergej Rusjan

Moja naložba, d.d., Maribor

Type of company: pension company
Established: 2001
Head office: Vita Kraigherja 5, 2000 Maribor, Slovenia
Called-up capital: SIT 1,150,000,000 (EUR 4,798,864.96)
Holdings by other Group Members:
Reinsurance Company Sava: 20%
Maribor Insurance Company: 20%
Tilia Insurance Company: 5%
Board of Management: Lojze Grobelnik (Chairman), Boris Pipan
Chairman of the Supervisory Board: Darko Tisaj

Sava Osiguranje, d.d., Belgrade

Type of company: non-life insurance company
Established: 1991
Head office: Sremska 6, 11000 Belgrade, Srbia
Called-up capital: SRD 445,276,000 (EUR 5,636,000)
Holdings by Group Members:
Reinsurance Company Sava: 100%
General Manager: Duško Jovanović
Board of Directors: Maja Krumberger (Chairperson), Jošt Dolničar, Goran Pitić, Goran Miličević, David Kastelic, Duško Jovanović
Chairman of the Supervisory Board: Dušan Čeč

Dukagjini, kompania e Sigurimeve, Priština

Type of company: non-life insurance company
Established: 1991
Head office: Bulevardi Dëshmorët e Kombit 67, 10000 Priština
Called-up capital: EUR 2,800,000
Holdings by Group Members:
Reinsurance Company Sava: 51%
General Manager: Fatmir Gashi
Board of Directors: Srečko Čebron (Chairman), Ekrem Lluka, Sergej Simoniti, Tomaž Oplotnik, Fatmir Gashi

Sava has many faces. We are a river of life, of people and of progress. We are on the move, we grow and develop. Faced with ever new challenges, we strive to be efficient in responding to change so that we can provide strong security to our clients and solid returns to our shareholders.

SAVA RE

Annual Report & Accounts 2006

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Sava

RIVER

of people

As drops of water on a rock so by our persitant efforts we can achieve the nigh impossible. But let the drops come together in a river and you will see their immense power. Just so, when we come together in a flow – we are strong.

DUŠAN ČEČ
Chairman of the Board of Management

REPORT
of the Board of Management

At Sava Re we have dubbed 2006 the Year of Action. It was a year of important developments, fast progress and quality growth. Above all the year was marked by the enlargement of the Sava Re Group. In October 2006, the Group acquired majority interests in the Serbian non-life insurer Polis Osiguranje (today already renamed Sava Osiguranje) and the Kosovan non-life insurer Dukagjini, while in January 2007, a majority stake in the Macedonian insurer Tabak was acquired. This enlargement, in which the Group not only acquired three companies but also entered three new direct insurance markets, necessitated further change, and Sava Re entered major personnel and organisational restructuring that will ensure effective control of the Group and the management of risks to which Sava Re and the Group are exposed.

Alongside these major investment activities, Sava Re managed to achieve exceptional results with its core business. The Company ended the year with a net profit of SIT 2.7 billion (EUR 11.3 million), corresponding to a 14-percent return on average equity. This high after-tax profit, which improved by as much as 86 percent from 2005, is the result of better performance in more areas. A major contribution is the improved ratio between net earned premiums and net claims incurred as 2006 was a calm year compared to 2005. Another improvement came from the net investment income, while rectifications of previous tax liabilities of SIT 296 million (EUR 1.2 million) also significantly contributed to the improved result.

At the year end, the Company's equity stood at SIT 20.7 billion (EUR 86.6 million). However, even though Sava Re generated a very high profit, over the year equity increased by only SIT 620 million (EUR 2.59 million). This was because as a result of changes in the treatment of investments in affiliated companies, the Company had to decrease equity at 1 January 2006. Up until financial year 2005, investments in affiliated companies were accounted for under the equity method. Allocated profits of these companies were thus recognised as an increase in investments on the assets side, and on the liabilities side of the balance sheet as an increase in the specific equity revaluation adjustment. On the introduction of new accounting standards, the Company decided on using the cost method for accounting for affiliated companies. Accordingly, both balance sheet sides were decreased by the profits of affiliated companies recognised in the past.

At the end of 2006 Sava Re entered a loan agreement in the international financial market. The Company issued EUR 32 million of subordinated debt and by the end of the year it made use of EUR 11 million. The balance was in fact used at the beginning of

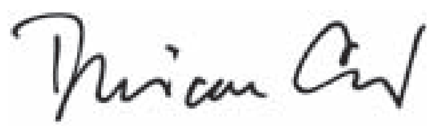
2007. For Sava Re our credit rating is of very high importance, and an important element of the credit rating is capital adequacy. It is our principle that our capital adequacy should never decrease below the AA level as calculated by Standard and Poor's. The above subordinated debt still allows the Company to remain in the AAA range. This should provide us with better chances for an improved credit rating, which is currently BBB+ with a stable outlook.

As is known, credit ratings play a significant role in international reinsurance markets. And it is primarily our international portfolio which Sava Re is planning to grow. In 2006 foreign-sourced premium accounted for 30.1 percent of total premium income. This is in line with our strategy of constructing a balanced portfolio in terms of domestic and international premium income.

Our key goal will remain quality growth in international markets. In this area we will continue to strive for focused growth, while always keeping a weather eye on the pricing cycle, and excellence in all aspects of servicing our clients, maintaining a flexible organisation that will be able to respond to changes in the international market. With additional recruitment and new ideas we will be able to achieve these goals also in the future. Despite changes in our organisation, our basic activity still is and will remain the reinsurance of risk.

Recently we have employed eight new staff in underwriting and management positions, all recognised experts in their fields. With the expertise of these professionals, Sava Re will be able to adopt a more active role in the management of its subsidiary companies. Their success is the success of the entire Group, therefore this area is of vital importance for us.

So, Sava Re has had a successful year profit-wise and acquisitions-wise, and we are already looking ahead to the challenges that the enlarged Group will bring and that the new markets already hold for us. Without the support of our loyal and trusted staff these achievements would not have been possible, and it remains for me to thank them for their efforts as we develop towards even more exciting future targets.



Dušan Čeč
Chairman of the Board of Management

REPORT
of the Supervisory Board

COMPOSITION

At the beginning of 2006, the Supervisory Board comprised the following members: Tomaž Rotar, Chairman, Dr. Timotej Jagrič, Deputy Chairman, Dr. Edo Prikmajer, Anton Sagadin and the representatives of employees Nika Matjan and Samo Selan. On 28 October 2006, Tomaž Rotar resigned as Board member and Chairman of the Board and on 28 December 2006, the General Meeting appointed the undersigned Marko Pogačnik as new member. At the beginning of 2007, the undersigned was elected Chairman of the Supervisory Board.

Activities of the Supervisory Board

The Supervisory Board met at nine sessions in 2006, at eight regular sessions and one correspondence session. In the year, the Supervisory Board, pursuant to its statutory powers and powers conferred on it by the Company articles of association, dealt with all relevant aspects of business operations of Sava Re. Supervisory Board meetings were also attended by the members of the Board of Management when deliberating business issues, and for some issues also by other professional staff of the Company.

At the beginning of the financial year, the Supervisory Board adopted the Company Business Policy and Financial Plan submitted by the Board of Management for the financial year 2006. The Financial Plan was amended in July 2006. In addition, the Supervisory Board approved the Strategic Guidelines for the Company's basic business operations for the period 2006–2011. The Supervisory Board monitored the implementation of the Business Policy and Financial Plan on a regular basis – in quarterly reports. Within this context, the Supervisory Board gave special consideration to the Company's growth targets as these had been set very high in relation to foreign-sourced business. By the end of 2011, foreign-sourced premiums are to account for 43 percent of total premium income. In recent years, this segment already recorded large growth: in 2004 it accounted for 20.6 percent, in 2005 for 24.5 percent and at the end of 2006 it represented 30.1 percent of the total portfolio. The Supervisory Board is aware of the risks involved in rapid organic growth and was therefore regularly monitoring the quality of new business assumed. In this regard, we satisfied ourselves that the Management Board acted with sufficient prudence while further reducing exposure by arranging quality reinsurance coverage.

Pursuant to statutory requirements, in 2006 the Supervisory Board adopted the Annual Internal Auditing Program and the Annual Report of Internal Auditing for the financial year 2005. With respect to internal auditing, the Supervisory Board also discussed the Report on Internal Auditing in the period 30 June–31 December 2005 and the Report on Internal Auditing for the period 1 January–30 June 2006. All documents relating to internal auditing were presented by the Internal Auditor of the Company. The Supervisory Board is of the opinion that the internal auditing reports are independent and objective, and we acknowledge that Internal Auditing reported of no material mistakes to have occurred in the conduct of the Company's business.

Furthermore, the Supervisory Board discussed the unaudited Annual Report 2005, interim reports of Sava Re for the periods January–June 2006 and January–September 2006, the Report on the inspection by the Supervisory Agency and the report of the inspection of tax authorities. Neither of the two inspections of the authorities revealed any material shortcomings or deficiencies.

The Supervisory Board also closely monitored the Company's investment activities, especially relating to investments in the equity of insurance companies. At the beginning of the year, it was informed of the put option on the Company's shares in Adriatic Slovenica, which was realised at a profit later in the year. It discussed the investment in the equity of Dukagjini Insurance Company, the investment in Polis Osiguranje and in Tabak Osiguruvanje as well as the sale of 30 percent of the Croatian insurer Helios Osiguranje. In all mentioned instances, the Supervisory Board supported the decisions of the Board of Management.

In 2006 the Supervisory Board adopted the Annual Report 2005 of Sava Re and presented it to the General Meeting together with the Opinion to the Annual Report on Internal Auditing for the financial year 2005 and the Report on the Activities of the Supervisory Board in 2005 with an Opinion to the Annual Report 2005.

In co-operation with the Board of Management, the Supervisory Board drafted resolutions to be adopted at the General Meeting and, on its own, made proposals for the appointment of new Supervisory Board members and for the appointment of the auditor for the 2006 financial year. The Supervisory Board, furthermore, decided on the appropriation of net profit for the year 2006 (after allocations to legal reserves and reserves provided for by the articles of association).

The Supervisory Board is of the opinion that the reports submitted by the Board of Management were sufficient and adequate for a thorough examination of information in order for Supervisory Board members to meet their obligations under statutory regulations and provisions of the articles of association.

The Company performed very well in 2006, and in addition to growing reinsurance premium, it also enlarged the Group, which the Supervisory Board supports. Furthermore, we support the decision of the Board of Managements to maintain very high capital adequacy. In this regard, the Supervisory Board was informed of the Company's issuing of subordinated debt of EUR 32 million. Irrespective of the fact that premium growth targets have not been met, we consider that the year was a successful one since the Company surpassed its profit target.

The Annual Report

In accordance with its mandate, the Supervisory Board reviewed the Annual Report on the operations of the Company for the 2006 financial year. The Supervisory Board is of the opinion that the Annual Report has been prepared in a clear and concise way and that it includes all elements and disclosures required by the Law on Commercial Companies, the Slovenian Accounting Standards and special rules and executive acts adopted on the basis of such special rules.

The Supervisory Board reviewed the opinion of the auditing company, which in addition to auditing the Annual Report of Sava Re, carried out audits of the associate Maribor Ins Co and of the subsidiary Tilia Ins Co. Based on a review of the Annual Report and the opinion of the external auditor, the

Supervisory Board is of the opinion that the Annual Report of the Company gives a true and fair view of the assets, liabilities and financial position of the Company and the profit of Sava Re. Hereby the Supervisory Board adopts the Annual Report of Sava Re for the 2006 financial year.

Establishing the amount and proposal for the appropriation of accumulated profit

Based on the review of the Annual Report, the Supervisory Board jointly with the Board of Management prepared a proposal for the appropriation of accumulated profit.

The net profit of the Company totalled SIT 2,710,813,000. In accordance with Article 228 of the Law on Commercial Companies and pursuant to the powers derived from Article 28 of the Articles of Association, the Board of Management allocated part of net profit in the amount of SIT 306,000 to the reserve provided for by the articles of association. In accordance with the Law on Commercial Companies, 50 percent of the remaining amount was allocated to other reserves. Allocations from net profit are properly disclosed in the financial statements of the Company.

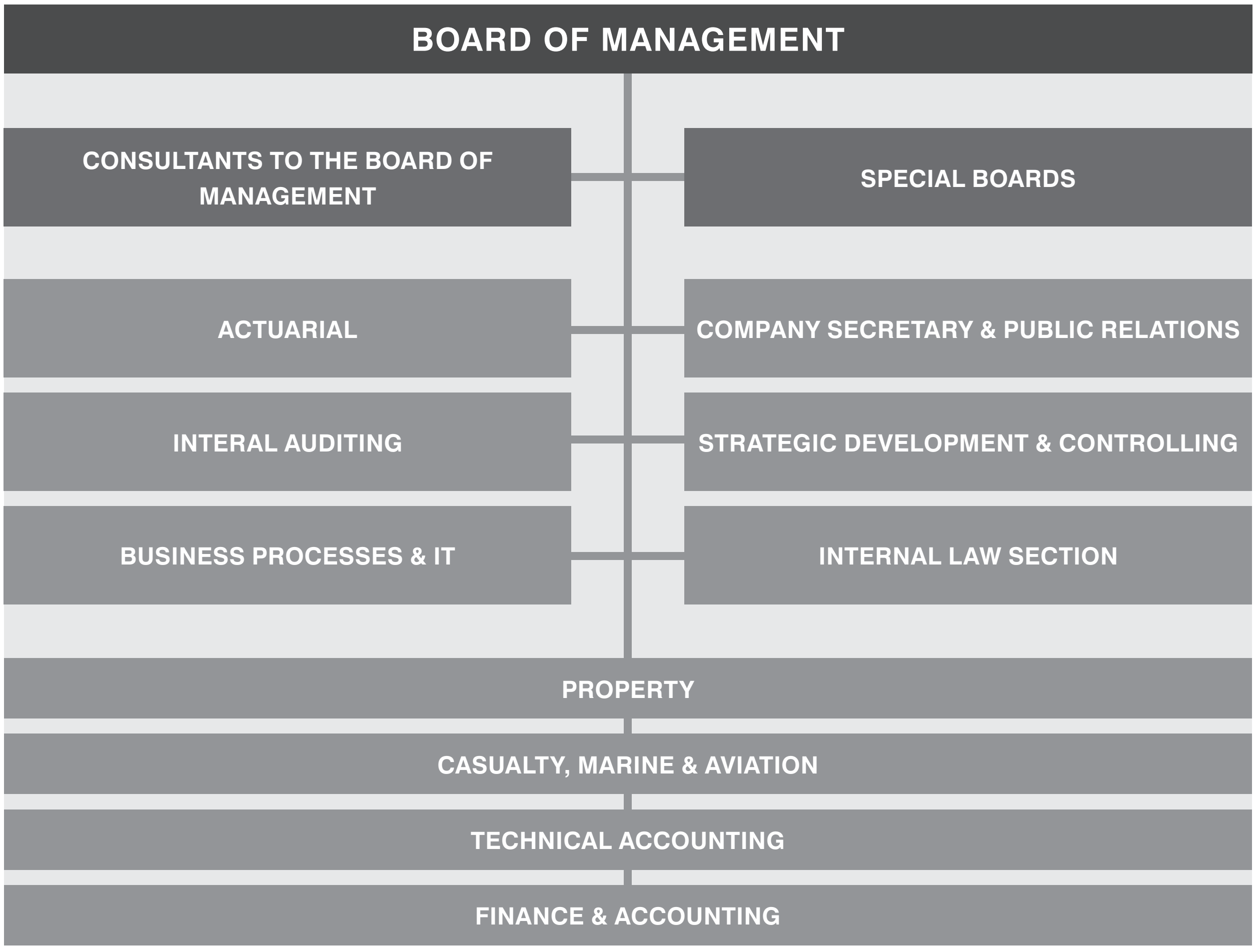
Thus the accumulated profit for the year comprised undistributed net profit of SIT 1,355,253,000 and undistributed retained earnings of SIT 1,162,949,000. The total amount of accumulated profit intended for appropriation in the Shareholders' Meeting is SIT 2,518,202,000. The Board of Management and the Supervisory Board propose that accumulated profit is used for other reserves.

The Supervisory Board proposes that the General Meeting when deciding on the appropriation of accumulated profit discharges the Board of Management and the Supervisory Board of their personal responsibility in respect of the past financial year.

This report has been prepared pursuant to Article 274a of the Law on Commercial Companies.

Marko Pogačnik
Chairman of the Supervisory Board

BOARD OF MANAGEMENT
Dušan Čeč, Chairman (centre)
Zvonko Ivanušič, Deputy Chairman (right)
Sergej Rusjan (left)



SUPERVISORY BOARD

Tomaž Rotar, Chairman
Director of Operations, Ljubljana Central Securities Clearing Operation
Until 28 October 2006

Dr. Timotej Jagrič, Deputy Chairman
Assistant Professor – Qualitative Economics/ Economic Policy, University of Maribor

Dr. Edo Pirkmajer
Retired State Secretary, Ministry of Economic Relations/Ministry of Economy

Anton Sagadin
Member of the Board of Directors, Slovenian Restitution Company

Marko Pogačnik,
Managing Director, Slovenian Restitution Company
Since 28 December 2006

Samo Selan*
Reinsurance Manager, Pozavarovalnica Sava, d.d., Ljubljana

Nika Matjan*
Legal Counsel, Pozavarovalnica Sava, d.d., Ljubljana
**Representative of employees*

Sava

RIVER

of movement

To move is to live. Do not fear the distant because distances get smaller every day, and no matter how far the journey, it always starts with a single step. When the goal is the way, all ways lead towards the goal.

TECHNICAL
Review

Premiums and claims

Gross premiums written grew by 12.8 percent to SIT 24.9 billion in 2006. Very strong growth of 38.6 percent was recorded in foreign-sourced premiums as a result of increased marketing activities in 2004 and 2005 and the rating obtained in 2005. Premiums from abroad thus account for 30.1 percent against 24.5 percent in 2005. Domestic premiums increased by 4.5 percent.

Development of gross premiums written
1997–2006, SIT million

1997	10,794
1998	12,422
1999	11,020
2000	10,801
2001	12,932
2002	16,789
2003	18,338
2004	21,299
2005	22,068
2006	24,899

The net premium in 2006 was SIT 20.6 billion, which is a 15.2 percent increase from the previous year. The retention rate was at 82.9 percent, up 1.7 percentage points from 2005. The retention rate increased as a result of the growth of business from abroad, which is almost fully retained.

In the year, the Company paid SIT 17.5 billion in claims, which is an increase of 30.8 percent from 2005.

Development of gross claims paid
1997–2006, SIT million

1997	7,091
1998	8,711
1999	8,281
2000	9,413
2001	10,100
2002	10,167
2003	10,698
2004	13,416
2005	13,384
2006	17,507

Claims paid for domestic business grew by 26.3 percent. This substantial increase was mainly due to the largest domestic cedants. Claims of Maribor Ins Co grew by 39.2 percent and of Tilia Ins. Co. by 28.7 percent. This growth mainly relates to a few very large claims, which were to a large degree retroceded abroad and thus had only a small impact on the Sava Re result.

Claims relating to international business were higher by 31.1 percent compared to 2005. This high increase is due to the growth of the international portfolio and the development of claims for previous underwriting years.

Structure of premium

The most important line of business for Sava Re remained motor insurance. MTPL accounted for 25.7 percent of the total premium income; land vehicle hull represented 17.8 percent of the total premiums written (motor liability and hull together amounting to 43.5 percent). The share of fire and natural forces together with other damage to property accounted for 39.7 percent of total premium – an increase by 3.2 percentage points compared to 2005.

Among the largest classes of business, the strongest growth in 2006 was recorded in the class of other damage to property where premium volume increased by as much as 36.3 percent.

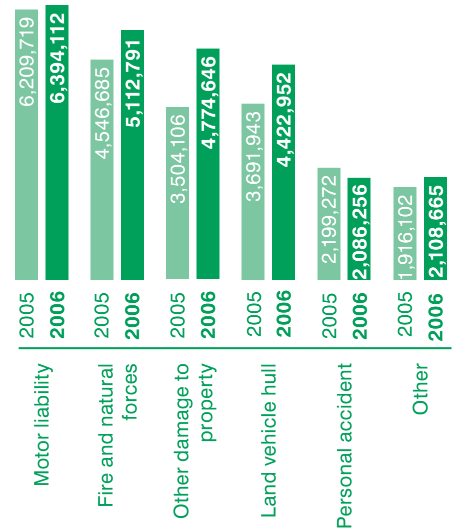
In international markets, Sava Re has until now focused on writing property and other short-tail business. As a result, business of the two classes, fire & natural forces and other damage to property, represented 73.2 percent of the foreign-sourced portfolio.

Structure of claims

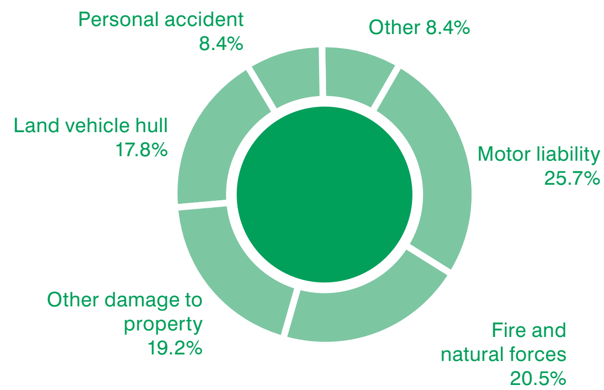
In 2006 gross claims exceeded the level of claims in 2005 by 27.3 percent (after recourses). This growth was partly due to the increase in miscellaneous financial loss claims, mainly relating to a robbery of the SKB Bank in Ljubljana in November 2005, and other damage to property claims. For other damage to property, the increase in claims amounted to 34.5 percent, which reflects the growth in the international portfolio.

Motor liability accounted for 22.1 percent of the claims portfolio (together with motor hull 40.8 percent), while the share of fire and natural forces represented 19.6 percent (21.4 percent in 2005).

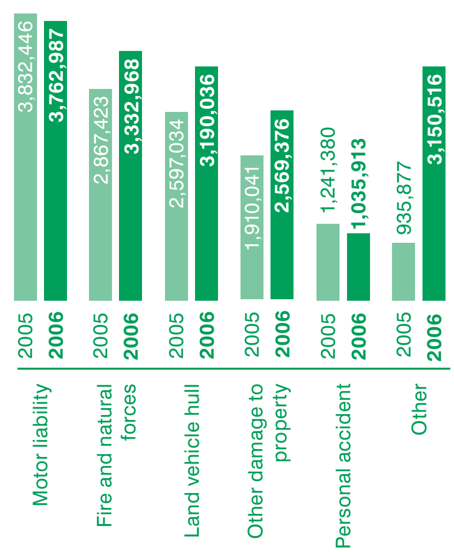
Gross premiums written by class of business
2005/2006, SIT thousand



Gross premiums written by class of business
At 31 December 2006



Gross claims paid by class of business
2005/2006, SIT thousand



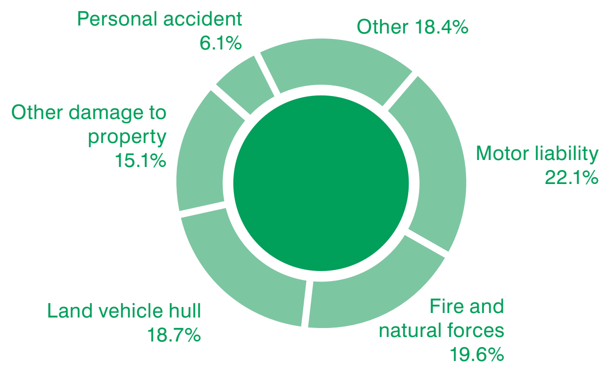
Business from international markets

In the overall premium volume, premium income from abroad accounted for 30.1 percent, which is 5.6 points more than in 2005. The growth is the result of the increased marketing activities from 2004 and reflects the favourable rating from Standard & Poor's of BBB+ assigned for the first time in 2005.

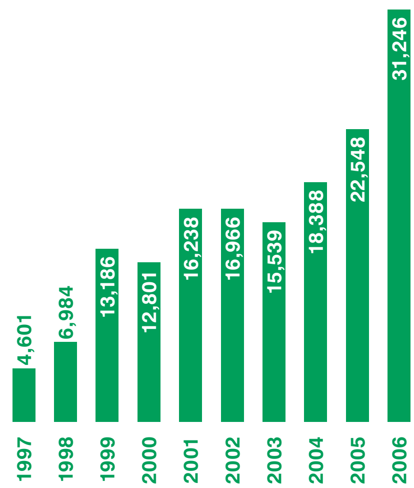
The major classes of insurance by premium volume were: fire and natural forces, accounting for 38.3 percent (42.6 percent in 2005), other damage to property with 34.9 percent (29.2 percent in 2005) and land vehicle hull with 10.1 percent (10.5 percent in 2005).

Premium sourced from EU markets accounted for 60.9 percent of the international portfolio. Since Sava Re became a member of the European Union, the share of EU sourced premium in its portfolio remained stable (above 60 percent). Another stable source of premium are the markets of the former Yugoslavia, which reflects Sava Re's long-term presence and role in the region.

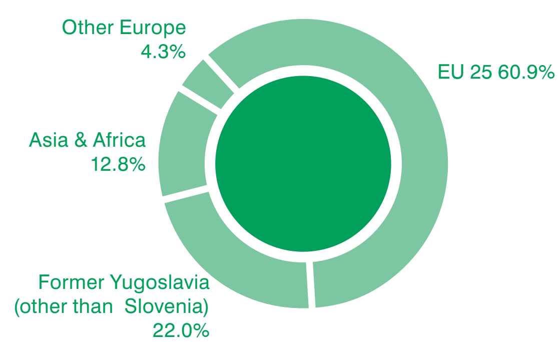
Gross claims paid by class of business



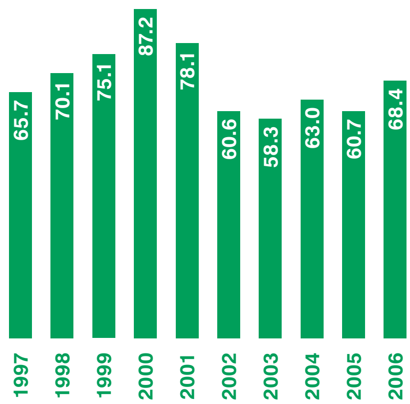
Development of gross premiums written from abroad
1997–2006, EUR thousand



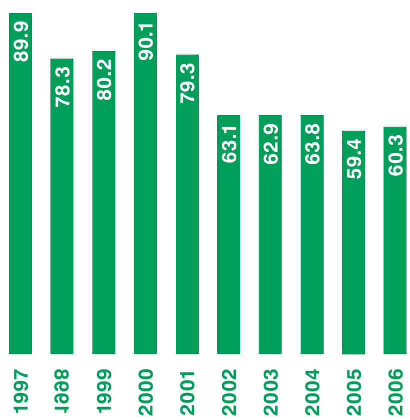
Gross premium income from abroad by area
2006, EUR thousand



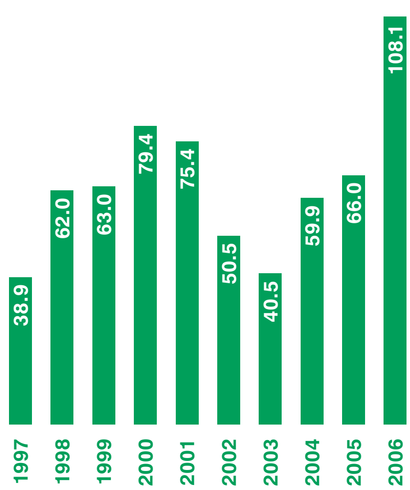
Loss ratio – overall business
1997–2006



Loss ratio – retained business
1997–2006



Loss ratio – retroceded business
1997–2006



Development of loss ratios

The gross loss ratio was 68.4 percent (60.7 percent in 2005). The loss ratio for the net account increased to 60.3 percent (from 59.4 percent in 2005).

The gross loss ratio for domestic business increased by 13.1 percentage points compared to 2005. This result was contributed to by the changed reinsurance program of Adriatic.

The gross loss ratio for foreign business improved by 2.9 percentage points as a result of favorable loss experience in the market. In 2006 this part of the portfolio continued to grow at the same pace with a proportionate increase in the claims volume.

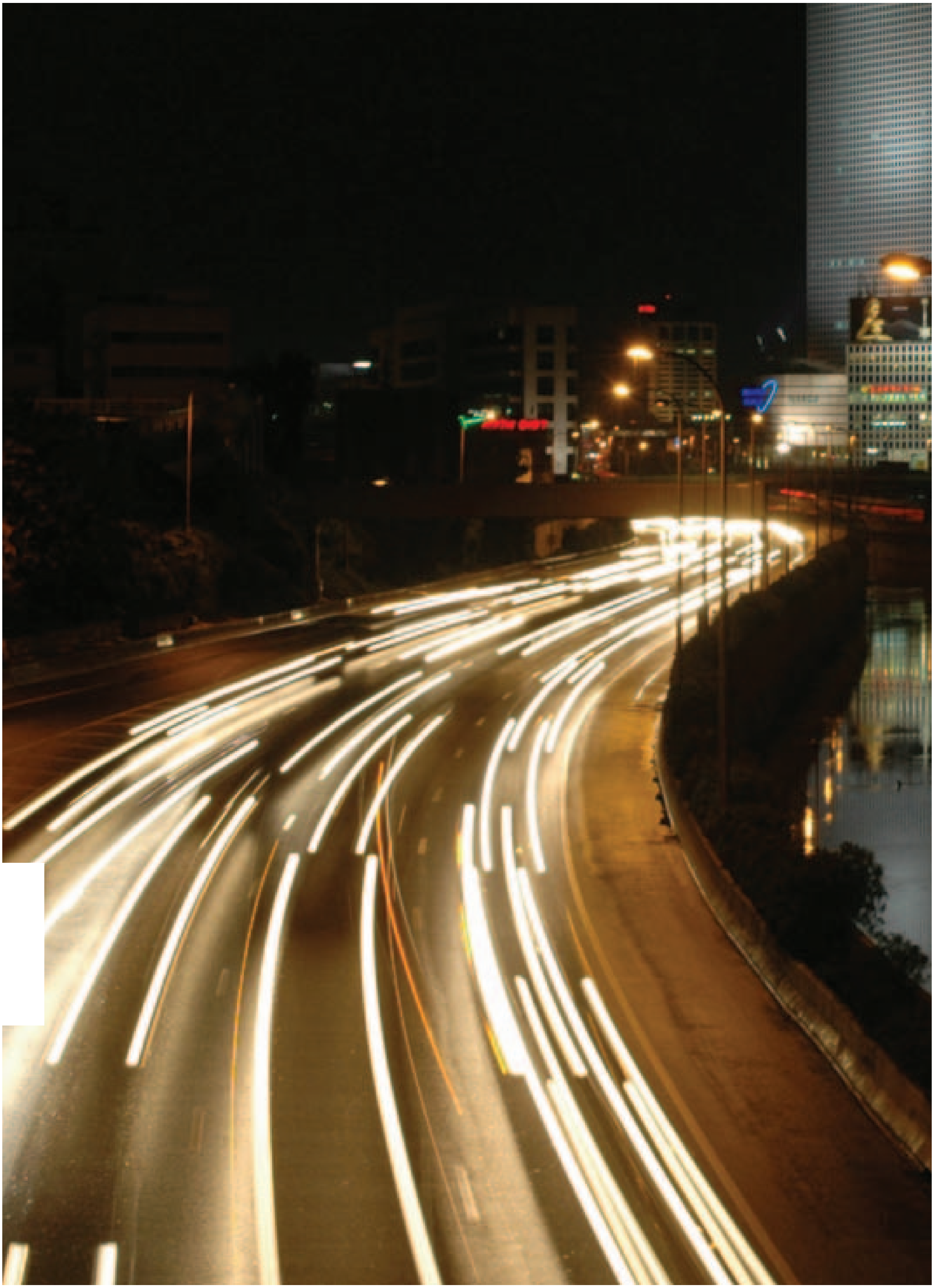
Business retroceded abroad recorded a 42.1 percentage points increase in loss ratio to 108.1 percent.

Sava

RIVER

of light

Life moves in unpredictable ways, first slow and then fast again. It is easy to keep with the current, moving a bit here and there. But sometimes one needs to go against the current with all determination to take advantage of an opportunity before it disappears.



FINANCIAL
Review

Sava Re ended the year with a pre-tax profit of SIT 3.5 billion, an increase of 70.3 percent compared to 2005, while the after-tax profit improved by 86.1 percent to SIT 2.7 billion. Based on this profit, return on equity achieved a relatively high level of 14 percent. The year was marked by a restructuring of the investment portfolio through the sale of certain stakes in Slovenian and Croatian composite insurers (sale of a 9-percent stake in Adriatic Slovenica and 30-percent stake in Helios Zagreb) and purchase of majority interests in three non-life insurers (in Belgrade, Priština and Skopje).

The year was also marked by intensive activities in the international reinsurance marketplace continued from the previous three years as a result of which an exceptional growth in foreign-sourced premium was recorded.

Results by class of business
2006, SIT thousand

Class of business	Net earned premiums	Net claims incurred	Change in the equalization provision	Change in other net technical provisions	Net operating expenses	Net investment income	Other expenses less other revene	Profit before tax
Personal accident	2,023,990	847,476	104,551	1,369	757,121	243,074	18,617	787,004
Motor hull	3,748,732	3,018,715	211,782	6,811	1,092,260	329,448	35,937	221,735
Aircraft hull	26,826	–4,044	0	–6	1,274	2,620	198	32,408
Marine hull	173,911	145,657	0	10,690	36,164	21,285	1,482	25,547
Goods in transit	231,685	134,346	0	–97	76,149	19,187	2,354	42,634
Fire and natural forces	3,254,365	2,137,323	0	–80,877	1,187,424	266,688	29,646	145,075
Other damage to property	3,428,271	2,256,036	0	–16,997	1,135,350	395,008	34,.319	449,215
Motor liability	5,909,577	3,747,917	0	–267	1,713,331	716,421	53,784	1,218,267
Aircraft liability	40,986	–10,058	0	2,042	14,651	7,521	367	46,323
Liability for ships	14,377	–3,746	2,570	3,830	2,760	3,665	143	25,571
General liability	480,473	286,763	0	–2,463	121,465	427,265	4,465	501,512
Credit	283,500	395,007	186,232	–5,354	104,283	104,013	3,515	72,616
Suretyship	9,659	19,968	0	–5,190	2,534	1,227	124	–16,682
Miscellaneous fin. loss	90,129	110,485	3,234	–2,120	24,430	5,964	784	–36,924
Legal expenses	–1,025	61	0	0	–182	559	15	–330
Medical assistance	14,722	27,634	0	–271	5,482	1,137	135	–17,343
Life	44,274	49,807	6,670	0	16,051	4,183	385	–10,346
Life – investment funds	8,512	1,438	0	0	1,502	408	77	6,057
Total profit before tax	**19,783,014**	**13,160,785**	**515,039**	**–88,900**	**6,292,049**	**2549,673**	**186,347**	**3,492,339**
Tax on profit								**822,067**
Deferred tax assets								**40,540**
Net profit for the year								**2,710,812**

The improvement in the results compared to 2005 was mainly driven by a better ratio between net claims incurred and net earned premiums. In the year under report gross premiums grew by 12.8 percent, but there was a smaller increase in earned premiums. Earned premiums, net of reinsurance, grew by 10.3 percent. Growth in gross premium was mainly driven by growth in foreign-sourced premium. Sava Re increased the foreign-sourced portfolio by 38.6 percent in 2006. However, retrocession premiums did not follow the growth in gross premiums because Sava Re retains almost the entire foreign-sourced portfolio.

Gross claims grew by 31.1 percent, but net claims incurred grew only by 5.3 percent. This difference is due to movements in the claims provision and retrocession covers. Claims paid by reinsurers were SIT 4.611 million, an increase of 68.6 percent from the previous year.

In addition, the Company improved its results by keeping expenses stable (the administrative expense ratio even decreased), by making releases from the equalization provision (as required by law) and by achieving a favourable investment result. The Company has always been very prudent in its reserving policies, nevertheless, claims provisions decreased in 2006. This is mainly due to the settlement of the claims relating to the robbery of the SKB Bank in 2005, for which provisions had been set aside in 2005. It needs to be added that this claim had no large impact on the Sava Re result as it had been covered by Sava Re's retrocession program.

Tax on profit totalled SIT 822 million. While the regular corporate tax rate was 25 percent, the after-tax profit of SIT 2.711 million was arrived at by applying the effective tax rate of 23.54 percent. Thus profit after tax increased by 86.1 percent from 2005. The effective tax rate was lower due to a recovery of an overpayment of default interest on tax for the years 2000 and 2001.

The investment portfolio

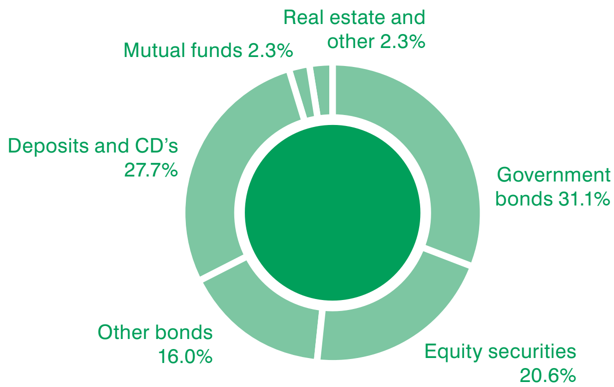
In 2006 the investment portfolio of Sava Re grew by SIT 3.05 billion (EUR 12.7 million), which represents an increase of 6.2 percent over 2005.

The investment portfolio
At 31 December 2006, SIT thousand

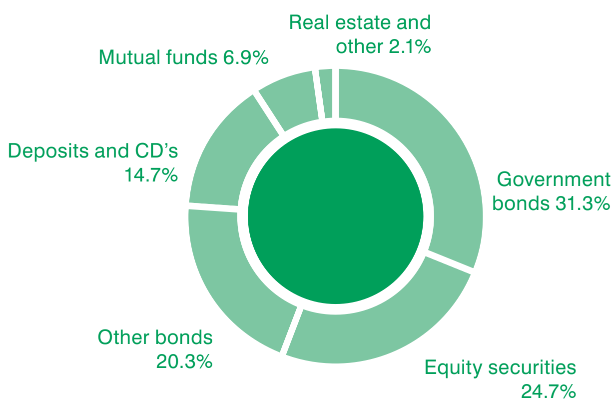
	31 Dec 2006	31 Dec 2005	Index
Government bonds	16,360,829	15,279,397	107.1
Equity securities	12,879,623	10,111,887	114.9
Other bonds	10,623,255	7,884,589	116.1
Deposits and CD's	7,693,200	13,640,123	56.4
Mutual funds	3,580,357	1,150,391	311.2
Real estate and other	1,091,415	1,114,961	97.9
Total	**52,228.679**	**49.181.348**	**106.2**

The structure of the portfolio changed substantially during the year. The largest decrease was with investments in deposits and CD-s and totalled SIT 5.9 billion. The largest increase was recorded with investments in mutual funds, structured products, and equity securities. Investments in mutual funds are in mixed and equity funds and are placed with different fund managers, providing geographical diversification and different fund policies. Increased investment in equity securities is due to the Company's decision to put some funds into management in order to improve investment returns. Investments in structured products were mainly arranged in accordance with restrictions of the Insurance Act, under which these investments should be capital guaranteed and liquid. Sava Re also increased investments in fixed income products, mainly in corporate instruments.

Investment structure
At 31 December 2005



Investment structure
At 31 December 2006



Return on investments

The rate of return was calculated on the basis of the average amount of investments, being the arithmetical mean of the amount invested on five dates throughout the year 2006, as net investment income (including revaluation on investments disclosed under equity revaluation adjustments) to average amount of investments. When calculating the rate of return, Sava Re excluded affiliated companies valued at cost.

On the basis of the method outlined above, the rate of return on investments in 2006 was 7.96 percent, which is approximately 1.23 percentage points more than in 2005 when the rate of return on investments was 6.73 percent. The largest contribution to an increased rate of return in 2006 was the sale of the stake in Adriatic Slovenica, which contributed 1 percentage point to the total rate of return. Among the rate of return achieved by different investment forms, only the return on deposits decreased (by a 0.7 percentage points) compared to 2005. This decrease is due to lower interest rates on deposits in 2006.

Technical provisions

Net technical provisions increased 3.6 percent compared to 2005. The largest increases in absolute terms were recorded in net unearned premiums (SIT 870 million) and in the net provision for outstanding claims (SIT 711 million). The relative growth (13.3 percent) in unearned premium is in line with the high net premium growth rate. The growth rate of claims outstanding (4.5 percent) is lower than the premium growth rate because some large claims from previous years were settled in 2006.

The provision for unexpired risks decreased by 0.8 percent to SIT 197 million, the provision for bonuses and rebates increased by 13.3 percent to SIT 34 million, while the provision for currency risks increased by 588 percent to SIT 9 million.

Pursuant to the Insurance Companies Act, the Company was required to decrease the equalization provision for certain classes. In this regard releases from the provision had been made since 2002. In 2005, regulations on the equalization provision for credit risks were harmonised with the EU Directive as a result of which the equalization provision was decreased by 6.7 percent in 2006, corresponding to a release of SIT 515 million. In the year, a new change in the Insurance Companies Act was adopted, which - according to the IFRS - requires the complete release of the equalization provision for all insurance lines, except for credit risks, by 1 January 2007. In this regard, the amount of SIT 6.13 billion was taken partly to retained earnings and partly to tax liabilities as at 1 January 2007.

The provision for nuclear risks was marginally increased (by 0.8 percent) to reach SIT 2.27 billion. The earthquake provision was increased by 278 percent to 96 million, following the Company's increased involvement in earthquake reinsurance. Pursuant to the IFRS, by 1 January 2007 both provisions were taken from technical provisions partly to retained earnings and partly to tax liabilities.

Technical provisions
At 31 December 2006, SIT thousand

	2006	2005	Index
Net unearned premiums	7,413,057	6,543,546	113.3
Net provision for outstanding claims	16,380,950	15,670,065	104.5
Net provision for bonuses and rebates	34,365	30,336	113.3
Provision for unexpired risks	197,485	199,054	99.2
Provision for currency risks	9,185	1,562	588.0
Equalization provision	7,118,568	7,633,608	93.2
Provision for nuclear risk	2,271,758	2,254,560	100.8
Earthquake provision	96,142	34,524	278.5
Total net technical provisions	**33,521,510**	**32,367,254**	**103.6**

The liability fund

At 31 December 2006, the liability fund exceeded technical provisions by 20 percent. This large surplus is due to the fact that according to statutory regulations, the liability fund also includes receivables due from insurance and reinsurance companies with a maturity of up to 90 days. The structure of investments in the liability fund complies with statutory regulations.

As shown in the table below, the liability fund exceeded technical provisions by over SIT 6.77 billion.

The liability fund including investments, cash and receivables
At 31 December 2006, SIT thousand

	Liability fund
Government securities	16,360,829
Receivables and cash	7,667,704
Other debt securities	5,805,292
Time deposits and CD's	5,494,429
Mutual funds	3,265,596
Equity securities	1,311,472
Structured products	387,633
Total liability fund	40,292,955
Technical provisions	33,521,511
Surplus of liability fund over technical provisions	**6,771,444**

Capital adequacy

The financial stability of the Company is evidenced by its capital adequacy figures calculated in accordance with Slovenian regulations. At 31 December 2006 the required solvency margin was SIT 3,150,357,000, while the available solvency margin stood at SIT 15,046,629,000 and exceeded the required amount by almost SIT 12 billion. Accordingly, the Company had no liquidity difficulties throughout the year 2006.

Capital adequacy calculation
At 31 December, SIT thousand

CORE CAPITAL		2006	2005
Called-up capital	1	7,862,519	7,862,519
Revenue reserves	2	9,628,584	8,273,450
Retained earnings	3	1,162,949	602,690
General equity revaluation adjustment	4	25,440	25,440
Own shares	5	425	425
Intangible fixed assets	6	17,989	16,162
Specific equity revaluation adjustment	7	182,114	2,652,067
Core capital (1+2+3+4-5-6+7)	8	18,843,192	19,399,579
Minimum guarantee fund	9	1,050,119	945,359
Surplus over minimum guarantee fund (8-9)	10	17,793,073	18,454,220

ADDITIONAL CORE CAPITAL		2006	2005
Subordinated debt	11	787,589	–
Surplus in the equalization provision	12	6,130,380	328,807
Additional core capital (11+12)	13	6,917,969	328,807

CAPITAL ADEQUACY		2006	2005
Core capital + additional core capital (8+13)	14	25,761,161	19,728,386
Deductible investments	15	10,414,532	9,375,456
Available solvency margin (14-15)	16	15,046,629	10,352,930
Required solvency margin	17	3,150,357	2,836,077
SURPLUS (16-17)	**18**	**11,896,271**	**7,516,853**

Additional core capital comprises the full amount of the equalization provision for all lines other than credit business. According to the IFRS, the Company transferred the equalization provision to equity as per 1 January 2007. In this regard, the regulator allowed insurance companies to disclose the full amount of the equalization provisions as additional core capital. At the end of 2006, the Company issued a subordinated debt in the amount of EUR 11 million. According to Slovenian law, only 75 percent of the minimum guarantee fund can be treated as additional capital.

Selected financial indicators

	2006	2005
Growth in gross premiums written	12.8	3.6
Net premiums written as % of gross premiums written	82.9	81.2
Growth in gross claims paid	27.3	–0.2
Loss ratio (overall business)	68.4	60.7
Administrative expenses as % of gross premiums written	4.3	4.4
Reinsurance commission as % of gross premiums written	20.9	22.6
Investment return as % of average carrying amount of investment	8.0	6.7
Net provision for outstanding claims as % of net earned premiums	82.8	87.4
Profit before tax as % of net premiums written	16.9	11.4
Profit before tax as % of average equity	18.0	10.8
Profit before tax as % of average total assets	5.6	3.4
Profit before tax per share (SIT)	444	261
Net profit for the year as % of average equity	14.0	7.7
Available solvency margin as % of net premiums written	66.3	53.1
Available solvency margin as % of minimum guarantee fund	434.6	335.5
Available solvency margin as % of net technical provisions	40.8	29.4
Available solvency margin as % of other liabilities and technical provisions – reinsurers' share	116.0	75.3
Net premium as % of average sum of equity and technical provisions	39.5	35.5
Net premium as % of average equity	106.5	94.6
Average technical provisions as % of net premiums written	166.5	176.2
Equity as % of unearned premiums	279.8	307.5
Equity as % of total liabilities	31.3	33.6
Net technical provisions as % of total liabilities	50.6	54.1
Total investments as % of total assets	81.4	85.0
Gross premiums written per average number of employees (SIT million)	508,151	490,396
Equity as % of net premiums written	100.4	112.2
Equalization provision as % of net premiums written	34.5	42.6
Net technical provisions as % of net premiums written	162.3	180.5
Net technical provisions as % of gross premiums written	134.6	146.7

BDO EOS Revizija d.o.o.
Družba za revidiranje

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To the shareholder of
POZAVAROVALNICA SAVA, d.d.
Dunajska 56
1000 LJUBLJANA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Pozavarovalnica Sava, d.d. (Company), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovene Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Pozavarovalnica Sava d.d. as of December 31, 2006, and of their financial performance and their cash flows for the year then ended, in accordance with Slovene Accounting Standards.

Annual Report is prepared in accordance with audited financial statements.

Ljubljana, 21 June 2007

BDO EOS Revizija d.o.o.
Dunajska cesta 106, Ljubljana

Nadja Knez M.Sc.
Certified auditor, Managing Partner

BDO EOS Revizija d.o.o.
Družba za revidiranje

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To the shareholder of
POZAVAROVALNICA SAVA, d.d.
Dunajska 56
1000 LJUBLJANA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of Pozavarovalnica Sava, d.d. (Company), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovene Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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Annual Report is prepared in accordance with audited financial statements.

Ljubljana, 21. June 2007

BDO EOS Revizija d.o.o.
Dunajska cesta 106, Ljubljana

Nadja Knez M.Sc.
Certified auditor, Managing Partner

BALANCE SHEET as at 31 December 2006
Reinsurance Company Sava

	Notes	31 Dec 2006 SIT '000	1 Jan 2006 SIT '000	31 Dec 2005 SIT '000	31 Dec 2006 EUR '000	1 Jan 2006 EUR '000	31 Dec 2005 EUR '000
ASSETS		**66,258,725**	**58,001,241**	**59,848,591**	**276,493**	**242,035**	**249,811**
A INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUE	(1)	17,989	16,162	16,162	75	67	67
B LAND, BUILDINGS AND FINANCIAL INVESTMENTS	(2)	53,938,880	49,014,853	50,874,437	225,083	204,535	212,352
I Land and buildings		540,754	1,470,076	1,482,735	2,257	6,135	6,189
II Investments in group companies and in associates		10,714,532	6,726,468	9,375,456	44,711	28,069	39,134
III Other financial investments		41,337,098	39,494,008	38,691,945	172,497	164,806	161,502
IV Deposits with cedants		1,346,496	1,324,301	1,324,301	5,619	5,526	5,528
C RECEIVABLES	(3)	8,319,058	6,875,831	6,875,831	34,715	28,692	28,700
I Receivables arising out of reinsurance and co-insurance business		7,747,748	6,249,271	6,249,271	32,331	26,078	26,085
II Other receivables		571,310	626,560	626,560	2,384	2,615	2,615
D DIVERSE ASSETS	(4)	1,825,908	121,940	109,706	7,619	509	458
I Tangible fixed assets other than investment property		89,491	72,008	59,349	373	300	248
II Cash		1,736,417	49,932	49,932	7,246	208	208
III Own shares		0	0	425	0	0	2
E SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	(5)	2,156,890	1,972,455	1,972,455	9,001	8,231	8,233
F OFF-BALANCE-SHEET ITEMS		950,344	1,193,638	1,193,638	3,966	4,981	4,982

	Notes	31 Dec 2006 SIT '000	1 Jan 2006 SIT '000	31 Dec 2005 SIT '000	31 Dec 2006 EUR '000	1 Jan 2006 EUR '000	31 Dec 2005 EUR '000
LIABILITIES		**66,258,725**	**58,001,241**	**59,848,591**	**276,493**	**242,035**	**249,811**
A EQUITY	(6)	20,743,383	18,043,821	20,122,478	86,561	75,296	83,992
I Called-up capital		7,862,519	7,862,519	7,862,519	32,810	32,810	32,819
II Share premuim account		25,440	25,440	25,440	106	106	106
III Revaluation surplus		708,638	707,831	2,739,230	2,957	2,954	11,434
IV Revenue reserves		9,628,584	8,273,025	8,273,450	40,179	34,523	34,534
V Retained earnings		1,162,949	555,857	602,690	4,853	2,320	2,516
VI Net profit for the period		1,355,253	619,149	619,149	5,655	2,584	2,584
B SUBORDINATED LIABILITIES	(7)	2,783,274	0	0	11,614	0	0
C NET TECHNICAL PROVISIONS	(8)	33,521,511	32,367,254	32,367,254	139,883	135,066	135,102
I Net unearned premiums		7,413,057	6,543,545	6,543,545	30,934	27,306	27,313
II Net provision for outstanding claims		16,380,950	15,670,066	15,670,066	68,356	65,390	65,408
III Net provision for bonuses and rebates		34,365	30,336	30,336	143	127	127
IV Equalization provision		7,118,568	7,633,608	7,633,608	29,705	31,854	31,863
V Other net technical provisions		2,574,571	2,489,699	2,489,699	10,743	10,389	10,392
D PROVISIONS FOR OTHER RISKS AND CHARGES	(9)	45,963	46,833	0	192	195	0
E OTHER LIABILITIES	(10)	8,971,070	7,229,241	7,044,767	37,436	30,167	29,405
I Liabilities arising out of co-insurance and reinsurance operations		6,791,928	5,344,986	5,344,987	28,342	22,304	22,310
II Sundry liabilities		2,179,142	1,884,255	1,699,780	9,093	7,863	7,095
F ACCRUED COSTS AND DEFERRED REVENUE	(11)	193,524	314,092	314,092	808	1,311	1,311
G OFF-BALANCE-SHEET ITEMS	(12)	950,344	1,193,638	1,193,638	3,966	4,981	4,982

PROFIT AND LOSS ACCOUNT for the year ended 2006
Reinsurance Company Sava

	Notes	2006 SIT '000	2005 SIT '000	2005 EUR '000	2006 EUR '000
A TECHNICAL ACCOUNT					
I Earned premiums, net of retrocession	(13)	19,783,014	17,936,111	82,553	74,866
II Allocated investment return transferred from the non-technical account	(14)	1,559,115	1,646,830	6,506	6,874
III Other net technical income	(15)	870	0	4	0
IV Claims incurred, net of retrocession	(16)	–13,160,785	–12,500,412	–54,919	–52,177
V Change in other net technical provisions	(17)	–88,900	–86,221	–371	–360
VI Net operating expenses	(18)	–6,292,049	–5,950,864	–26,256	–24,839
VII Other net technical expenses	(19)	–31,336	–26,775	–131	–112
VIII Change in the equalization provision	(20)	515,039	405,725	2,149	1,694
IX Balance on the technical account		2,284,968	1,424,394	9,535	5,945
B NON-TECHNICAL ACCOUNT					
I Balance on the technical account		2,284,968	1,424,394	9,535	5,945
II Investment income	(21)	2,985,376	2,866,709	12,458	11,966
III Investment expenses	(22)	–435,703	–580,057	–1,818	–2,421
IV Allocated investment return transferred to the technical account	(14)	–1,559,115	–1,646,830	–6,506	–6,874
V Other revenue	(23)	296,763	118,535	1,238	495
VI Other expenses	(24)	–79,949	–132,638	–334	–554
VII Profit before tax		3,492,340	2,050,113	14,573	8,557
C TAX ON PROFIT		**–822,067**	**–593,291**	**–3,430**	**–2,476**
D NET PROFIT FOR THE PERIOD	**(25)**	**2,710,813**	**1,456,822**	**11,312**	**6,081**

INDIRECT CASH FLOW STATEMENT for the year ended 31 December 2006
Reinsurance Company Sava

	SIT '000	SIT '000	EUR '000	EUR '000
	2006	2005	2006	2005
A CASH FLOWS FROM OPERATING ACTIVITIES				
a) ITEMS OF THE PROFIT AND LOSS ACCOUNT	1,912,949	272,628	7,983	1,138
1 Net premiums written	20,652,525	17,927,188	86,181	74,829
2 Investment income (excl. financial income)	797,387	107,411	3,327	448
3 Other operating income and financial income from receivables	297,634	118,535	1,242	495
4 Net claims paid	–12,449,901	–10,650,227	–51,953	–44,455
5 Net operating expenses excl, depreciation and excl. change in deferred acquisition costs	–6,268,003	–5,923,908	–26,156	–24,727
6 Investment expenses excl. depreciation and financial expenses	–183,341	–553,667	–765	–2,311
7 Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	–111,285	–159,413	–464	–665
8 Tax on profit and other taxes not included in operating expenses	–822,067	–593,292	–3,430	–2,476
b) CHANGES IN NET OPERATING ASSETS IN BALANCE SHEET ITEMS	–6,402	–705,628	–27	–2,945
1 Opening less closing receivables arising out of reinsurance business	–1,498,478	2,258,741	–6,253	9,428
2 Opening less closing other operating receivables	95,792	374,250	400	1,562
3 Opening less closing deferred costs and accrued revenue	–184,435	126,760	–770	529
4 Opening less closing deferred tax assets	–40,540	0	–169	0
5 Closing less opening liabilities arising out of reinsurance business	1,446,942	–3,940,695	6,038	–16,449
6 Closing less opening other operating liabilities	268,016	350,192	1,118	1,462
7 Closing less opening accrued costs and deferred revenue	–120,568	125,123	–503	522
8 Closing less opening deferred tax liabilities	26,869	0	112	0
c) NET CASH FROM OPERATING ACTIVITIES (a+b)	1,906,548	–433,001	7,956	–1,807
B CASH FLOWS FROM INVESTING ACTIVITIES				
a) CASH RECEIPTS FROM INVESTING ACTIVITIES	42,377,805	6,719,600	176,839	28,048
1 Interest received from investing activities	1,825,131	2,759,299	7,616	11,517
2 Cash receipts from participating in the profit of others	24,265	0	101	0
3 Cash receipts from disposal of tangible fixed assets	1,357	0	6	0
4 Cash receipts from disposal of long-term investments	30,134,245	44,375	125,748	185
5 Cash receipts from disposal of short-term investments	10,392,807	3,915,926	43,368	16,345
b) CASH DISBURSEMENTS FROM INVESTING ACTIVITIES	–45,369,085	–6,284,455	–189,322	–26,232
1 Cash disbursements to acquire intangible assets	–5,962	–6,245	–25	–26
2 Cash disbursements to acquire tangible fixed assets	–34,041	–18,477	–142	–77
3 Cash disbursements to acquire long-term financial investments	–16,629,590	–6,259,733	–69,394	–26,128
4 Cash disbursements to acquire short-term financial investments	–28,699,492	0	–119,761	0
c) NET CASH FROM INVESTING ACTIVITIES (a+b)	–2,991,280	435,145	–12,482	1,816
C CASH FLOWS FROM FINANCING ACTIVITIES				
a) CASH RECEIPTS FROM FINANCING ACTIVITIES	2,783,274	0	11,614	0
Cash proceeds from long-term financial liabilities	2,783,274	0	11,614	0
b) CASH DISBURSEMENTS FROM FINANCING ACTIVITIES	–12,056	–12,010	–50	–50
Dividends and other profit shares paid	–12,056	–12,010	–50	–50
c) NET CASH FROM FINANCING ACTIVITIES (a+b)	2,771,217	–12,010	11,564	–50
D CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**1,736,417**	**49,932**	**7,246**	**208**
x) NET CASH FLOW FOR THE PERIOD	1,686,485	–9,865	7,038	–41
+				
y) OPENING BALANCE OF CASH AND CASH EQUIVALENTS	49,932	59,797	208	250

CONSOLIDATED BALANCE SHEET as at 31 December 2006

	Notes	31 Dec 2006 SIT '000	1 Jan 2006 SIT '000	31 Dec 2005 SIT '000	31 Dec 2006 EUR '000	1 Jan 2006 EUR '000	31 Dec 2005 EUR '000
ASSETS		**85,891,230**	**71,726,286**	**70,627,777**	**358,418**	**299,308**	**294,804**
A INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUE	(26)	2,718,315	107,6 46	107,646	11,343	449	449
B LAND, BUILDINGS AND FINANCIAL INVESTMENTS	(27)	64,809,981	59,522,253	58,436,401	270,447	248,382	243,916
I Land and buildings		2,422,474	2,287,515	2,300,177	10,109	9,546	9,601
II Investments in group companies and in associates		6,525,879	6,590,720	6,590,720	27,232	27,503	27,510
III Other financial investments		54,515,131	49,319,717	48,221,203	227,488	205,808	201,278
IV Deposits with cedants		1,346,497	1,324,301	1,324,301	5,619	5,526	5,528
C INVESTMENTS FOR THE BENEFIT OF LIFE INSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK		1,653,441	841,876	841,876	6,900	3,513	3,514
D RECEIVABLES	(28)	10,712,075	8,629,067	8,629,068	44,701	36,008	36,018
I Receivables arising out of primary insurance business		2,385,297	2,000,422	2,000,422	9,954	8,348	8,350
II Receivables arising out of reinsurance and co-insurance business		7,009,078	5,574,464	5,574,464	29,248	23,262	23,268
III Other receivables		1,317,700	1,054,181	1,054,182	5,499	4,399	4,400
E DIVERSE ASSETS	(29)	3,334,715	388,946	376,288	13,916	1,623	1,571
I Tangible fixed assets other than investment property		511,654	296,119	283,460	2,135	1,236	1,183
II Cash		2,798,376	74,055	74,056	11,677	309	309
III Inventories and other assets		24,685	18,772	18,772	103	78	78
F SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	(30)	2,662,703	2,236,498	2,236,498	11,111	9,333	9,335
G OFF-BALANCE-SHEET ITEMS		3,569,788	3,633,303	3,633,303	14,896	15,162	15,166
LIABILITIES		**85,891,230**	**71,726,286**	**70,627,777**	**358,418**	**299,308**	**294,804**
A EQUITY	(31)	24,509,450	20,491,919	19,790,819	102,276	85,511	82,608
I Called-up capital		7,862,519	7,862,519	7,862,519	32,810	32,810	32,819
II Share premium account		25,441	25,441	25,441	106	106	106
III Revaluation surplus		4,026,930	3,204,311	2,728,006	16,804	13,371	11,387
IV Revenue reserves		9,628,584	8,273,025	8,273,025	40,179	34,523	34,532
V Retained earnings		1,428,865	589,658	365,371	5,963	2,461	1,525
VI Net profit for the period		1,355,253	527,920	527,920	5,655	2,203	2,204
VII Minority interests		181,858	9,045	8,537	759	38	36
B SUBORDINATED LIABILITIES	(32)	2,783,274	0	0	11,614	0	0
C NET TECHNICAL PROVISIONS	(33)	47,328,338	42,617,696	42,617,698	197,498	177,840	177,888
I Net unearned premiums		11,420,606	9,009,786	9,009,787	47,657	37,597	37,607
II Net mathematical provision		1,922,237	2,025,532	2,025,533	8,021	8,452	8,455
III Net provision for outstanding claims		23,924,335	21,072,453	21,072,453	99,834	87,934	87,957
IV Net provision for bonuses and rebates		69,206	62,087	62,087	289	259	259
V Equalization provision		7,174,124	7,693,994	7,693,994	29,937	32,106	32,115
VI Other net technical provisions		2,817,830	2,753,844	2,753,844	11,759	11,492	11,495
D NET TECHNICAL PROVISIONS FOR THE BENEFIT OF LIFE INSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK		1,562,393	844,249	844,249	6,520	3,523	3,524
E PROVISIONS FOR OTHER RISKS AND CHARGES		128,412	122,173	0	536	510	0
F OTHER LIABILITIES	(34)	8,838,925	7,098,569	6,823,332	36,884	29,622	28,481
I Liabilities arising out of primary insurance business		147,954	207,404	207,404	617	865	866
II Liabilities arising out of co-insurance and reinsurance business		5,980,806	4,873,766	4,873,766	24,957	20,338	20,343
III Sundry liabilities		2,710,165	2,017,399	1,742,162	11,309	8,418	7,272
G ACCRUED COSTS AND DEFERRED REVENUE	(35)	740,438	551,680	551,679	3,090	2,302	2,303
H OFF-BALANCE-SHEET ITEMS	(36)	3,569,788	3,633,303	3,633,303	14,896	15,162	15,166

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 2006

	Notes	2006 SIT '000	2005 SIT '000	2006 EUR '000	2005 EUR '000
A TECHNICAL ACCOUNT					
I Earned premiums, net of reinsurance	(37)	28,486,470	26,144,040	118,872	109,126
II Allocated investment return transferred from the non-technical account	(38)	2,104,506	1,985,401	8,782	8,287
III Other net technical income		67,238	63,288	281	264
IV Claims incurred, net of reinsurance	(39)	–18,508,827	–18,026,377	–77,236	–75,243
V Change in other net technical provisions	(40)	–723,172	–628,012	–3,018	–2,621
VI Net expenses for bonuses and rebates		–5,683	–25,467	–24	–106
VII Net operating expenses	(41)	9,380,306	–8,346,641	39,143	–34,839
VIII Other net technical expenses	(42)	–146,544	–137,134	–612	–572
IX Change in the equalization provision	(43)	526,533	427,884	2,197	1,786
X Balance on the technical account		2,420,215	1,456,982	10,099	6,082
B NON-TECHNICAL ACCOUNT					
I Balance on the technical account		2,420,215	1,456,982	10,099	6,082
II Investment income	(44)	3,651,254	3,315,161	15,236	13,838
III Net unrealised gains on investments for the benefit of life assurance policyholder who bear the investment risk		165,751	67,588	692	282
IV Investment expenses	(45)	–386,364	–684,653	–1,612	–2,858
V Net unrealised losses on investments for the benefit of life assurance policyholder who bear the investment risk		13,489	4,295	56	18
VI Allocated investment return transferred to the technical account	(38)	–2,104,506	–1,985,401	–8,782	–8,287
VII Other revenue		364,049	15,306	1,519	64
VIII Other expenses	(46)	–329,607	–397,256	–1,375	–1,658
IX Profit before tax		3,767,303	1,958,528	15,721	8,175
C TAX ON PROFIT		–874,037	–593,292	–3,647	–2,476
OTHER TAXES		–95,905	0	–400	0
D NET PROFIT FOR THE PERIOD	**(47)**	**2,989,172**	**1,365,236**	**12,474**	**5,699**

CONSOLIDATED INDIRECT CASH FLOW STATEMENT *for the year ended 31 December 2006*

	SIT '000	SIT '000	EUR '000	EUR '000
	2006	2005	2006	2005
A CASH FLOWS FROM OPERATING ACTIVITIES				
a) ITEMS OF THE PROFIT AND LOSS ACCOUNT	3,403,115	1,244,864	14,201	5,196
1 Net premiums written	29,371,355	26,016,389	122,564	108,594
2 Investment income (excl. financial income)	797,387	114,100	3,327	476
3 Other operating income and financial income from receivables	415,075	262,013	1,732	1,094
4 Net claims paid	–16,860,931	–15,586,776	–70,359	–65,060
5 Expenses for bonuses and rebates	–2,594	–556	–11	–2
6 Net operating expenses excl. depreciation and excl. change in deferred acquisition costs	–9,099,187	–8,253,787	–37,970	–34,452
7 Investment expenses excl. depreciation and financial expenses	–184,823	–553,667	–771	–2,311
8 Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	–263,071	–159,560	–1,098	–666
9 Tax on profit and other taxes not included in operating expenses	–770,097	–593,292	–3,214	–2,476
b) CHANGES IN NET OPERATING ASSETS IN BALANCE SHEET ITEMS	–141,370	–1,248,648	–590	–5,212
1 Opening less closing receivables arising out of primary insurance business	–412,403	–324,434	–1,721	–1,354
2 Opening less closing receivables arising out of reinsurance business	–1,691,718	2,308,339	–7,059	9,635
3 Opening less closing other operating receivables	19,757	252,882	82	1,056
4 Opening less closing deferred costs and accrued revenue	66,016	–143,793	275	–600
5 Opening less closing deferred tax assets	–95,905	0	–400	0
8 Opening less closing inventories	–3,281	–548	–14	–2
9 Closing less opening liabilities arising out of primary insurance business	–117,771	46,743	–491	195
10 Closing less opening liabilities arising out of reinsurance business	1,522,022	–3,975,755	6,351	–16,595
11 Closing less opening other operating liabilities	478,666	413,541	1,997	1,726
12 Closing less opening accrued costs and deferred revenue	66,380	174,375	277	728
13 Closing less opening deferred tax liabilities	26,869	0	112	0
c) NET CASH FROM OPERATING ACTIVITIES (a+b)	3,261,745	–3,784	13,611	–16
B CASH FLOWS FROM INVESTING ACTIVITIES				
a) CASH RECEIPTS FROM INVESTING ACTIVITIES	56,721,972	7,241,464	236,697	30,226
1 Interest received from investing activities	2,081,608	3,250,163	8,686	13,566
2 Cash receipts from participating in the profit of others	36,924	0	154	0
3 Cash receipts from disposal of intangible assets	1,734	30,999	7	129
4 Cash receipts from disposal of tangible fixed assets	140,614	0	587	0
5 Cash receipts from disposal of long-term investments	31,647,178	44,375	132,061	185
6 Cash receipts from disposal of short-term investments	22,813,914	3,915,926	95,201	16,345
b) CASH DISBURSEMENTS FROM INVESTING ACTIVITIES	–61,063,454	–8,099,472	–254,813	–33,808
1 Cash disbursements to acquire intangible assets	–35,089	–74,724	–146	–312
2 Cash disbursements to acquire tangible fixed assets	–136,638	–18,477	–570	–77
3 Cash disbursements to acquire long-term financial investments	–18,552,745	–6,716,803	–77,419	–28,036
4 Cash disbursements to acquire short-term financial investments	–42,338,982	–1,289,468	–176,677	–5,382
c) NET CASH FROM INVESTING ACTIVITIES (a+b)	–4,341,482	–858,008	–18,117	–3,581
C CASH FLOWS FROM FINANCING ACTIVITIES				
a) CASH RECEIPTS FROM FINANCING ACTIVITIES	2,783,284	894,620	11,614	3,734
1 Cash proceeds from paid-in capital	10	894,620	0	3,734
2 Cash proceeds from long-term financial liabilities	2,783,274	0	11,614	0
b) CASH DISBURSEMENTS FROM FINANCING ACTIVITIES	–13,955	–38,371	–58	–160
1 Interest paid on financing activities	–1,898	0	–8	0
2 Dividends and other profit shares paid	–12,056	–38,371	–50	–160
c) NET CASH FROM FINANCING ACTIVITIES (a+b)	2,769,329	856,249	11,556	3,574
D CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**1,763,648**	**74,055**	**7,360**	**309**
x) NET CASH FLOW FOR THE PERIOD	1,689,592	–5,543	7,051	–23
+				
y) OPENING BALANCE OF CASH AND CASH EQUIVALENTS	74,055	79,598	309	332

Sava

RIVER

of progress

Everything is interrelated. Everything moves and changes all the time. Change is the only certainty. We decided to be part of the change that history will call progress.

NOTES
to the Acounts

GENERAL

Pozavarovalnica Sava d.d., Ljubljana (hereinafter »Sava Re«) was established under the *Law on the Foundations of the Life and Non-life Insurance System* and was entered in the company register at the Basic Court of Ljubljana, Ljubljana Unit, on 28 December 1990.

In 2003 the amount of share capital and the number of shares were adjusted pursuant to the *Law on the Ownership Transformation of Insurance Companies* (2002). In accordance with this law and on the basis of a government order, subscribed capital was increased to SIT 7,862,519,000 from reserves. The change was entered in the court register on 29 April 2003.

Sava Re transacts reinsurance business in the domestic and in the international market. The standard code of its activities is 66.030. Under the *Law on Commercial Companies* (hereinafter: »Companies Act«), the Company is classified as a large company.

In the business year, the average number of employees was 46.5. At 31 December 2006, the Company employed 49 staff.

The bodies of the Company comprise the shareholders' meeting, the supervisory board and the board of management.

Accounting polices and basis of preparation

The financial statements of Sava Re for the financial year 2006 have been prepared in accordance with the *Companies Act,* the *Slovenian Accounting Standards* (hereinafter: »SAS 2006«), the *Insurance Companies Act* and executive acts (*Decision on Insurance Company Annual Reports and Quarterly Financial Statements-SKL 2002 (*hereinafter *SKL 2002)).* The SAS 2006, which came into force on 1 January 2006, introduced considerable changes. Therefore, in accordance with instructions of the Slovenian Institute of Auditors, we prepared the balance sheet with an additional column for the balance as at 1 January 2006. Changes which occurred from 31 December 2005 to 1 January 2006 are explained in the notes to the accounts.

In selecting the accounting policies and deciding on the use for preparing financial statements, the Board of Management of the Company follows the requirements of understandability, relevance, reliability and comparability.

The financial statements have been prepared on the going concern basis and on the accrual basis, strictly observing the principles of consistency, prudence, substance over form and materiality. As fluctuations in prices and exchange rates are inevitable in modern economies, the financial statements have been prepared in line with the assumption of true and fair disclosure under such circumstances, however not under conditions of hyperinflation.

The presentation currency of Sava Re and the Group is the Slovenian tolar (SIT), rounded to the nearest thousand. The assets and liabilities, income and expenses of foreign entities are translated from their national currencies into the Group's presentation currency using the central rate of the Bank of Slovenia as at 31 December 2006, i.e. 1 euro = 239.64 Slovenian tolar (31 December 2005: 1 euro = 239.5756).

Foreign currency transactions are translated using exchange rates prevailing at the date of the transactions.

Recognition and measurement

Balance sheet items have been recognised and measured in accordance with the SAS 2006, the provisions of the Insurance Act and relevant executive acts. Rules of recognition and measurement are described in greater detail in the *Accounting Rules of Sava Re* (hereinafter »internal accounting rules«). Individual methods applied are disclosed with individual items of the financial statements.

Changes in accounting policies

In line with the provisions of the SAS 2006, accounting policies were changed in the following areas:

- investments in the equity of affiliated companies: in the Sava Re financial statements the equity method of accounting for investments is no longer used as investments are carried at cost; in the consolidation, the capital method is used for associated companies;
- other financial investments quoted on active securities markets, which are carried at fair value;

- long-term provisions for anniversary bonuses and terminal leave pay, which were set aside for the first time on 1 January 2006 and charged against retained earnings;
- allowance for bad receivables: in line with the provisions of the revised Decision on the Detailed Method of Valuing Bookkeeping Items and Preparing Financial Statements of Companies, allowances are no longer set aside according to the delay in payment (90 days after maturity), but individually depending on past experience with individual clients.

Relating to technical provisions, the *Insurance Companies Act C*, which came into force in July 2006, abolished the setting aside of equalization provisions for all classes of insurance except for credit business. Sava Re determined that the equalization provision (except for credit business) at 31 December 2006 is the same as at 31 December 2005 less the remaining release as under the Insurance Act A.

NOTES TO THE BALANCE SHEET OF SAVA RE

The Company makes disclosures for all material items of the balance sheet in compliance with the *Companies Act*, SAS, *Decision on the Annual Report of Insurance Companies (2002)* and internal accounting rules. As a rule, a balance sheet item is treated as material if it exceeds 1 percent of total assets, corresponding to SIT 662,587,000 as per 31 December 2006.

(1) Intangible assets and long-term deferred costs and accrued revenue

(SIT '000)	Licenses, software
COST	
At 31 December 2005	39,004
Additions	5,962
At 31 December 2006	44,966
AMORTISATION	
At 31 December 2005	22,842
Amortisation	4,135
At 31 December 2006	26,977
NET CARRYING AMOUNT	
At 31 December 2005	**16,162**
At 31 December 2006	**17,989**

Intangible assets, which comprise computer software, increased as a result of purchases of new software licences. In line with accounting standards, these assets have not been revaluated. For intangible assets the amortisation rate is 20 percent and has not been changed from 2005. Intangible assets are valued at acquisition cost plus expenses related to bringing these assets to their intended use. Amortisation has been calculated per item on a straight-line basis.

(2) Land, buildings and financial investments

Opening balance at 1 January 2006

The SAS 2006 introduced important changes regarding the valuation of financial investments at 1 January 2006.

At 1 January 2006 the Company classified all investments, except land, buildings, deposits, loans and investments in the equity of affiliated companies as available-for-sale financial assets.

Pursuant to valuation rules applicable to reclassifications, available-for-sale assets quoted on active securities markets on 1 January 2006 were revaluated to fair value. The effect of revaluation was taken to the revaluation surplus.

Investments in land and buildings that yield rent or are held for a long-term value increase, have been reclassified as investment property, others have been transferred to tangible fixed assets other than investment property. No effects have resulted from this reclassification.

Investments in the equity of affiliated companies have been accounted for under the cost method. The effects of accounting for investments on the equity method have been removed as a result of which there was a significant decrease in the revaluation surplus (at 31 December 2005 – specific equity revaluation adjustment). In the past years, this revaluation surplus had been increased from profits of affiliated companies.

Rules of recognition and measurement of investments in 2006

Financial investments are recognised as assets when – taking into consideration the contract date – the Company takes control of the contractual rights that comprise the asset.

Financial investments are recognised at cost increased by transaction costs, except for financial assets at fair value through profit or loss, the transaction costs of which are charged against investment expenses.

The Company recognises and measures investments pursuant to the SAS 2006 (3). Generally, investments classified as financial assets at fair value through profit or loss or as available-for-sale financial assets are recognised at fair value, which is evidenced if the cost of the investment can be measured reliably. Fair value is reliably measurable if there is a quoted market price in an active securities market. If there is no quoted market price, the investment is measured at cost.

A recognised gain or loss from a change in the fair value of a financial asset that is not part of a hedging relationship is recorded as follows:

a) a gain or loss on a financial asset classified as at fair value through profit or loss is taken to the profit and loss account;

b) a gain or loss on an available-for-sale financial asset is recognised directly in equity as an increase (gain) or a decrease (loss) in the revaluation surplus; should the fair value of an available-for-sale financial asset be lower than its recognised value, negative revaluation surplus is recognised.

Investment property is measured at cost. If the investment property is to be sold and there is a firm intention to do so or a sales contract is already in place, such property is classified as non-current asset held for sale. Such a non-current asset is measured at the lower of the carrying amount or fair value, less costs to sell.

The Company carries investments in the equity of affiliated companies at cost with recognised necessary impairment, the value of which is established on every balance sheet date.

Financial investments are recognised and measured pursuant to the SAS 2006. Revaluation is carried out quarterly at the end of each quarter, the latest revaluation on 31 December 2006.

The Company continues to use the first-in first-out principle of accounting for investments.

Tangible fixed assets

(SIT '000)	Land and buildings	Equipment and other tangible fixed assets	Total
COST			
At 31 December 2005	415,899	268,070	683,969
Additions		34,043	34,043
Transfers to tangible fixed assets other than investment property		17,230	17,230
Disposals		−13,722	−13,722
At 31 December 2006	415,899	305,621	721,520
DEPRECIATION			
At 31 December 2005	47,111	208,721	255,832
Depreciation	5,083	16,157	21,240
Transfers to tangible fixed assets other than investment property		4,882	4,882
Disposals		−13,630	−13,630
At 31 December 2006	52,194	216,130	268,324
NET CARRYING AMOUNT			
At 31 December 2005	**368,788**	**59,349**	**428,137**
At 31 December 2006	**363,705**	**89,490**	**453,196**

In the Sava Re 2005 annual report, it was reported that due to an increase in the number of employees, the Company had resumed use of premises previously leased. In 2006 these premises were furnished, which is reflected in the additions of equipment of SIT 34,043,000.

At 1 January 2006, tangible fixed assets other than investment property were increased by the amount of the transfer of holiday facilities previously held as investments.

In the process of furnishing premises, some office furniture and computer equipment which had already been fully depreciated was disposed of.

Tangible fixed assets used in insurance activities

The acquisition cost of tangible fixed assets is composed of the basic acquisition cost plus direct expenses. Depreciation has been calculated per item on a straight-line basis. The below depreciation rates are the same as in 2005.

DEPRECIATION RATES OF TANGIBLE FIXED ASSETS FOR 2006	
Land	0%
Buildings	1.3%–1.8%
Transportation	15.5%
Computers and IT equipment	33.0%
Office and other furniture	10%–12.5%
Other equipment	6.7%–20%

Investments

(SIT '000)	At 31 Dec 06	At 31 Dec 05	Index
Investment property and other	1,091,415	1,114,961	97.9
Government securities	16,360,829	15,279,397	107.1
Other debt securities	10,623,255	7,884,589	134.7
Shares in affiliated companies	10,334,532	8,995,456	114.9
Other equity securities	2,545,091	1,116,431	228.0
Deposits with domestic banks and savings banks	7,693,200	13,640,548	56.4
Mutual funds	3,580,357	1,150,391	311.2
Total	**52,228,679**	**49,181,773**	**106.2**

According to the SAS 32, the item land, buildings and financial investments includes financial investments as well as land and buildings used by the Company for insurance activities. At 31 December 2006, land and buildings of SIT 363,704,000 were used in insurance activities. These investments have been excluded from the presentation of the investment portfolio as shown above. In addition, deposits with cedants of SIT 1,346,497,000 have been excluded because such deposits are not viewed as a traditional form of financial investment. The table above shows net amounts of investments. Also in 2006, pursuant to the Company business plan, a significant portion of the portfolio was restructure. A considerable portion of mature time deposits was reinvested in other forms of investments.

In the year, invested assets increased by 6.2 percent, compared to a growth of 6.4 percent in 2005. In relative terms, the largest increase was with mutual funds, equity securities and debt securities, while in absolute terms, the largest increase was with debt securities for the second year in a row.

Investments supporting the liability fund

(SIT '000)	At 31 Dec 06	At 31 Dec 05	Index
Land, buildings and other	0	921,772	–
Government securities	16,360,829	15,007,202	109.0
Other debt securities	6,192,925	4,296,740	144.1
Shares in affiliated companies	0	0	–
Other equity securities	1,311,472	140,479	933.6
Deposits with domestic banks and savings banks	5,494,429	9,130,757	60.2
Mutual funds	3,265,596	972,099	335.9
Total	**32,625,251**	**30,469,049**	**107.1**

In 2006 invested assets supporting the liability fund grew by 7.1 percent. The most significant increase was with assets invested in mutual funds. The largest percentage increase was achieved by investments in other shares.

Investments supporting the capital fund

(SIT '000)	At 31 Dec 06	At 31 Dec 05	Index
Land, buildings and other	1,091,415	193,189	564.9
Government securities	0	272,195	–
Other debt securities	4,430,330	3,587,849	123.5
Shares in affiliated companies	10,334,532	8,995,456	114.9
Other equity securities	1,233,619	975,952	126.4
Deposits with domestic banks and savings banks	2,198,771	4,509,791	48.8
Mutual funds	314,761	178,292	176.5
Total	**19,603,428**	**18,712,724**	**104.8**

Investments supporting the capital fund increased by 4.8 percent compared to 2005. In absolute terms, the largest increase was with investments in affiliated companies (14.9 percent).
In the second half of 2006, the Company made some acquisitions so that these additional investments more than offset the decrease resulting from the abandonment of the equity method in accounting for the investments in Maribor Ins Co and Tilia Ins Co at 1 January 2006. The largest percentage increase was with land and buildings as a result of a transfer of the real estate in Ljubljana (Celovška 175) from the liability fund to the capital fund.

Following is an overview of long-term and short-term investments by type of investment. Generally, long-term investments include available-for-sale assets, land and buildings, investments in the equity of affiliated companies, time deposits and CDs with a maturity period of more than one year. Short-term investments comprise financial assets at fair value through profit or loss and investments with a maturity of less than one year.

Investment property

(SIT '000)	Investment property
COST	
At 31 December 2005	1,170,099
Transfer to tangible fixed assets other than investment property	–17,230
Transfer to non-current assets available-for-sale	–950,436
At 31 December 2006	202,434
DEPRECIATION	
At 31 December 2005	56,152
Depreciation	10,764
Transfer to tangible fixed assets other than investment property	–4,571
Transfer to non-current assets available-for-sale	–36,961
At 31 December 2006	25,385
NET CARRYING AMOUNT	
At 31 December 2005	**1,113,947**
At 31 December 2006	**177,049**

Depreciation has been calculated on a straight-line basis. The annual rate of depreciation is 1.3 percent. The Company's investment property is located in Ljubljana at Dunajska 56 and is leased.
As shown in the above table, the Company transferred a large amount of these assets to non-current assets available-for-sale. This transfer refers to premises in Ljubljana at Celovška 175 in the amount of their cost of SIT 950,436,000, while accumulated depreciation amounted to SIT 36,961,000. The Company signed an agreement for the sale of these premises, which will be completed at the end of 2007, and received a 10-percent down payment as security. The contract price is confident.
The amount transferred to tangible fixed assets other than investment property of SIT 17,230,000 and accumulated depreciation of SIT 4,571,000 relates to holiday facilities.
The Company realised SIT 77,967,000 of income and incurred SIT 61,361,000 of expenses by leasing investment property in 2006.

Long-term investments

(SIT '000)	Liability fund At 31 Dec 2006	Capital fund At 31 Dec 2006	Liability fund At 31 Dec 2005	Capital fund At 31 Dec 2005
Land, buildings and other	0	177,049	921,772	192,175
Government securities	10,638,663	0	12,073,524	0
Other debt securities	4,419,202	4,190,690	2,859,720	3,125,824
Share in affiliated companies	0	10,334,532	0	8,995,456
Other equity securities	776,552	1,173,709	140,479	758,952
Deposits with domestic banks and savings banks	1,486,492	390,200	2,025,200	795,500
Mutual funds	3,437,919	374,671	972,099	178,292
Other	1,810	891	0	1,014
Long-term investments	**20,760,638**	**16,641,742**	**18,992,794**	**14,047,213**

Short-term investments

(SIT '000)	Liability fund At 31 Dec 2006	Capital fund At 31 Dec 2006	Liability fund At 31 Dec 2005	Capital fund At 31 Dec 2005
Land, buildings and other	0	913,475	0	0
Government securities	5,722,166	0	2,933,678	272,194
Other debt securities	1,771,912	239,640	1,437,020	462,024
Other equity securities	362,598	0	0	217,002
Deposits with domestic banks and savings banks	4,007,937	1,808,571	7,105,.557	3,713,866
Short-term investments	**11,864,613**	**2,961,686**	**11,476,255**	**4,665,086**

Long-term investments in the equity of affiliated companies

(SIT '000)	Carrying amount of investment	Shareholding	Voting shares	Total equity	Net profit/loss for the year 2006
ZAVAROVALNICA MARIBOR d.d., Maribor, Cankarjeva 3 (Maribor Ins Co)	7,469,438	45.64%	45.64%	16,366,349	1,277,601
ZAVAROVALNICA TILIA d.d., Novo mesto, Seidlova 5 (Tilia Ins Co)	2,724,705	99.61%	99.61%	2,735,373	187,133
MOJA NALOŽBA d.d., Maribor, Vita Kraigherja 5	169,832	20.00%	20.00%	849,159	13,868
SAVA OSIGURANJE a.d., Beograd, Sremska 6 (Sava Ins Co)	1,747,993	99.99%	99.99%	1,748,169	209,329
DUKAGJINI KOMPANIA E SIGURIMEVE, Priština, Bulevardi Dëshmorët e Kombit 67 (Dukagjini Ins Co)	234,164	51.00%	51.00%	459,145	–218,506

In 2006 the equity of Tilia Ins Co was increased by SIT 230 million, almost solely by Sava Re (SIT 229.99 million). In the year, Helios Osiguranje was sold and major shares were acquired in Sava Ins Co, Belgrade, and in Dukagjini Ins Co, Priština.

Investments in subordinated debt

(SIT '000)	Type of bond	At 31 Dec 2006
ABANKA VIPA d.d.	AB04	289,752
ABANKA VIPA d.d.	AB06	106,849
BANKA DOMŽALE d.d.	BDM1	116,681
DEXIA	DEXGRP 5 5/8 03/08	55,539
FACTOR BANKA d.d.	FB15	199,860
ING BANK	INTNED 5 7/8 02/11	104,503
NLB d.d.	NLB13	285,600
NLB d.d.	NLB FLOAT 49	1,117,471
PROBANKA d.d.	PRB8	479,280
ZAVAROVALNICA TILIA d.d.	ZTI1	380,000
ZAVAROVALNICA TRIGLAV d.d.	ZT01	80,751
Total		**3,216,287**

At 31 December 2006, long-term investments in subordinated debt accounted for 6.16 percent, against 5.32 percent in 2005.

Financial investments in excess of 1 percent of total assets

Long-term financial investments

(SIT '000)	Liability fund	Capital fund	Total
Shares in affiliated companies			
Shares in group companies	0	6,949,029	6,949,029
Shares in associated companies	0	3,385,503	3,385,503
Bonds			
Slovenian government bonds	15,852,544	0	15,852,544
Slovenian bank bonds	3,217,596	993,308	4,210,904
Government fund bond	418,807	601,375	1,020,182

Short-term financial investments

(SIT '000)	Liability fund	Capital fund	Total
Slovenian government bonds	5,722,166	0	5,722,166
Slovenian bank bonds	1,650,199	0	1,650,199

Deposits with cedants

In accordance with reinsurance contracts, cedants retain part of the reinsurance premium. These portions are generally settled after one year. Receivable in this respect amounted to SIT 1,346,497,000, which is only a slight increase from the previous year.

Risk exposure by form of investment

Government securities

These investments are considered as the least risky, which is why the Company employs no specific instruments of security. In the year under report the Company only acquired government securities issued by the Slovenian government. The portfolio of government securities comprises Slovenian government securities and foreign government securities rated AAA by Standard & Poor's or better. As the majority of bonds from this category is quoted on secondary markets, they are valued at fair value.

Other debt securities

These debt securities are exposed to credit risk due to default; however, the Company employs no instruments of security because these securities mainly include bonds rated A- or better by Standard and Poor's. Exceptions comprise unrated domestic bonds issued by the foremost domestic banks. Sava Re continuously monitors changes in ratings in order to be able to sell investments in case of a significant deterioration in rating.
In addition to credit risk, bonds are exposed to changes in interest rates. Bond yields increased in line with increases in the key interest rate of the European Central Bank, resulting however in a decrease in bond prices and in negative value adjustments. In respect to one bond, Sava Re therefore hedged against the interest rate exposure by entering an interest rate swap. Since it is estimated that the decreases in other bonds are not too large, for the time being, the Company employed no hedging instruments in respect of this interest rate exposure.

Equity securities

The major part of equity securities are strategic investments in subsidiaries and associated companies. Due to the nature of these investments, the Company is exposed to the business risk of poor business results.
The other part relates to portfolio investments. In 2006 Sava Re entered asset management contracts with three stock broking firms in order to diversify its investment portfolio as well as to take advantage of the professional expertise of these brokers in managing equity securities. Since these stock broking firms are restricted by the Insurance Act in the choice of investments (particularly regarding foreign equity securities) and because Sava Re closely monitors developments, we estimate that the related risks are marginal.

Deposits with banks

Within the framework of legal regulations, the Company invests funds in deposits with domestic banks. In June 2006 Sava Re signed deposit agreements with 17 banks on the placement of deposits, whereby the Company assumed the auction system of placing deposits.
To satisfy the requirement of the Companies Act to keep at least 80% of the portfolio matched in terms of currency, the Company maintains fixed-term deposits with banks denominated in euros, US dollars and British pounds. These deposits were not hedged against currency risks in 2006.

Real estate investments

The company invested in real estate in order to generate income from rent and, in the longer term, to realise capital gains. Owing to the relatively stable conditions in the Slovenian real estate market, we believe these investments to be exposed to the risk of decreasing rent only to a small degree. In addition, we estimate that according to development plans for the surrounding areas, there is no large risk of a significant decrease in the value of these assets.

(3) Receivables

(SIT '000)	At 31 Dec 06	At 31 Dec 05	Index
Receivables arising out of reinsurance business	5,617,699	4,937,635	113.8
Receivables for claim payments	2,130,049	1,311,636	162.4
Receivables for commission	377,480	402,314	93.8
Receivables arising out of investments	104,753	193,390	54.2
Trade receivables	44,454	26,224	169.5
Other receivables	4,083	4,632	88.1
Deferred tax assets	40,540	0	–
Receivables	**8,319,058**	**6,875,831**	**121.0**

Receivables increased by 21% compared to 2005. By far the largest part relates to receivables arising out of reinsurance business relating to 4th quarter reinsurance accounts which become due in 2007. All items of receivables relating to the Companies core business except for those relating to commission recorded a significant increase. Receivables arising out of investments, on the other hand, decreased to almost half the amount in 2005. These relate to deferred interest from investments in deposits and CDs.

At the end of 2005, the Slovenian Institute of Auditors published Note 1 to SAS 19 (2001) and SAS 19 (2006) on the basis of which deferred tax assets and liabilities are to be disclosed if material. An amount is deemed material if its omission in a disclosure could affect users' business decisions that are based on financial statements.

Pursuant to the above-mentioned Note, the Company did not establish deferred tax assets in 2005 because the amount was not considered material. The Company maintains records that ensure that revaluation amounts that are not tax deductible on their formation will be excluded from tax deductible expenses upon any justified impairment reversal. Nevertheless, we decided in 2006 that deferred tax assets should be recognised also for 2005, that is for unrecognised value adjustment on receivables and unrecognised value adjustments on investments. Such deferred tax assets amounted to SIT 40,540,000.

In 2006, the Company did not establish value adjustments on receivables. Receivables continue to be dealt with individually, but the Company is considering establishing value adjustments on receivables depending on experience relating to individual cedants or retrocessionaires.

Receivables for premiums arising out of reinsurance business are not specifically secured but do not pose a particularly large exposure.

Receivables representing more than 1 percent of total assets

(SIT '000) Receivables for reinsurance premiums – domestic	At 31 Dec 2006
Maribor Ins Co	2,593,227
Tilia Ins Co	753,844

At 31 December 2006, the Company had SIT 1,639,510,000 past due receivables, while total non-past-due receivables stood at SIT 6,679,548,000.

(4) Diverse assets

In accordance with the internal chart of accounts, under diverse assets the Company discloses tangible fixed assets other than investment property and cash. The movement and balance of equipment is shown in the table of tangible fixed assets.

The cash item is significantly larger than at 31 December 2005. This is cash in hand, in foreign currency and transaction accounts. This large amount had been prepared as the settlement amount in the acquisition of the Macedonian insurer Tabak Osiguruvanje, which took place at the beginning of January 2007.

The Company has credit line agreements with three Slovenian banks in the total amount of SIT 2,900,000,000. At 31 December 2006, the Company made no use of these credit lines. With one bank, the Company has a fixed limit of SIT 2 million.

(5) Short-term deferred costs and accrued revenue

This item includes accrued interest on securities, prepayments for post services, subscriptions and membership fees and deferred commission in relation to the next financial year.

Deferred costs and accrued revenue

(SIT '000)	At 31 Dec 06	At 31 Dec 05	Index
Deferred commission arising out of inwards business	1,694,946	1,579,537	107.3
Deferred commission arising out of outwards business	−86,542	−117,274	73.8
Other deferred costs	25,900	6,411	404.0
Accrued interest	522,586	503,781	103.7
Total	**2,156,890**	**1,972,455**	**109.4**

(6) Equity

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index	2006 % of total
Called-up capital	7,862,519	7,862,519	100.0	37.9
Share premium account	25,440	25,440	100.0	0.1
Revaluation surplus	708,638	2,739,230	25.9	3.4
Revenue reserves	9,628,584	8,273,450	116.4	46.4
– legal reserve	841,371	841,371	100.0	–
– reserves provided for by the articles of association	2,750,000	2,749,693	100.0	–
– reserve for own shares	425	425	100.0	–
– own shares (as a deductible item)	–425	0	–	–
– other revenue reserves	6,037,213	4,681,960	128.9	–
Retained earnings	1,162,949	602,690	193.0	5.6
Net profit for the period	1,355,253	619,149	218.9	6.5
Equity	**20,743,383**	**20,122,478**	**103.1**	**100.0**

The share capital is divided into 7,862,519 no-par value shares. Shares are recorded at the Central Securities Clearing Corporation (KDD) under the designation POSR. Net profit per share amounted to SIT 344.78 (SIT 2,710,812,896/7,862,519 shares). At 31 December 2006, the Company held 210 own shares, which according to SAS 2006 since 1 January 2006 is a deductible item of equity. One of the shareholders of Sava Re is its affiliate Maribor Ins Co, who is holding 525 Sava Re shares. Equity increased by 3.1 percent compared to 2005. The effect of the abandonment of the equity method mentioned earlier and the corresponding reversal of the value increase through the revaluation surplus at 1 January 2006 was very high, amounting to a decrease in equity of over SIT 2 billion. The share premium account consists exclusively of the amount relating to the reversal of the general equity revaluation adjustment. In the year, the Company added SIT 307,000 to the reserve provided for by the articles of association and thus achieved the maximum amount of these reserves as provided for by the Company's articles of association.

If the Company made a revaluation for the purpose of maintaining the purchasing power of equity in euro, the net profit for the period would be lower by SIT 4,848,000. If a revaluation was carried out on the basis of the increase in the consumer price index, net profit would be lower by SIT 504,913,000.

Own shares bought

In 2006 the Company carried out no transactions with own shares. At 31 December 2006, the Company held own shares in the nominal amount of SIT 425,000, which it bought from its subsidiary Tilia Insurance Company in 1999, in compliance with company law.

Reserve provided for by the articles of association

The Company is permitted to establish reserves provided for by the Company articles of association of up to SIT 2.75 billion. These reserves had been set aside in the following way: 15 percent of net profit available after covering any loss carried over and after setting aside funds for the legal reserve and reserve for own shares, were used for the reserve provided for by the Articles of association until this reserve would reach the amount of SIT 2.75 billion. In 2006 an amount of SIT 307,000 was added to the reserve, which thus achieved the maximum amount of SIT 2.75 billion as provided for by the Company's articles of association.

By decision of the supervisory board and management board, an amount of SIT 1,355,253,000 was added to other revenue reserves.

The reserve provided for by the articles of association is used for

- covering net losses that cannot be completely covered by retained earnings and other revenue reserves (instrument of additional protection of tied-up capital);
- increasing share capital from company resources;
- supporting the Company's dividend policy.

Change in the revaluation surplus

(SIT '000)	Revaluation surplus relating to investments in the equity of group companies	Revaluation surplus relating to investments in the equity of associated companies	Revaluation surplus relating to other investments	Total revaluation surplus
At 31 December 2005	**77,635**	**2,571,353**	**90,242**	**2,739,230**
Abolition of the equity revaluation adjustment at 1 Jan 2006	–77,635	–2,571,353		–2,648,988
Revaluation of bonds and shares at 1 Jan 2006			802,063	802,063
Adjustment on revaluation surplus for deferred tax			–184,475	–184,475
At 1 January 2006	**0**	**0**	**707,831**	**707,831**
Revaluation of bonds and shares at 31 Dec 2006			55,023	55,023
Transfer of revaluation surplus to financial income at disposal, decrease in revaluation surplus			–27,346	–27,346
Adjustment on revaluation surplus for deferred tax			–26,869	–26,869
At 31 December 2006	**0**	**0**	**708,639**	**708,639**

The above table shows that in order to remove the effects of the equity method, the Company decreased its equity by SIT 2,648,988,000. Due to the revaluation of available-for-sale financial assets to their fair value at 1 January 2006, a revaluation surplus of SIT 802,063,000 was set aside. However, this amount was reduced by the liability for deferred tax (accounted for under a rate of 23 percent) of SIT 184,475,000.
In the year, available-for-sale financial assets were increased in value by the amount of SIT 55,023,000; however due to some disposals there was a decrease in the revaluation surplus of SIT 27,346,000. Thus, at 31 December 2006, the revaluation surplus stood at SIT 708,639,000.

(7) Subordinated liabilities

In December 2006, the Company issued EUR 32 million of subordinated debt through a loan agreement with Dekania Captial Management, PLC and Merrill Lynch International to finance acquisitions, increase capital adequacy and gain greater investment flexibility. By the end of the year, the Company utilised SIT 2,783,274,000. The debt has a maturity of 20 years, but can be repaid after 10 years without cancellation charges. The interest rate for the first decade is a 3-month Euribor + 3.35 percent and for the remaining years a 3-month Euribor + 4.35 percent. The principal amount is due in full at maturity.
In order to hedge against the interest rate risk, in early 2007 the Company concluded a 5-year interest rate swap "KIKO IRS" for the entire subordinate debt, which enables the Company to pay a fixed interest rate on its debt during this period. The instrument includes an interest rate swap with Bank Austria which pays a floating 3m Euribor against the Sava Re fixed interest rate of 3.35 percent and a currency swap of euro against Swiss franc under which the actual swap is effected only if the euro/franc exchange rate falls below 1.503 (at the time of the deal the exchange rate was 1,624). After a five-year period, the Company will reconsider whether a further interest rate hedge is necessary.

(8) Net technical provisions

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index	% of total
Net unearned premiums	7,413,057	6,543,545	113.3	20.2
Net provision for outstanding claims	16,380,950	15,670,065	104.5	48.4
Net provision for bonuses and rebates	34,365	30,336	113.3	0.1
Equalization provision	7,118,568	7,633,608	93.3	23.6
Provision for nuclear risks	2,271,758	2,254,560	100.8	7.0
Provision for unexpired risks	197,485	199,054	99.2	0.6
Earthquake provision	96,142	34,524	278.5	0.1
Provision for currency risks	9,186	1,562	588.1	0.0
Total	**33,521,511**	**32,367,254**	**103.6**	**100.0**

At 1 January 2006 the equalization provision amounted to SIT 7,633,608,000. The reduction in this provision in 2006 was disclosed as a movement in the provision.
The obligation to set aside provisions ceased pursuant to the Insurance Act for the classes: aircraft hull, fire and natural forces, aircraft liability, suretyship and assistance, for which the equalization provision was gradually reduced to one fifth in the period 2001–2005. Furthermore, the Insurance Act–A abolished the obligation to make provisions for personal accident, land vehicles hull, ships liability, miscellaneous financial loss and life insurance, for which the equalization provision was

reduced by one fifth in the period 2002–2006. The final and complete release as a result of changes in the Insurance Act was for SIT 329 million in 2006.

With the coming into force of the Insurance Act C in July 2006, the obligation to set aside equalization provisions was abolished for all classes of insurance except for credit insurance. However, the Insurance Act C did not determine the method of calculation as at 31 December 2006; only the establishing of the provision was abolished. Therefore, Sava Re defined in Article 4 of Modification 12/2006 to the Rules on the establishment of technical provisions that the equalization provision (except for credit business) at 31 December 2006 is to be the same as at 31 December 2005 less the last fifth of the release as under the Insurance Act A.

Pursuant to the introduction of international accounting standards, the Insurance Act C and according to instructions by the tax authorities it is necessary to release, as from the opening balance sheet as at 1 January 2007, the remaining balance of the equalization provision (except for credit business) in the amount of SIT 6,130,380,102 or EUR 25,581,623 in such a way that relevant amounts are taken to retained earnings and tax liabilities.

With the introduction of international accounting standards, the provision for nuclear risks and the earthquake provision can no longer be part of technical provisions. Therefore, in accordance with instructions by the tax authorities, in the opening balance sheet as at 1 January 2007, this provision will have to be released in such a way that relevant amounts are taken to retained earnings and tax liabilities.

The IBNR provision compared to the gross provision for outstanding claims

(SIT '000)	IBNR provision	Provision for outstanding claims	IBNR as % of provision for outstanding claims
At 31 Dec 2005	4,304,739	21,467,013	20.1%
At 31 Dec 2006	4,964,343	19,932,702	24.9%

Provision for outstanding claims – reserving levels

(SIT '000)		
1	Provisions for outstanding claims at 1 Jan 2006	21,467,013
2	Provisions for outstanding claims at 31 Dec 2006 (in respect of losses that occurred prior to 2006)	11,890,506
3	Claims in 2006 in respect to U/Ys prior to 2006	10,320,804
1–2–3	**Balance**	**–744,297**

(9) Provisions for other risks and charges

As mentioned in the section on changes in accounting policies, at 1 January 2006 the Company for the first time set aside provisions for anniversary bonuses and terminal leave pay, to be charged against retained earnings. The amount set aside at 1 January 2006 was SIT 46,833,000. By the end of 2006, there was a minor release from this provision so that at 31 December 2006, the provision stood at SIT 45,963,000.

(10) Other liabilities

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index
Liabilities for reinsurance premiums	1,751,741	1,754,623	99.8
Liabilities for claim payments	5,040,187	3,590,364	140.4
Liabilities for commission	1,454,584	1,498,737	97.1
Trade liabilities	14,781	9,845	150.1
Liabilities to employees	61,563	72	85,504.2
Sundry liabilities	436,870	191,126	228.6
Deferred tax liabilities	211,344	0	–
Other liabilities	**8,971,070**	**7,044,767**	**127.3**

Just as receivables for premiums arising out of reinsurance business, so do liabilities for reinsurance premiums relate to 4th quarter reinsurance accounts that will become due in 2007. At 31 December 2006, the Company had SIT 1,006,331,000 of past-due liabilities. Non-past-due liabilities stood at SIT 7,964,738,000. The major part of sundry liabilities comprises liabilities in respect of tax on profit for 2006 of SIT 228,775,000.

Other liabilities in excess of 1 percent of total assets

(SIT '000) Liabilities for claims in Slovenia	At 31 Dec 2006
Maribor Ins Co	2,585,116
Tilia Ins Co	841,880

(11) Accrued costs and deferred revenue

This item mainly includes deposits of reinsurers that are yet to become due (SIT 187,533,000).

(12) Off-balance-sheet items

Off-balance-sheet items totalled SIT 950,344,000 and decreased from 2005 by the amount of recoveries relating to a rectification of a payment of default interest. Amounts in excess of 1 percent of total assets were as follows:

- receivables relating to the Ministry of Finance for sales tax on reinsurance services in the amount of SIT 456,127,000;
- receivables relating to the Ministry of Finance for income tax payments in respect of financial years 1998 and 1999, inclusive default interest for the period 30 April 1999–4 May 2001 of SIT 486,336,000 (principal).

On the basis of the tax inspection report for 1999 and for part of 1998 and in accordance with the decision of the tax authorities no. 30001-111/00-06 AP, JH-1, we set out in the off-balance-sheet items the payment of the difference in the income tax charge arising from the value adjustment on the investment in Tilia Insurance Company in 1998 and 1999, and default interest. By the time of this Report, the Ministry of finance has refunded SIT 243,284,000 as overpayment of default interest.

ADDITIONAL INFORMATION TO THE BALANCE SHEET OF SAVA RE

Business co-operation with affiliated companies

(SIT '000)	2006			
	MARIBOR INS CO			
Class of business	**Premiums**	**Claims**	**Commission**	**Gross UW result**
Personal Accident	1,305,782	527,935	329,926	447,921
Motor hull	2,829,120	2,040,983	686,730	101,407
Aviation hull	64,610	0	3,961	60,649
Marine hull	18,681	12,404	4,124	2,153
Goods in transit	44,189	2,936	10,734	30,519
Fire and natural forces	1,178,805	1,132,813	208,808	–162,816
Other damage to property	1,647,597	1,204,543	335,496	107,559
Motor liability	4,538,349	2,444,896	1,162,493	930,959
Aviation liability	11,369	348	917	10,105
Liability for ships	7,693	32	1,924	5,737
General liability	405,826	362,185	71,484	–27,843
Credit	217,668	119,608	56,594	41,467
Suretyship	2,874	5,315	747	–3,189
Miscellaneous financial loss	71,343	2,075,519	14,428	–2,018,604
Legal expenses	1,613	0	419	1,194
Assistance	1,524	0	457	1,067
Total	**12,347,042**	**9,929,518**	**2,889,241**	**–471,716**

(SIT '000)	2006				2006			
	TILIA INS CO				DUKAGJINI INS CO			
Class of business	**Premiums**	**Claims**	**Commission**	**Gross UW result**	**Premiums**	**Claims**	**Commission**	**Gross UW result**
Personal Accident	477,281	279,237	198,276	–232	0	0	0	0
Motor hull	732,656	573,566	133,111	25,980	0	0	0	0
Aviation hull	–48	0	–1	–47	0	0	0	0
Marine hull	1,123	179	215	729	0	0	0	0
Goods in transit	22,846	11,341	4,779	6,726	0	0	0	0
Fire and natural forces	437,294	372,395	123,306	–58,407	16,892	0	1,761	15,130
Other damage to property	290,426	158,655	73,337	58,434	0	0	0	0
Motor liability	1,348,027	959,679	203,215	185,133	13,897	0	0	13,897
Aviation liability	567	0	57	510	0	0	0	0
Liability for ships	727	0	165	563	0	0	0	0
General liability	143,358	101,836	24,112	17,411	0	0	0	0
Credit	106,350	27,203	20,928	58,220	0	0	0	0
Suretyship	12,218	2,325	1,201	8,692	0	0	0	0
Miscellaneous financial loss	16,359	1,172	2,901	12,286	0	0	0	0
Legal expenses	0	0	0	0	0	0	0	0
Assistance	431	0	108	323	0	0	0	0
Life	610	0	55	555	0	0	0	0
Unit-linked life	6,125	0	520	5,604	0	0	0	0
Total	**3,596,351**	**2,487,588**	**786,284**	**322,478**	**30,788**	**0**	**1,761**	**29,027**

Asset liability matching

Below are details on the liability fund denominated in foreign currencies and technical provisions under foreign currency clauses. As currencies are not adequately matched (less than the required 80 percent), the Company sets aside provisions of SIT 9,185,000.

Liability fund and technical provisions denominated in foreign currencies

At 31 Dec 2006		At 31 Dec 2006	
(SIT '000)	Currency	(SIT '000)	Currency
Liability fund		Technical provisions	
1,290	AED	4,489	AED
515	BGN	367	BGN
6,000	CHF	0	CHF
236,265	CZK	181,055	CZK
0	DKK	309	DKK
0	DOP	2,123	DOP
14,633,417	EUR	6,638,862	EUR
254,840	GBP	159,751	GBP
15,268	HKD	77,008	HKD
21,350	HRK	35,864	HRK
6,131	HUF	3,351	HUF
4,873	INR	31,187	INR
22,083	JPY	0	JPY
7,603	KRW	4,802	KRW
0	LYD	1,468	LYD
7,404	MGA	10,377	MGA
0	MKD	308	MKD
439	MUR	17	MUR
0	PHP	327	PHP
5,332	PLN	4,835	PLN
4,349	RON	2,624	RON
14,275	SEK	0	SEK
0	SEK	120,087	SEK
23,672,842	SIT	25,046,646	SIT
–2,439	SKK	2,007	SKK
18,361	TRY	12,699	TRY
0	UAH	11	UAH
1.354.885	USD	1.170.422	USD
414	WST	0	WST
5.410	XCD	10.515	XCD
2.049	XOF	0	XOF
40,292,955	**Total**	**33,521,511**	**Total**

NOTES TO THE PROFIT AND LOSS ACCOUNT OF SAVA RE

The Company makes disclosures for all prescribed items of the profit and loss account in compliance with the Companies Act-1, SAS, Decision on the Annual Report of Insurance Companies (2002) and internal accounting rules. As a rule, the main items of the profit and loss account are further broken down into items that exceed 10 percent of any main item. For the purpose of disclosing changes in the accounting policies and estimates, a change is deemed to be material if the effect exceeds 5 percent of the profit or loss for the period. The same principle is followed in relation to disclosing corrections of material mistakes. For the items other revenue and other expenses from ordinary operations, additional disclosures are made if they exceed 2 percent of the profit/loss for the period.

(13) Earned premiums, net of retrocession

(SIT '000)	2006	2005	Index
Gross premiums written	24,899,422	22,067,827	112.8
Retrocession premiums	–4,246,897	–4,140,639	102,6
Change in unearned premiums – gross amount	–778,058	–62,668	1,241.6
Change in unearned premiums – reinsurers' share	–91,453	71,591	–
Earned premiums, net of retrocession	**19,783,014**	**17,936,111**	**110.3**

Earned premiums, net of retrocession, comprise gross premiums written less outward retrocession premiums and include the change in the unearned premiums.

In the calendar year 2006, gross premiums for the underwriting year 2006 totalled SIT 23,188,958,000.

(14) Allocated investment return transferred from the non-technical account

(SIT '000)	2006	2005
Investment income from the liability fund	1,858,072	2,019,490
Investment expenses for the liability fund	298,957	372,660
Allocated investment return	**1,559,115**	**1,646,830**

Allocated investment return transferred from the non-technical account comprises the investment return generated by investments supporting the liability fund.

The Company does not apply a specific method of calculating the investment return transferred from the non-technical account because the liability fund is accounted for separately from the capital fund.

(15) Other net technical income

Other net technical income includes income relating to releases from provisions for anniversary bonuses and terminal leave pay.

(16) Claims incurred, net of retrocession

(SIT ’000)	2006	2005	Index
Claims paid – gross amount	17,507,443	13,384,201	130.8
Subrogation recoveries	–446,455	0	–
Claims paid – reinsurers’ amount	–4,611,087	–2,733,974	168.7
Change in the provision for outstanding claims – gross amount	–1,534,311	3,489,201	–
Change in the provision for outstanding claims – reinsurers’ share	2,245,195	–1,639,016	–
Claims incurred, net of retrocession	**13,160,785**	**12,500,412**	**105.3**

Claims incurred, net of retrocession, comprise gross claims paid less claims paid by retrocessionaires including the change in the provision for outstanding claims. Net claims incurred increased by 5.3 percent from the previous year. A major effect came from the gross provision for outstanding claims as there was a release of over SIT 5 billion to cover claims paid, which increased by 30.8 percent from the previous year.
In the calendar year 2006, gross claims for the underwriting year 2006 totalled SIT 6,720,992,000.

Net underwriting result

The net underwriting result is the difference between premiums and retained claims.

Premiums and claims by business segment

(SIT ’000)	Premiums		Claims	
	2006	2005	2006	2005
Inwards business – domestic	17,400,782	16,665,830	13,228,696	10,476,343
Inwards business – international	7,498,640	5,401,997	3,813,100	2,907,858
Outwards business – domestic	44,206	51,947	15,301	18,925
Outwards business – international	4,202,691	4,088,692	4,576,594	2,715,049
Retained business	**20,652,525**	**17,927,188**	**12,449,901**	**10,650,227**

(17) Change in other net technical provisions

(SIT ‘000)	2006	2005	Index
Change in the provision for bonuses and rebates	–4,029	–25,490	15.8
Change in the provision for nuclear risks	–17,198	–40,557	42.4
Change in the earthquake provision	–61,618	–34,524	178.5
Change in the provision for unexpired risks	0	15,086	–
Change in the provision for currency risks	–6,055	–736	822.7
Change in other technical provisions, net of retrocession	**–88,900**	**–86,221**	**103.1**

Details on accounting for other technical provisions are provided by the appointed actuary, who in accordance with the Rules on the Establishing of Technical Provisions calculates the required amount of these provisions.
The result of movements in other technical provisions in 2006 was a negative one as an additional SIT 88,900,000 were set aside.
The level of any permissible additions to the provision for nuclear risks is advised by the GIZ Nuclear Pool. As in previous years, we opted for the lower amount because the provision already reached a sufficient level.

(18) Net operating expenses

(SIT ’000)	2006	2005	Index
1. Other operating expenses	1,077,790	967,969	111.3
1.1. Depreciation of operating assets	24,046	26,956	89.2
1.2. Labour cost	817,637	781,776	104.6
– employee salaries	536,768	514,403	104.3
– cost of social and pension insurance	100,395	94,887	105.8
– other labour cost	180,474	172,486	104.6
1.3. Cost of services of natural persons	13,508	3,012	448.5
1.4. Diverse operating expenses	222,599	156,225	142.5
2. Net reinsurance commission	5,214,259	4,982,895	104.6
Net operating expenses	**6,292,049**	**5,950,864**	**105.7**

Other operating expenses amounted to SIT 1,077,790,000, which is 11.3 percent more than in the previous year. However, the ratio of other operating expenses to gross premiums written slightly decreased from 4.4 percent in 2005 to 4.3 percent in 2006.
In 2006, the cost of compulsory social insurance was SIT 100,395,000, and in addition, the Company paid SIT 27,724,000 in premiums for its employees’ private pension insurance.

Depreciation/amortisation of assets used in operations

(SIT ’000)	Base	2006	2005	Index
Intangible fixed assets	38,765	4,135	3,977	104.0
Buildings	415,899	5,083	5,084	100.0
Motor vehicles	84,085	7,596	6,471	117.4
Wooden furniture	75,304	1,065	3,310	32.2
Computer hardware	70,741	4,758	6,608	72.0
Other operating fixed assets	75,491	1,409	1,506	93.6
Total	**760,285**	**24,046**	**26,956**	**89.2**

The decrease in the depreciation/amortisation cost is due to the fact that a substantial amount of assets was fully depreciated/amortized by 2005.

Labour cost

Labour cost accounted for 75.9 percent of other operating expenses of the Company. In 2006, the number of employees on the basis of work hours was 44.9.

Educational profile as per 31 December 2006

Education	Women	Men	Total
Less than secondary school	0	1	1
Secondary school	15	0	15
Undergraduate degree	0	4	4
Graduate degree	13	10	23
Master’s degree	1	5	6
Total	**29**	**20**	**49**

Management board, supervisory board & directors’ remuneration

(SIT ‘000)	Gross amount 2006
Board of management	149,256
Supervisory board	29,590
Personal employment contracts	211,923
Total	**390,769**

Costs of services of natural persons

This items comprises costs incurred under contracts for services and costs of the supervisory board.

Diverse operating expenses

(SIT ’000)	2006	2005	Index
Repair and maintenance material	8,782	4,670	188.1
Stationery	3,019	3,764	80.2
Energy costs	13,889	12,692	109.4
Subscriptions	6,395	4,206	152.0
Reimbursements relating to work	23,813	13,483	176.6
Transaction fees and bank fees	9,619	8,199	117.3
Professional and personal services	43,186	37,186	116.1
Insurance premiums	7,650	7,663	99.8
Advertising, gifts and entertainment	19,801	10,883	181.9
Maintenance of operating fixed assets	25,639	5,444	471.0
Management costs	16,582	16,301	101.7
Transfer and communication costs	22,149	13,416	165.1
Fees and other service charges	12,265	9,717	126.2
Membership fees and other contributions	21,151	18,257	115.9
Extraordinary and other revenue	–11,341	–9,656	117.5
Diverse operating expenses	**222,599**	**156,225**	**142.5**

Diverse operating expenses, which account for 3.5 percent of net operating expenses, grew by 42.5 percent compared to 2005. Disclosure is made in compliance with the chart of accounts for insurance companies as above.

The strongest item of diverse operating expenses were expenses relating to professional and personal services. Professional and personal services also include auditing costs. In 2006 the Company paid for the auditing of part of the 2005 and part of the 2006 annual report a total amount of SIT 7,193,000, while for other auditing services SIT 180.000 was paid. Expenses relating to auditing services charged against the profit and loss account 2006 amounted to SIT 8,870,000. There were no other services rendered by the auditors for the Company.

As mentioned earlier, the Company refurnished its premises in 2006, which is why there was a considerable increase in expenses in the items repair and maintenance material and maintenance of operating fixed assets.

Reinsurance commission

(SIT ’000)	2006	2005	Index
Inwards business – domestic (ID)	–3,934,005	–4,062,295	96.8
Inwards business – international (II)	–1,985,806	–1,581,823	125.5
Outwards business – domestic (OD)	9,490	8,641	109.8
Outwards business – international (OI)	549,922	729,538	75.4
Effect of deferred commission – ID	97,566	–82,946	–
Effect of deferred commission – II	17,843	5,115	348.8
Effect of deferred commission – OD	100	15	666.7
Effect of deferred commission – OI	30,631	858	3,570.0
Net reinsurance commission	**–5,214,259**	**–4,982,895**	**104.6**

Also in 2006 the balance of commission income and commission expenses increased operating expenses.

(19) Other net technical expenses

(SIT '000)	2006	2005	Index
Expenses for preventive measures	14	19	73.7
Annual fee payable to the Insurance Supervisory Agency	31,322	26,756	117.1
Other net technical expenses	**31,336**	**26,775**	**117.0**

(20) Change in the equalization provision

The equalization provision was decreased by SIT 515,039,000. Releases from the provision were made in order to comply with amendments to the Insurance Act as well as to the alignment of executive acts to EU Directives. At 1 January 2007, the equalization provision will be abolished and last releases taken to retained earnings.

(21) Investment income

(SIT '000)	Liability fund	Capital fund	Total 2006	Total 2005	Index
Income from land and buildings	2,575	75,381	77,956	94,423	82.6
Interest income	1,504,569	373,362	1,877,931	2,059,292	91.2
– from Slovenian government securities	827,315	23,032	850,347	971,235	87.6
– banks bonds	284,974	190,387	475,361	396,364	119.9
– interest on bank time deposits	369,078	159,943	529,021	675,900	78.3
– interest on demand deposits, on deposits with cedants and other	23,202	0	23,202	15,793	146.9
Other investment income	100,294	23,982	124,276	676,375	18.4
– financial income from revaluation	94,715	3,162	97,877	621,986	15.7
– other financial income	5,579	20,820	26,399	54,389	48.5
Value adjustments on investments	11,419	162,878	174,297	449	38,818.9
Gains on the realisation of investments	239,215	491,701	730,916	36,170	2,020.8
Investment income	**1,858,072**	**1,127,304**	**2,985,376**	**2,866,709**	**104.1**

Interest income decreased by 8.8 percent. The largest decrease was with time deposits, which is not a result of falling interest rates but is due to the restructuring of the investment portfolio with a shift from deposits to instruments involving a higher return. Thus, income from bank bonds increased by 19.9 percent. The Company adopted a more active mode of managing its investments as can also be seen from the surge in gains on the realisation of investments.

The Company holds 39.4 percent of its financial investments in assets that ensure secondary liquidity (investments carried at fair value).

Financial instruments at fair value and at cost

(SIT '000) 2006	Total financial instruments	Financial instruments at cost	Financial instruments at fair value
Government debt securities	**16,360,829**	5,290,424	11,070,405
Debt securities of other issuers	**8,127,736**	1,576,019	6,551,717
Structured products	**2,343,319**	1,006,488	1,336,831
Equity securities	**12,879,624**	11,261,001	1,618,623
Total	**39,711,509**	**19,133,933**	**20,577,575**

(22) Investment expenses

(SIT '000)	Liability fund 2006	Capital fund 2006	Total 2006	Total 2005	Index
Depreciation of non-operating assets		**12,370**	**12,370**	**12,601**	**98.2**
Interest and other investment expenses	**257,570**	**123,485**	**381,055**	**553,666**	**68.8**
a) Investment management expenses, interest expenses and other expenses from financing	33,604	107,459	141,063	215,511	65.5
b) Financial expenses from revaluation	223,966	16,026	239,992	338,155	71.0
– exchange rate losses	141,303	16,026	157,329	58,652	268.2
– exchange rate losses on bond investments	60,353	0	60,353	152,798	39.5
– impairment losses on long-term investments in securities	3,499	0	3,499	88,194	4.0
– impairments	18,811	0	18,811	38,511	48.8
Losses on the realisation of investments	**41,387**	**891**	**42,278**	**13,790**	**306.6**
Investment expenses	**298,957**	**136,746**	**435,703**	**580,057**	**75.1**

The Company managed to incur less expenses than in the prior year except exchange rate losses, where for example US-dollar denominated investments are maintained for reasons of currency matching.

(23) Other revenue

This item comprises a rectification of a default interest payment of SIT 244,565,000 and the recoveries of bad debts from reinsurance activities of SIT 50,842,000.

(24) Other expenses

Other expenses (SIT 79,949,000) include mainly operating expenses from revaluation of labour cost.

(25) Net profit for the period

In 2006 the Company generated a pre-tax profit of SIT 3,492,340,000, which exceeded the 2005 pre-tax profit by 70.35 percent. Pursuant to the Corporate Profit Tax Act, the Company accounted tax on profit for the year 2006 in the amount of SIT 822,067,000. Net profit totalled SIT 2,710,813,000. The effective tax burden as the ratio between tax on profit and profit before tax was 23.54 percent. Due to non-deductible expenses in 2005, the Company set up deferred tax assets of SIT 40,540,000. There were no other tax liabilities for Sava Re in 2006.

ADDITIONAL INFORMATION TO THE PROFIT AND LOSS ACCOUNT

Net technical result

(SIT '000)	Net premiums 2006	Net claims 2006	Net technical result 2006	Net technical result 2005
Class of business	1	2	3 (1–2)	4
Personal accident	2,063,378	1,011,414	1,051,964	923,741
Motor hull	3,982,809	2,752,685	1,230,124	1,051,367
Aircraft hull	21,980	6,026	15,954	3,185
Marine hull	164,255	123,539	40,716	–10,150
Goods in transit	260,889	97,157	163,732	84,950
Fire and natural forces	3,285,570	2,151,933	1,133,638	1,191,868
Other damage to property	3,803,501	1,902,323	1,901,178	1,358,311
Motor liability	5,960,727	3,624,663	2,336,064	2,334,946
Aircraft liability	40,657	14,628	26,029	16,729
Liability for ships	15,880	2,011	13,869	7,393
General liability	494,796	540,398	–45,602	1,037
Credit	389,548	151,370	238,178	198,625
Suretyship	13,777	7,604	6,173	7,347
Miscellaneous financial loss	86,932	40,821	46,111	52,637
Legal expenses	1,613	0	1,613	1,698
Medical assistance	14,985	6,573	8,412	3,423
Life	42,716	16,757	25,959	43,953
Unit-linked life insurance	8,512	0	8,512	5,901
Total	**20,652,525**	**12,449,901**	**8,202,624**	**7,276,961**

Net technical result including the effects of commission

(SIT '000)	Net premiums 2006	Net claims 2006	Net commission 2006	Net technical result 2006	Net technical result 2005
Class of business	1	2	3	4 (1–2–3)	5
Personal accident	2,063,378	1,011,414	659,144	392,820	222,199
Motor hull	3,982,809	2,752,685	935,030	295,094	213,046
Aircraft hull	21,980	6,026	241	15,714	10,709
Marine hull	164,255	123,539	28,170	12,546	–35,404
Goods in transit	260,889	97,157	64,030	99,702	57,568
Fire and natural forces	3,285,570	2,151,933	990,687	142,950	224,256
Other damage to property	3,803,501	1,902,323	1,009,886	891,292	614,700
Motor liability	5,960,727	3,624,663	1,413,749	922,315	931,215
Aircraft liability	40,657	14,628	12,859	13,170	11,208
Liability for ships	15,880	2,011	2,731	11,138	7,437
General liability	494,796	540,398	104,006	–149,608	–88,441
Credit	389,548	151,370	99,035	139,143	130,095
Suretyship	13,777	7,604	1,969	4,204	5,099
Miscellaneous financial loss	86,932	40,821	18,792	27,319	33,743
Legal expenses	1,613	0	419	1,194	1,257
Medical assistance	14,985	6,573	4,700	3,712	–536
Life	42,716	16,757	13,893	12,066	27,748
Unit-linked life insurance	8,512	0	1,058	7,454	5,123
Total	**20,652,525**	**12,449,901**	**5,360,400**	**2,842,225**	**2,371,022**

Technical result of retrocession business

(SIT '000)	Outwards premiums 2006	Outwards claims 2006	Outwards commission 2006	Gross technical result 2006	Net technical result 2006	Net techical result 2005
Class of business	**1**	**2**	**3**	**4 (1–2)**	**5 (1–2–3)**	**6**
Personal accident	22,878	24,499	308	–1,621	–1,929	23,404
Motor hull	440,143	437,351	5,652	2,792	–2,860	19,171
Aircraft hull	51,017	1,116	5,250	49,901	44,651	88,243
Marine hull	30,072	29,268	2,194	804	–1,390	11,243
Goods in transit	41,900	90	2,990	41,810	38,820	34,320
Fire and natural forces	1,827,221	1,181,036	307,864	646,185	338,321	164,138
Other damage to property	971,146	667,053	146,361	304,093	157,731	42,096
Motor liability	433,386	138,323	16,527	295,062	278,535	–16,030
Aircraft liability	30,010	4,662	7,852	25,348	17,496	16,964
Liability for ships	5,236	363	464	4,873	4,409	8,387
General liability	256,741	26,258	30,739	230,482	199,743	256,794
Credit	10	3,697	2	–3,687	–3,689	1,973
Suretyship	1,447	20	0	1,427	1,427	50
Miscellaneous financial loss	72,806	2,051,885	16,360	–1,979,079	–1,995,439	–44,383
Legal expenses	0	0	0	0	0	10
Medical assistance	0	74	0	–74	–74	–4,646
Life	62,885	26,198	16,847	36,687	19,840	66,752
Total	**4,246,897**	**4,591,895**	**559,411**	**–344,998**	**–904,409**	**668,486**

NOTES TO THE CONSOLIDATED ACCOUNTS

Basis of consolidation and companies included

	Holdings by the parent company	Accounting method
Tilia Insurance Company	99.61%	full consolidation
Sava Insurance Company	100.00%	first-time consolidation at 31 December 2006
Dukagjini Insurance Company	51.00%	first-time consolidation at 31 December 2006
Maribor Insurance Company	45.64%	equity method
Moja naložba pension fund	20.00%	equity method

Pursuant to the Companies Act, Sava Re is required to prepare consolidated financial statements as per 31 December 2006. The Croatian Insurer Helios Osiguranje was sold in 2006 and is thus no longer included in the consolidated statements at 31 December 2006. The following consolidated financial statements have been prepared: consolidated balance sheet at 31 December 2006, consolidated profit and loss account for the year ended 31 December 2006, consolidated cash flow statement for the year ended 31 December 2006 and the consolidated statement of changes in equity.

NOTES TO THE CONSOLIDATED BALANCE SHEET

The Company makes disclosures for all material items of the group balance sheet in compliance with the *Companies Act*, SAS, *Decision on the Annual Report of Insurance Companies (2002)* and in the internal accounting rules. As a rule, a balance sheet item is deemed material if it exceeds 1 percent of total assets, corresponding to SIT 858,912,000 as per 31 December 2006.

(26) Intangible assets and long-term deferred costs and accrued revenue

(SIT '000)	Licenses, software	Advances for intangible assets	Goodwill	Total
COST				
At 31 December 2005	122,143	50,285		172,428
Additions	40,548		2,611,226	2,651,774
Disposals	–11,593			–11,593
At 31 December 2006	151,098	50,285	2,611,226	2,812,609
AMORTISATION				
At 31 December 2005	64,782			64,782
Amortisation	28,478			28,478
Disposals	1034			1,034
At 31 December 2006	94,294			94,294
NET CARRYING AMOUNT				
At 31 December 2005	57,361	50,285		107,646
At 31 December 2006	56,804	50,285	2,611,226	2,718,315

Intangible assets comprise computer software. In line with accounting standards, these assets have not been revaluated. For intangible assets the amortisation rate is 20 percent and has not been changed from 2005. Intangible assets are valued at acquisition cost plus expenses related to bringing these assets to their intended use. Amortisation has been calculated per item on a straight-line basis.

Goodwill of SIT 2,611,226,000 relates to the new investments in Dukagjini Ins Co and Sava Ins Co. Pursuant to accounting standards, no revaluation was carried out. These are assets with finite periods of useful life. For intangible assets the amortisation rate is 20% and has not been changed from 2005.

(27) Land, buildings and financial investments

The SAS 2006 introduced important changes regarding the valuation of financial investments at 1 January 2006.

The Group, which in 2006 for the first time comprised the parent and the subsidiaries Tilia Ins Co, Dukagjini Ins Co and Sava Ins Co, already recognised and measured investments at fair value in compliance with International Standards of Financial Reporting. At 1 January 2006 the Group classified all investments, except land, buildings, deposits, loans and investments in the equity of affiliated companies as available-for-sale assets. Investments of life insurance policyholders were classified as assets at fair value through profit or loss.

Pursuant to valuation rules applicable to reclassifications, available-for-sale assets quoted on active securities markets on 1 January 2006 were revaluated to fair value. The effect of revaluation was taken to the revaluation surplus.

Investments in land and buildings that yield rent or are held for a long-term value increase, have been reclassified as investment property, others have been transferred to tangible fixed assets other than investment property. No effects have resulted from this reclassification.

Investments in the equity of affiliated companies have been accounted for under the cost method; at 1 January 2006, the effect of the specific equity revaluation adjustment from 2005 was transferred to the revaluation surplus and retained earnings.

Rules of recognition and measurement of investments in 2006

Investments are recognised as assets when – taking into consideration the contract date – the Group takes control of the contractual rights that comprise the asset.

Investments are recognised at cost increased by transaction costs, except for financial assets at fair value through profit or loss, the transaction costs of which are charged against investment expenses.

The Group recognises and measures investments pursuant to the SAS 2006 (3). Generally, investments classified as financial assets at fair value through profit or loss or as available-for-sale financial assets are recognised at fair value, which is evidenced

if the cost of the investment can be measured reliably. Fair value is reliably measurable if there is
a quoted market price in an active securities market. If there is no quoted market price, the investment is measured at cost.
A recognised gain or loss from a change in the fair value of a financial asset that is not part of a hedging relationship is recorded as follows:

a) a gain or loss on a financial asset classified as at fair value through profit or loss is taken to the profit and loss account;
b) a gain or loss on an available-for-sale financial asset is recognised directly in equity as an increase (gain) or a decrease (loss) in the revaluation surplus; should the fair value of an available-for-sale financial asset be lower than its recognised value, negative revaluation surplus is recognised.

Investment property is measured at cost. If the investment property is to be sold and there is a firm intention to do so or a sales contract is already in place, such property is classified as non-current asset held for sale. Such a non-current asset is measured at the lower of the carrying amount or fair value, less costs to sell.
The Group accounts for investments in associated companies under the equity method.
Financial investments are recognised and measured pursuant to the SAS 2006. Revaluation is carried out quarterly at the end of each quarter, the latest revaluation on 31 December 2006.
The Company continues to use the first-in first-out principle of accounting for investments.

Tangible fixed assets

(SIT '000)	Land and buildings	Equipment and other tangible fixed assets	Total
COST			
At 31 December 2005	1,399,835	742,631	2,142,466
Additions	717,392	566,451	1,283,843
Transfers to tangible fixed assets other than investment property	0	17,230	17,230
Disposals	–60,947	–46,456	–107,403
At 31 December 2006	2,056,280	1,279,856	3,336,136
DEPRECIATION			
At 31 December 2005	404,022	459,171	863,193
Depreciation	18,720	340,784	359,504
Transfers to tangible fixed assets other than investment property	0	4,882	4,882
Disposals	–46,073	–36,635	–82,708
At 31 December 2006	376,669	768,202	1,144,871
NET CARRYING AMOUNT			
At 31 December 2005	995,813	283,460	1,279,273
At 31 December 2006	1,679,612	511,654	2,191,266

Sava Re resumed use of premises previously leased. In 2006 these premises were furnished, which is reflected in the additions in equipment.

Tangible fixed assets used in insurance activities

The acquisition cost is composed of the basic acquisition cost plus direct expenses. Depreciation has been calculated per item on a straight-line basis. The below depreciation rates are the same as in 2005.

Depreciation rates of tangible fixed assets for 2006	
Land	0%
Buildings	1.3%–1.8%
Transportation	15.5%
Computers and com. equipment	33.0%
Office and other furniture	10%–12.5%
Other equipment	6.7%–20%

In December 2006 the building occupied by Dukagjini Ins Co was valued by an independent property surveyor. The valuation, which was based on international standards, was for SIT 291,507,000. The effect of revaluation was SIT 145,342,000. If recognised under the cost model, the carrying value at 31 December 2006 would be SIT 127,773,000.

Investment property

(SIT '000)	
COST	
At 31 December 2005	1,420,584
Additions	461,792
Transfer to tangible fixed assets other than investment property	–15,700
Transfer to non-current assets available-for-sale	–950,436
Disposals	103,002
At 31 December 2006	813,239
DEPRECIATION	
At 31 December 2005	116,220
Depreciation	12,043
Transfer to fixed assets other than investment property	–4,571
Transfer to non-current assets available-for-sale	–36,961
Disposals	–16,357
At 31 December 2006	70,375
NET CARRYING AMOUNT	
At 31 December 2005	1,304,364
At 31 December 2006	742,864

Depreciation has been calculated on a straight-line basis. The annual rate of depreciation is 1.3 percent.

Land, buildings and financial investments by type

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index
Land, buildings and other	3,346,090	2,313,607	144.6
Debt securities	31,517,604	27,627,914	114.1
Equity securities	9,708,619	8,002,804	121.3
Deposits with domestic banks	13,541,039	16,872,673	80.3
Mutual funds	5,350,132	2,295,102	233.1
Deposits with cedants	1,346,497	1,324,301	101.7
Total	**64,809,981**	**58,436,401**	**110.9**

The above amounts of investments are net amounts. A significant portion of bank deposits was reinvested in other types, primarily to improve the investment return.

Long- and short-term investments

The following presentation of long- and short-term investments does not include land and buildings used in insurance activities of SIT 1,679,512,000 and deposits with cedants of SIT 1,346,497,000.

Long-term investments

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005
Land, buildings and other	754,809	1,127,183
Debt securities	18,868,554	20,457,670
Equity securities	8,587,447	7,515,145
Deposits with domestic banks	4,230,933	3,750,700
Mutual funds	3,812,590	1,150,391
Long-term investments	**36,254,333**	**34,001,089**

Short-term investments

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005
Land, buildings and other	913,475	0
Debt securities	12,647,244	5,521,203
Equity securities	888,940	487,661
Deposits with domestic banks	9,310,106	12,405,923
Mutual funds	1,769,774	1,144,711
Short-term investments	**25,529,539**	**19,559,498**

Long-term investments in participating interests

(SIT '000) at 31 December 2006	Amount of shareholding	Percentage shareholding	Voting shares	Total equity	Net profit/loss for the year 2006
ZAVAROVALNICA MARIBOR d.d., Maribor, Cankarjeva 3	7,469,438	45.64%	45.64%	16,366,349	1,277,601
MOJA NALOŽBA d.d., pokojninska družba, d.d. Vita Kraigherja 5	169,832	20.00%	20.00%	849,159	13,868

In 2006, the Group participated in the capital increase of Moja naložba by SIT 80 million. Furthermore, the interest in Osiguranje Helios was sold.

Long-term investments in subordinated debt

(SIT '000)	Type of bond	At 31 Dec 2006
ABANKA VIPA d.d.	AB04	289,752
ABANKA VIPA d.d.	AB06	106,849
BANKA DOMŽALE d.d.	BDM1	116,681
DEXIA	DEXGRP 5 5/8 03/08	55,539
FACTOR BANKA d.d.	FB15	199,860
ING BANK	INTNED 5 7/8 02/11	104,503
NLB d.d.	NLB13	285,600
NLB d.d.	NLB FLOAT 49	1,117,471
PROBANKA d.d.	PRB8	479,280
ZAVAROVALNICA TRIGLAV d.d.	ZT01	80,751
Total		**2,836,287**

The share of total group investments in subordinated debt increased to 4.49 percent against 3.78 percent at 31 December 2005.

Financial investments in excess of 1 percent of total assets

Long-term financial investments

(SIT '000) At 31 Dec 2006	Liability fund	Capital fund	Total
Shares in associated companies		6,525,879	6,525,879
Bonds			
Government bonds	10,627,588		10,627,588
Bonds of financial institutions	3,750,395	3,459,315	7,209,710
Bonds of government funds	418,807	601,375	1,020,182

Short-term financial investments

(SIT '000) At 31 Dec 2006	Liability fund	Capital fund	Life insurance liability fund	Total
Bonds				
Government bonds	8,176,267	0	1,401,691	9,577,958
Bonds of financial institutions	2,605,406	170,105	293,775	3,069,286

Deposits with cedants

In accordance with reinsurance contracts, cedants retain part of the reinsurance premium. These portions are generally settled after one year. Receivables in this respect amounted to SIT 1,346,497,000, which is a 1.68-percent increase from the previous year.

Risk exposure by form of investment

Government securities

These investments are considered as the least risky, which is why the Group employs no specific instruments of security. As the majority of bonds from this category is quoted on secondary markets, they are carried at fair value.

Other debt securities

These debt securities are exposed to credit risk due to default; however, the Group employs no instruments of security.

In addition to credit risk, bonds are exposed to changes in interest rates. The increase in the key interest rate of the European Central Bank pushed up bond yields, resulting in a decrease in bond prices and in negative value adjustments. In respect of one bond, the parent company therefore hedged against the interest rate exposure by entering an interest rate swap. Since it is estimated that the decreases in other bonds are not too large, for the time being, the Group employed no hedging instruments in respect of this interest rate exposure.

Equity securities

The major part of equity securities are strategic investments in subsidiaries and associated companies. Due to the nature of these investments, the Group is exposed to the business risk of poor business results.

Deposits with banks

Deposits with banks are a conservative investment form, which is why no specific security has been provided.

Real estate investments

The Group invested in real estate in order to generate income from rent and, in the longer term, to realise capital gains. Owing to the relatively stable conditions in the real estate market, we believe these investments to be exposed to the risk of decreasing rent only to a small degree.

(28) Receivables

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index
Receivables arising out of primary insurance business	2,385,297	2,000,422	119.2
Receivables arising out of reinsurance and co-insurance business	4,875,168	4,262,773	114.4
Receivables for claim payments	2,133,910	1,311,691	162.7
Receivables for commission	695,989	744,978	93.4
Receivables arising out of investments	202,155	229,912	87.9
Other receivables	323,651	79,292	408.2
Deferred tax assets	95,905	0	–
Total	**10,712,075**	**8,629,068**	**124.1**

Receivables of the Group increased by almost one quarter compared to 2005. This increase is partly due to the companies that entered the Group in 2006 who contributed SIT 499 million of receivables. The strongest increase, however, was contributed by the parent company in relation receivables arising out of reinsurance business relating to 4th quarter reinsurance accounts which become due in 2007.

Receivables arising out of reinsurance business are not specifically secured but do not pose a particularly large exposure. Write-downs are made depending on the promptness of settling obligations by debtors, while for larger accounts, write-downs are determined on the basis of past experience and relevant financial information.

Receivables representing more than 1 percent of total assets

(SIT '000) Receivables for reinsurance premiums – domestic	31 Dec 2006
Maribor Ins Co	2,593,227

At 31 December 2006, the Group had SIT 3,557,032,000 past due receivables, while total non-past-due receivables stood at SIT 7,155,043,000.

(29) Diverse assets

Diverse assets comprise tangible fixed assets other than investment property and cash.

The cash item is significantly larger than at 31 December 2005. Disclosures refer to cash in hand, in foreign currency and transaction accounts. This large amount had been prepared as the settlement amount in the acquisition of the Macedonian insurer Tabak Osiguruvanje, which took place at the beginning of January 2007.

(30) Short-term deferred costs and accrued revenue

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index
Deferred commission arising out of inwards business – Slovenia and international	1,379,929	656,722	210.1
Deferred commission arising out of outwards business – Slovenia and international	–86,542	–117,274	73.8
Deferred acquisition costs	515,290	0	–
Other short-term deferred costs	173,707	1,040,257	16.7
Accrued interest	680,319	656,793	103.6
Total	**2,662,703**	**2,236,498**	**119.1**

This item includes accrued interest on securities, prepayments for post services, subscriptions, membership fees and deferred commission in relation to the next financial year.

The increase in deferred costs and accrued revenue was primarily due to deferment of acquisition costs and a significant increase in deferred commission resulting from the growth in inwards business in 2006.

(31) Equity

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index	% of total 2006
Called-up capital	7,862,519	7,862,519	100.0	32.1
Share premium account	25,441	25,441	100.0	0.1
Revaluation surplus	4,026,930	2,728,006	147.6	16.4
Revenue reserves	9,628,584	8,273,025	116.4	39.3
– legal reserve	841,371	841,371	100.0	–
– reserve provided for by the articles of association	2,750,000	2,749,694	100.0	–
– reserve for own shares	425	425	100.0	–
– own shares (as a deductible item)	–425	–425	100.0	–
– other revenue reserves	6,037,213	4,681,960	128.9	–
Retained earnings	1,428,865	365,371	391.1	5.8
Net profit for the period	1,355,253	527,920	256.7	5.5
Minority interests	181,858	8,537	2,130.2	0.7
Equity	**24,509,450**	**19,790,819**	**123.8**	**100.0**

The share capital of the Group amounts to SIT 7,862,519,000 and is divided into 7,862,519 no-par-value shares fully paid up. Shares are ordinary bearer shares and are not listed at the Ljubljana Stock Exchange. No new shares were issued in 2006. The weighted average number of shares in the financial year was 7,862,519. At 31 December 2006, the parent company held 210 own shares. One of the shareholders of Sava Re is its affiliate Maribor Ins Co, who are holding 525 shares. Net profit per share amounted to SIT 368.58 (2,897,943,000/7,862,519).

Equity of SIT 24,509,449,000 comprises equity items of the parent company including effects of valuation of investments in affiliated companies as under the equity method recognised in the revaluation surplus and retained earnings, and minority interests of Tilia Ins Co, Sava Ins Co and Dukagjini Ins Co of SIT 181,858,000.

Change in the revaluation surplus

(SIT '000)	Revaluation surplus relating to investments in the equity of Group companies	Revaluation surplus relating to investments in the equity of associated companies	Revaluation surplus relating to other investments	Total revaluation surplus
At 31 December 2005	**77,635**	**2,560,129**	**90,242**	**2,728,006**
Abolition of the equity revaluation adjustment at 1 Jan 2006	–77,635			–77,635
Revaluation of bonds and shares at 1 Jan 2006			1,179,725	1,179,725
Transfer of part of revaluation surplus to retained earnings		–441,310		–441,310
Adjustment on revaluation surplus due to deferred tax			–184,475	–184,475
At 1 January 2006	**0**	**2,118,819**	**1,085,493**	**3,204,312**
Increase due to acquisitions	0		274,939	274,939
Direct increase for use of equity method		410,537		410,537
Revaluation of bonds/shares at 31 Dec 06			55,023	55,023
Transfer of revaluation surplus to investment income		–16,848	125,836	108,988
Adjustment on revaluation surplus for deferred tax			–26,869	–26,869
At 31 December 2006	**0**	**2,512,508**	**1,514,422**	**4,026,930**

The parent company is permitted to establish reserves provided for by its articles of association of up to SIT 2.75 billion. These reserves had been set aside in the following way: 15 percent of net profit available after covering any loss carried over and after setting aside funds for the legal reserve and reserve for own shares, were used for reserves provided for by the articles of association until these reserves would reach the amount of SIT 2.75 billion. By decision of the management board, the parent company set aside SIT 307,000 for the reserve based on the articles of association.

Reserves provided for by the articles of association are used for

– covering net losses that cannot be completely covered by retained earnings and other revenue reserves (instrument of additional protection of tied-up capital);

– increasing share capital from company resources;
– supporting the dividend policy.
In 2006, no revaluation of equity was carried out. If the Company made a revaluation for the purpose of maintaining the purchasing power of equity in euro, the net profit for the period would be higher by SIT 6,224,000. If a revaluation was carried out on the basis of the increase in the consumer price index, net profit would have been lower by SIT 648,317,000.

(32) Subordinated liabilities

In 2006 the consolidated Group companies had no debt for which securities had been pledged.
In December 2006, the parent company issued EUR 32 million of subordinated debt of which SIT 2,783,274,000 was utilised by the end of the year. This transaction is described in greater detail in the notes to the balance sheet of Sava Re.

(33) Net technical provisions

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index	% of total
Net unearned premiums	11,420,606	9,009,787	126.8	24.1
Net provision for outstanding claims	23,924,335	21,072,453	113.5	50.5
Net provision for bonuses and rebates	69,206	62,087	111.5	0.1
Equalization provision	7,174,124	7,693,994	93.2	15.2
Provision for nuclear risks	2,320,008	2,299,904	100.9	4.9
Provision for unexpired risks	363,512	397,722	91.4	0.8
Earthquake provision	125,125	54,657	228.9	0.3
Provision for currency risks	9,186	1,562	588.1	0.0
Net mathematical provision	1,922,237	2,025,533	94.9	4.1
Net technical provisions	**47,328,338**	**42,617,698**	**111.1**	**100.0**

The IBNR provision compared to the gross provision for outstanding claims

(SIT '000) At 31 Dec 2006	IBNR provision	Gross provision for outstanding claims	%
	1	2	1/2
2005	5,589,973	26,885,916	20.8
2006	7,088,515	27,511,834	25.8

Underwriting Risk

The basic source of risk in insurance business stems from the uncertainty in relation to the amount of the claims expense, which can increase dramatically in the event of a natural catastrophe or other large man-made losses. The Group protects itself against this risk by setting up an adequate retrocession programme and by establishing adequate technical provisions. If these arrangements are appropriate with respect to risk exposure, the probability that an unfavourable claims development has a substantial negative impact on the financial stability of the Group is relatively small.
The retrocession programme is designed to reduce potentially large exposures as maximum limits as per tables of limits are applied only with best risks. In addition, reciprocal treaties are used for better risk diversification. Furthermore, retained business is additionally insured through a non-proportional program.
Technical provisions are made in accordance with all relevant regulations and actuarial principles and reviewed by the appointed actuary.
Sava Ins Co calculates technical provisions pursuant to Serbian regulations: provisions for unearned premiums, provisions for outstanding claims and equalization provisions. Unearned premiums are calculated on the same principles as used by the parent company in Slovenia (pro rata temporis for each policy), however no deduction is made for the proportionate amount of acquisition costs as deferred acquisition costs are booked under deferred costs and accrued revenue. Provisions for outstanding claims are set aside based on individual estimates of reported claims and IBNR claims. IBNR provisions as well as the equalization provision are calculated using procedures which are prescribed in detail. The calculation of IBNR provisions is based on actuarial principles but not on triangulated data. Due to severe inflation in recent years, such data would have been of no use.
Dukagjini Ins Co calculates technical provisions pursuant to Kosovo regulations. The company sets aside provisions for unearned premiums and provisions for outstanding claims. Unearned premiums are calculated pro rata temporis. Provisions for outstanding claims are set aside for reported claims and IBNR claims. Additions to provisions for outstanding claims are made as a percentage of premiums and deductions are made by amounts of claims paid for which provisions had been set aside. This simple method is not based on actuarial principles, however this does not mean that provisions are insufficient. On the contrary, the flat rate used exceeds the actual ratio between premiums and claims.
In 2006 technical provisions accounted for 55 percent of total Group liabilities, as compared to 59 percent in 2005.

(34) Other liabilities

(SIT '000)	At 31 Dec 2006	At 31 Dec 2005	Index
Liabilities arising out of primary insurance business	147,954	207,404	71.3
Liabilities arising out of co-insurance and reinsurance business	1,780,747	1,759,786	101.2
Liabilities for claim payments	4,200,059	3,113,980	134.9
Liabilities for commission	1,440,805	1,291,371	111.6
Sundry liabilities	955,177	450,791	211.9
Deferred tax liabilities	314,183	0	–
Total	**8,838,925**	**6,823,332**	**129.5**

Other liabilities include liabilities for claim payments and premiums arising out of inwards and outwards business, liabilities relating to deposits with cedants, liabilities due to employees, trade payables and other short-term liabilities. Other liabilities account for 10.3 percent of total liabilities and increased by 29.5 percent from 2005.

Just as receivables for premiums arising out of reinsurance business, so do liabilities for reinsurance premiums relate to 4th quarter reinsurance accounts that will become due in 2007.

Other liabilities in excess of 1 percent of total assets

(SIT '000) Liabilities for claims in Slovenia	At 31 Dec 2006
Maribor Ins Co	2,585,116

(35) Accrued costs and deferred revenue

This item includes deposits of reinsurers that are yet to become due (SIT 205,632,000) and accruals (SIT 534,806,000).

(36) Off-balance-sheet items

Off-balance-sheet items totalled SIT 3,569,788,000. The following are significant amounts:

- receivables relating to the Ministry of Finance for sales tax on reinsurance services in the amount of SIT 456,127,000.
- receivables relating to the Ministry of Finance for income tax payments in respect of financial years 1998 and 1999, inclusive default interest for the period 30 April 1999–4 May 2001 of SIT 486,336,000 (principal);
- subrogation claims of SIT 1,228,051,000;

Potential receivables – value adjustments of SIT 1,340,393,000.

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

The Company makes disclosures for all prescribed items of the profit and loss account in compliance with the *Companies Act*, SAS, *Decision on the Annual Report of Insurance Companies (2002)* and internal accounting rules. As a rule, the main items of the profit and loss account are further broken down into items that exceed 10 percent of any main item. For the purpose of disclosing changes in the accounting policies and estimates, a change is deemed to be material if the effect exceeds 5 percent of the profit or loss for the period. The same principle is followed in relation to disclosing corrections of material mistakes. For the items other revenues and other expenses from ordinary operations, additional disclosures are made if they exceed 2 percent of the profit/loss for the period.

(37) Earned premiums, net of reinsurance

(SIT '000)	2006	2005	Index
Gross premiums written	33,605,665	30,282,093	111.0
Outwards reinsurance premiums	–4,246,897	–4,140,639	102.6
Gross co-insurance premiums written	12,587	8,940	140.8
Change in unearned premiums – gross amount	–801,269	–77,946	1,028.0
Change in unearned premiums – reinsurers' share	–83,616	71,592	–
Earned premiums, net of reinsurance	**28,486,470**	**26,144,040**	**109.0**

Earned premiums, net of reinsurance, comprise gross premiums written less outward reinsurance premiums and include the change in the unearned premiums.

(38) Allocated investment return transferred from the non-technical account

(SIT '000)	2006	2005	Index
Allocated investment return	2,104,506	1,985,401	106.0

Allocated investment return transferred from the non-technical account comprises the investment return generated by investments supporting the liability fund.

Liability funds are accounted for separately from the capital fund, which is why no specific methods are used for allocating the return from the non-technical account to the technical account.

(39) Claims incurred, net of reinsurance

(SIT '000)	2006	2005	Index
Claims paid – gross amount	17,744,767	18,647,126	95.2
Subrogation recoveries	–889,275	–484,824	183.4
Claims paid – co-insurers' amount	5,438	11,337	48.0
Claims paid – reinsurers' amount	–1,534,311	–2,733,974	56.1
Change in the provision for outstanding claims – gross amount	3,204,384	4,242,244	75.5
Change in the provision for outstanding claims – reinsurers' share	–22,176	–1,655,532	1.3
Claims incurred, net of reinsurance	**18,508,827**	**18,026,377**	**102.7**

Claims incurred, net of reinsurance, comprise gross claims paid less claims paid by reinsurers including the change in the provision for outstanding claims.
Subrogation recoveries have mainly increased on account of subrogation recoveries by the parent company.

(40) Change in other net technical provisions

(SIT '000)	2006	2005
Change in the provision for bonuses and rebates	–4,029	–25,490
Change in the provision for nuclear risks	–20,104	–47,242
Change in the earthquake provision	–70,468	–39,876
Change in the provision for unexpired risks	32,641	–54,372
Change in the provision for currency risks	–6,055	–736
Change in the mathematical provision	–655,157	–460,296
Change in other net technical provisions	**–723,172**	**–628,012**

For all listed provisions, the change in the gross amount is equal to the change in the net amount of the provision. Details on the accounting for other technical provisions are provided by the appointed actuary, who in accordance with the *Rules on the Establishing of Technical Provisions* calculates the required amount of these provisions.
The effect of movements in other technical provisions in 2006 on the profit for the period was a negative one since additional amounts were set aside. The level of any permissible additions to the provision for nuclear risks is advised by the GIZ Nuclear Pool. As in previous years, we opted for the lower amount because the provision already reached a sufficient level.

(41) Net operating expenses

(SIT '000)	2006	2005	Index
1. Acquisition costs	915,680	804,375	113.8
2. Other operating expenses	4,036,677	3,475,569	116.1
2.1. Depreciation of operating assets	128,015	107,123	119.5
2.2. Labour cost	2,804,126	2,478,978	113.1
– Employee salaries	2,049,445	1,793,848	114.2
– Cost of social and pension insurance	419,300	384,252	109.1
– Other labour cost	335,381	300,878	111.5
2.3. Cost of services of natural persons	33,354	24,644	135.3
2.4. Diverse operating expenses	1,071,182	864,824	123.9
3. Net reinsurance commission	4,427,949	4,066,697	108.9
Net operating expenses	**9,380,306**	**8,346,641**	**112.4**

Also in 2006 net reinsurance commission increased operating expenses. Expenses for auditing services relating to the financial year 2006 amounted to SIT 24,322,000.

Labour cost

Labour cost accounted for 29.9 percent of net operating expenses and thus remained on the same level as in 2005.

Educational profile as per 31 December 2006

Education	2006	2005
Less than secondary school	52	36
Secondary school	382	167
Undergraduate degree	104	43
Graduate degree	110	95
Master's degree	12	10
Total no. of employees	**660**	**351**

Management board, supervisory board & directors' remuneration

(SIT '000)	Gross amount 2006	Gross amount 2005
Board of management	228,842	164,581
Supervisory board	96,143	55,635
Personal employment contracts	213,313	211,744
Total	**538,299**	**431,960**

Costs of services of natural persons

This item comprises costs incurred under contracts for services and costs of the supervisory board.

Diverse operating expenses

In the year diverse operating expenses totalled SIT 1,071,182,000 (up 23.9 percent compared to 2005) and accounted for 24 percent of operating expenses.

Reinsurance commission

(SIT '000)	2006	2005	Index
Inwards business – domestic (ID)	–4,719,714	–3,129,718	150.8
Inwards business – international (II)	–1,985,806	–1,581,822	125.5
Outwards business – domestic (OD)	9,490	8,641	99.4
Outwards business – international (OI)	549,922	729,538	83.0
Effect of deferred commission – ID	97,566	–99,324	–
Effect of deferred commission – II	17,843	5,115	348.8
Effect of deferred commission – OD	100	15	666.7
Effect of deferred commission – OI	30,631	858	78.8
Net reinsurance commission	**–4,427,949**	**–4,066,697**	**108.9**

In the consolidation process, all intra-group commission transactions have been excluded.

(42) Other net technical expenses

Other net technical expenses of SIT 146,544,000 comprise amounts paid for preventive measures of SIT 4,578,000, contributions relating to unidentified and uninsured vehicles of SIT 41,781,000 and sundry technical expenses of SIT 100,185,000.

(43) Change in the equalization provision

In 2006, the equalization provision was decreased by SIT 526,533,000. Releases from the provision were necessary due to changes to the Insurance Act as well as because of adjustments of executive acts in order to harmonise them with EU Directives.

(44) Investment income

(SIT '000)	2006	2005	Index
Income from land and buildings	57,031	70,467	76.3
Interest income	2,301,238	2,486,166	92.7
Gains on the realization of investments	955,491	39,999	2,388.8
Financial income from revaluation	100,339	629,892	15.9
Other financial income	237,155	88,637	267.6
Total	**3,651,254**	**3,315,161**	**110.1**

There was a significant decrease in financial income from revaluation, which is a result of the modified valuation methods of investments.
The Group holds a significant amount of assets that ensure secondary liquidity.

Financial instruments at fair value and at cost

(SIT '000)	Total financial instruments	Financial instruments at cost	Financial instruments at fair value
Government debt securities	17,418,563	5,290,424	12,128,139
Debt securities of other issuers	11,983,528	1,576,019	10,407,509
Structured products	2,343,319	1,006,488	1,336,831
Equity securities	13,214,397	11,261,001	1,953,396
Total	**44,959,807**	**19,133,933**	**25,825,875**

(45) Investment expenses

(SIT '000)	2006	2005	Index
1. Depreciation of non-operating assets	14,103	15,012	93.9
2. Interest and other investment expenses	323,471	554,679	58.3
– Investment management expenses, interest expenses and other expenses from financing	169,225	217,728	77.7
– Exchange rate losses	154,246	336,951	45.8
3. Losses on the realisation of investments	48,790	114,962	42.4
Total	**386,364**	**684,653**	**56.4**

As shown in the above table, investment expenses decreased significantly in 2006. This is partly due to the fact that negative revaluation adjustments relating to investments are taken to the revaluation surplus (negative) with available-for-sale investments.

(46) Other expenses

Other expenses totalled SIT 329,607,000, the lion's share of SIT 218,800,000 relate to value adjustments on receivables.

(47) Net profit for the period

In 2006 the Group generated a pre-tax profit of SIT 3,767,303,000. Pursuant to the Corporate Profit Tax Act, the Group accounted tax on profit for the year 2006 in the amount of SIT 874,037,000, thus the outstanding Group tax liabilities amounted to SIT 280,745,000. The effective tax burden as the ratio between tax on profit and profit before tax was 23.2 percent. The Group for the first time recognised deferred tax assets, in the amount of SIT 95,905,000. In the year, a value adjustment on the revaluation surplus in respect of available-for-sale financial investments of SIT 314,183,000 was disclosed as a long-term deferred tax liability. Net profit for the period was SIT 2,989,172,000 and was 118.95 percent higher than the net profit in 2005.

ADDITIONAL INFORMATION TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

Net technical result

(SIT '000)	Net premiums	Net claims	Net technical result 2006	Net technical result 2005
Class of business	1	2	3 (1–2)	4
Personal accident	3,143,596	1,657,924	1,485,671	1,304,879
Motor hull	5,456,160	3,953,208	1,502,952	1,255,277
Aircraft hull	21,869	6,026	15,843	3,523
Marine hull	166,731	123,957	42,775	–12,587
Goods in transit	302,557	123,649	178,909	111,677
Fire and natural forces	3,666,806	2,213,665	1,453,141	1,382,447
Other damage to property	4,231,173	2,217,744	2,013,428	1,439,266
Motor liability	8,842,592	5,381,373	3,461,219	3,534,301
Aircraft liability	40,691	14,646	26,045	17,745
Liability for ships	17,101	2,011	15,090	8,443
General liability	714,701	687,662	27,040	49,181
Credit	637,699	307,740	329,959	191,606
Suretyship	30,377	13,029	17,348	17,613
Miscellaneous financial loss	97,203	43,556	53,647	59,552
Legal expenses	15,606	18	15,588	16,921
Medical assistance	57,308	6,573	50,735	80,919
Life	627,245	680,322	–53,077	–11,726
Unit-linked life insurance	1,301,940	25,530	1,276,410	909,496
Total	**29,371,355**	**17,458,632**	**11,912,723**	**10,358,533**

Sava

RIVER

of life

Like a river, life flows on without turning back. It follows its inner need for advancement, without stopping for any obstacle. No matter how big the obstacle, life – as long as it has a healthy flow – will always find a way.

THE SLOVENIAN
Economy

Major economic indicators – development and forecast

	2004	2005	2006	2007 forecast
GDP				
GDP, real growth rate in %	4.4	4.0	5.2	4.5
GDP per capita, EUR	12,977	13,677	14,811	n.a.
DOMESTIC DEMAND				
Private consumption, real growth rate in %	3.4	3.3	3.3	3.3
Public consumption, real growth rate in %	1.7	3.0	3.8	3.2
Gross investment, real growth rate in %	6.8	3.7	11.9	6.5
INTERNATIONAL TRADE				
Exports of goods and services, real growth rate in %	12.6	9.2	10.0	9.0
Imports of goods and services, real growth rate in %	12.4	5.3	10.4	8.3
EMPLOYMENT				
Employment, growth rate in %	0.6	0.7	1.4	0.8
Average gross salary, real growth rate in %	2.0	2.2	2.2	2.2
Unemployment rate (standardized by ILO definition) in %	6.3	6.5	6.0	6.0
INFLATION				
Consumer prices annual average, growth rate in %	3.6	2.5	2.5	2.5
INTEREST RATES				
Interest rates on short-term bank loans – nominal (average)	8.7	3.6	3.4	3.4
Interest rates on long-term bank loans – nominal (average)	9.0	3.8	3.9	4.2
EXCHANEG RATES				
SIT/EUR exchange rate, annual average	238.9	239.6	239.6	239.6
USD/EUR exchange rate	1.24	1.24	1.25	1.32

Source:
Chamber of Commerce and Industry of Slovenia: Konjunkturna gibanja, May 2007
Bank of Slovenia: Poročilo o denarni politiki, May 2006
Bank of Slovenia: Annual Report 2005

GLOSSARY
of Terms

Affiliate An enterprise in which Sava Re has significant influence (20–100 percent of voting shares).

Associate An enterprise in which Sava Re has significant influence but not control (20–50 percent of voting shares).

Capital fund Assets representing the capital of the Company.

Combined ratio Ratio of net claims incurred plus net commission to net premium earned.

Loss ratio, gross Ratio of gross claims paid to gross premiums written.

Loss ratio, net Ratio of net claims incurred including commission to net earned premiums.

Liability fund Assets supporting technical provisions.

Subsidiary or Group enterprise An enterprise in which Sava Re owns more than 50 percent of voting shares.

THE GROUP

The Sava Re Group comprises the parent company Sava Re (professional reinsurer) and the subsidiaries Tilia Insurance Company (composite insurer), Sava Insurance Company in Belgrade (non life insurer), Dukagjini Insurance Company in Priština (non life insurer) and since the beginning of 2007, Tabak Insurance Company in Skopje. However, the following companies are often grouped together due to their capital links:

Pozavarovalnica Sava, d.d., Ljubljana

Reinsurance Company Sava Limited (Sava Re)
Type of company: professional reinsurance company
Origin: 1977
Head office: Dunajska 56, 1000 Ljubljana, Slovenia
Called-up capital: SIT 7,862,519,000 (EUR 32,809,710.40)
Holdings by Group Members: Maribor Insurance Company – 0.0066%

Zavarovalnica Maribor, d.d., Maribor

Maribor Insurance Company
Type of company: composite insurance company
Established: 1991
Head office: Cankarjeva 3, 2507 Maribor, Slovenia
Called-up capital: SIT 6,812,050,000 (EUR 28,426,180.94)
Holdings by Group Members:
Reinsurance Company Sava: 45.64%
Board of Management: Drago Cotar (Chairman), Srečko Čebron, Darko Tolar, David Kastelic, Srečko Čarni
Chairman of the Supervisory Board: Zvonko Ivanušič

Zavarovalnica Tilia, d.d., Novo mesto

Tilia Insurance Company
Type of company: composite insurance company
Established: 1991
Head office: Seidlova 5, 8001 Novo mesto, Slovenia
Called-up capital: SIT 4,930,000,000 (EUR 20,572,525.45)
Holdings by Group Members:
Reinsurance Company Sava: 99.61%
Board of Management: Adolf Zupan (Chairman), Janez Balkovec, Primož Močivnik
Chairman of the Supervisory Board: Sergej Rusjan

Moja naložba, d.d., Maribor

Type of company: pension company
Established: 2001
Head office: Vita Kraigherja 5, 2000 Maribor, Slovenia
Called-up capital: SIT 1,150,000,000 (EUR 4,798,864.96)
Holdings by other Group Members:
Reinsurance Company Sava: 20%
Maribor Insurance Company: 20%
Tilia Insurance Company: 5%
Board of Management: Lojze Grobelnik (Chairman), Boris Pipan
Chairman of the Supervisory Board: Darko Tisaj

Sava Osiguranje, d.d., Belgrade

Type of company: non-life insurance company
Established: 1991
Head office: Sremska 6, 11000 Belgrade, Srbia
Called-up capital: SRD 445,276,000 (EUR 5,636,000)
Holdings by Group Members:
Reinsurance Company Sava: 100%
General Manager: Duško Jovanović
Board of Directors: Maja Krumberger (Chairperson), Jošt Dolničar, Goran Pitić, Goran Miličević, David Kastelic, Duško Jovanović
Chairman of the Supervisory Board: Dušan Čeč

Dukagjini, kompania e Sigurimeve, Priština

Type of company: non-life insurance company
Established: 1991
Head office: Bulevardi Dëshmorët e Kombit 67, 10000 Priština
Called-up capital: EUR 2,800,000
Holdings by Group Members:
Reinsurance Company Sava: 51%
General Manager: Fatmir Gashi
Board of Directors: Srečko Čebron (Chairman), Ekrem Lluka, Sergej Simoniti, Tomaž Oplotnik, Fatmir Gashi

Head and Registered Office:
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SAVA
Pozavarovalnica Sava d.d.
Reinsurance Company Sava Limited.

Sava Re is Slovenia's leading reinsurer.

Our primary concern is to service the local insurance community. We also transact foreign business, which currently accounts for over 30 percent of our premium income.

The Company handles all classes of business. We write facultative covers as well as proportional and excess of loss treaties.

With the business going back to 1973, Sava Re has developed unrivalled knowledge and experience of the market and has maintained a sound operation through many political and economic upheavals.

1973
Reinsurance Department of Insurance Company Sava

The department starts reinsurance underwriting.

1975
Insurance and Reinsurance Community Sava

The Company operates on the principle of self-management.

1977
Reinsurance Community Sava

The reinsurance division is separated from the Insurance Community Sava and operates as an independent company.

1990
Reinsurance Company Sava Limited

The Company reorganises itself into a joint-stock company.

1998
Sava Re Group

The Company extends its operations into the direct market by taking a 99-percent shareholding in Tilia Insurance Company.

1999
Acquisition of a major share in Maribor Insurance Company.

2001
The Company is co-founder of the pension fund Moja naložba.

2006
Acquisition of Polis Insurance Company (subsequently renamed Sava Insurance Company), Belgrade. Acquisition of a majority share in Dukagjini Insurance Company, Priština.

2007
Acqusition of a major share in Tabak Insurance Company, Skopje.

Financial Highlights

	2006	2005	2004
Gross premiums written	**SIT 24.9 billion** *(EUR 103.9 million)*	**SIT 22.1 billion** *(EUR 92.1 million)*	**SIT 21.3 billion** *(EUR 88.8 million)*
Net premiums written	**SIT 20.6 billion** *(EUR 86.2 million)*	**SIT 17.9 billion** *(EUR 74.8 million)*	**SIT 16.9 billion** *(EUR 70.8 million)*
Net technical provisions	**SIT 33.5 billion** *(EUR 139.9 million)*	**SIT 32.4 billion** *(EUR 135.1 million)*	**SIT 30.8 billion** *(EUR 127.5 million)*
Equity	**SIT 20.7 billion** *(EUR 86.6 million)*	**SIT 20.1 billion** *(EUR 84.0 million)*	**SIT 17.8 billion** *(EUR 74.2 million)*
Profit for the year	**SIT 2.7 billion** *(EUR 11.3 million)*	**SIT 1.5 billion** *(EUR 6.1 million)*	**SIT 1.4 billion** *(EUR 6.0 million)*
Net technical provisions as % of net premiums written	**162.3%**	**180.5%**	**181.8%**
Administrative expenses as % of gross premiums written	**4.3%**	**4.4%**	**4.6%**