ANNUAL REPORT AND ACCOUNTS 2007 REINSURANCE COMPANY SAVA LTD

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

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ANNUAL REPORT AND ACCOUNTS 2007
REINSURANCE COMPANY SAVA LTD

LJUBLJANA, 31 MARCH 2008

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CONTENTS

CREDIBILITY OF THE AUDITED ANNUAL REPORT

The Board of Management of Pozavarovalnica Sava d.d. ("Sava Re") signed the Audited Annual Report of Sava Re for the financial year 2007 to confirm the credibility and accuracy of data contained therein.

Dušan Čeč, Chairman of the Board of Management

Zvonko Ivanušič, Member of the Board of Management

Ljubljana, 31 March 2008

DECLARATION OF THE BOARD OF DIRECTORS

˝To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.˝

Ljubljana, 31 March 2008

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

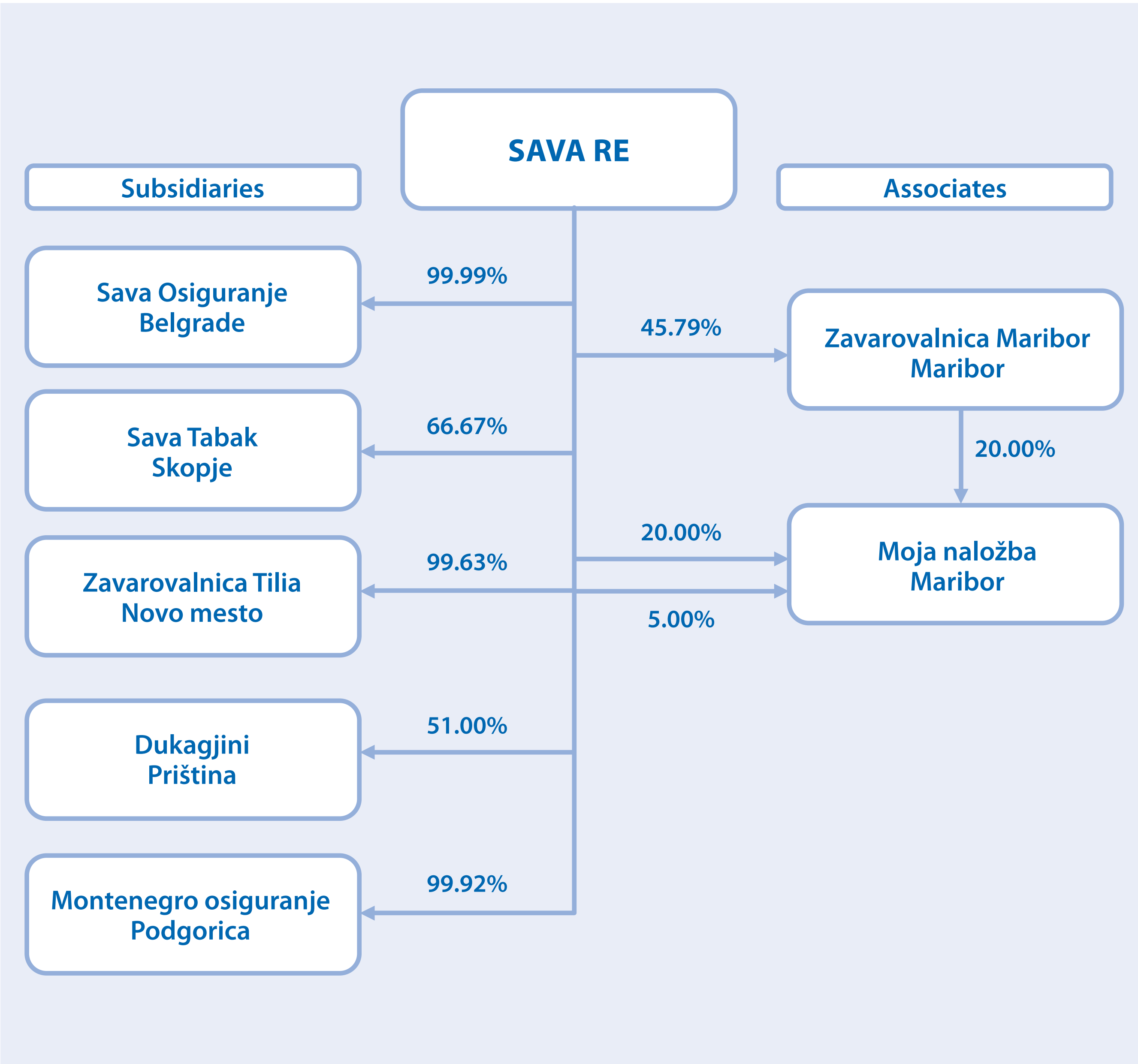
INTRODUCTION

1. THE SAVA RE GROUP

The years 2006 and 2007 were for Pozavarovalnica Sava d.d. ("Sava Re") years of important development, rapid progress and quality growth. In this period, the Group increased by four members, entering the Serbian, Kosovan, Macedonian and Montenegrin insurance market where the Group in addition to reinsurance activities, also focused on primary insurance business. An insurance group was formed that is aiming at providing the best financial services in the markets in which it operates.

1.1. SAVA RE GROUP STRUCTURE IN 2007

Figure 1: The Sava Re Group as at 31 December 2007



1.2. BASIC DETAILS ON THE SAVA RE GROUP

The Group comprises the following companies:

1. Pozavarovalnica Sava, d.d., Ljubljana (also "Sava Re")
2. Zavarovalnica Maribor d.d., Maribor (also "Maribor")
3. Zavarovalnica Tilia, d.d., Novo mesto (also "Tilia")
4. Moja naložba, d.d., Maribor (also "Moja naložba")
5. Sava Osiguranje a.d.o., Belgrade, Serbia (also "Sava Osiguranje")
6. Dukagjini kompania e sigurimeve sh.p.k. Priština, Kosovo (also "Dukagjini")
7. Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje, Macedonia (also "Sava Tabak")
8. Montenegro osiguranje a.d., Podgorica, Montenegro (also "Montenegro")

I.

1. **Pozavarovalnica Sava, d.d.**
2. Registered office: Dunajska 56, 1000 Ljubljana
3. Company ID no.: 5063825
4. Business transacted: 65.200
5. Called-up capital: EUR 32,810,000
6. Holdings by Group members:
   Zavarovalnica Maribor, d. d., Maribor: 0.0066%
7. Corporate governance bodies: Management Board:
   Chairman – Dušan Čeč
   Deputy Chairman – Zvonko Ivanušič
   Supervisory board:
   Chairman – Marko Pogačnik
8. Function in the Group: *parent company*

II.

1. **Zavarovalnica Maribor d.d.**
2. Registered office: Cankarjeva 3, 2507 Maribor
3. Company ID no.: 5063400
4. Business transacted: 66.030
5. Called-up capital: EUR 28,426,000
6. Holdings by Group members:
   Pozavarovalnica Sava, d. d., Ljubljana: 45.79%
7. Corporate governance bodies: Management Board:
   Chairman – Drago Cotar
   Deputy Chairman – Srečko Čebron
   Members – David Kastelic, Marko Planinšec
   Workers' Board Member – Srečko Čarni
   Supervisory Board:
   Chairman – Matjaž Kovačič
8. Function in the Group: *associated company*

III.

1. **Zavarovalnica Tilia, d.d.**
2. Registered office: Seidlova 5, 8001 Novo mesto
3. Company ID no: 5063426
4. Business transacted: 66.030
5. Called-up capital: EUR 22.242.000
6. Holdings by Group members:
   Pozavarovalnica Sava, d. d., Ljubljana: 99.63%
7. Corporate governance bodies: Management Board:
   Chairman – Andrej Kavšek
   Members – Dr Janez Balkovec, Tadej Avsec
   Supervisory Board:
   Chairman – Zvonko Ivanušič
8. Function in the Group: *subsidiary*

IV.

1. **Moja naložba, d.d.**
2. Registered office: Ulica Vita Kraigherja 5, 2000 Maribor
3. Company ID no: 1550411
4. Business transacted: 66.020
5. Called-up capital: EUR 4,799,000
6. Holdings owned by group members:
   Pozavarovalnica Sava, d.d., Ljubljana: 20%
   Zavarovalnica Maribor, d.d, Maribor: 20%
   Zavarovalnica Tilia, d.d., Novo mesto: 5%
7. Corporate governance bodies: Management Board:
   Chairman – Lojze Grobelnik
   Member – Boris Pipan
   Supervisory Board:
   Chairman – Andrej Plos
8. Function in the Group: *associated company*

V.

1. **Sava Osiguranje a.d.o.**
2. Registered office: Sremska 6, 11000 Belgrade, Serbia
3. Company ID no: 17407813
4. Business transacted: non-life insurance
5. Called-up capital: CSD 445,276,000 (EUR 5,639,160)
6. Holdings by Group members:
   Pozavarovalnica Sava, d. d., Ljubljana: 99.99%
7. Corporate governance bodies: CEO:
   Duško Jovanović
   Board of Directors:
   Chairperson – Maja Krumberger
   Deputy Chairmen: Jošt Dolničar, Dr Goran Pitić
   Members – David Kastelic, Duško Jovanović, Goran Miličević
   Supervisory Board:
   Chairman – Dušan Čeč
8. Function in the Group: *subsidiary*

VI.

1. **Dukagjini kompania e sigurimeve sh.p.k.**
2. Registered office: Bulevardi Dëshmorët e Kombit 67, 10 000 Priština, Kosovo
3. Company ID no: 70152892
4. Business transacted: non-life insurance
5. Called-up capital: EUR 3,000,000
6. Holdings by Group members:
   Pozavarovalnica Sava, d. d., Ljubljana: 51%
7. Corporate governance bodies: General Manager:
   Fatmir Gashi
   Board of Directors:
   Chairman – Sergej Simoniti
   Deputy Chairman – Ekrem Luka
   Members – Rok Moljk, Tomaž Oplotnik, Fatmir Gashi
8. Function in the Group: *subsidiary*

VII.

1. **Akcionersko društvo za osiguruvanje Sava Tabak a.d.o.**
2. Registered office: Ul. III Makedonska brigada bb, 1000 Skopje, Macedonia
3. Company ID no: 4778529
4. Business transacted: non-life insurance
5. Called-up capital: MKD 168,970,000 (EUR 2,752,013)
6. Holdings by Group members:
   Pozavarovalnica Sava, d. d., Ljubljana: 66.67%
7. Corporate governance bodies: Executive Director:
   Rok Moljk

CEO:
Blaže Srbinovski
Board of Directors:
Chairman – Jošt Dolničar
Members – Rok Moljk, Milojka Kolar, David Kastelic, Blaže Srbinovski, Zagorac Tumbovski

8. Function in the Group: *subsidiary*

VIII.

1. **Montenegro osiguranje a.d.**
2. Registered office: PC Kruševac, I sprat, Podgorica, Montenegro
3. Company ID no: 02303388
4. Business transacted: non-life insurance
5. Called-up capital: EUR 4,499,863
6. Holdings by Group members:
   Pozavarovalnica Sava, d. d., Ljubljana: 99.92%
7. Corporate governance bodies: Executive Director:
   Branka Borović
   Board of Directors:
   Chairman – Tomaž Oplotnik,
   Members – Maja Krumberger, Predrag Bajović
8. Function in the Group: *subsidiary*

1.3. OTHER INVESTMENTS OF SAVA RE IN THE INSURANCE INDUSTRY

In addition to investments in affiliated companies, at 31 December 2007, Sava Re held the following equity investments in the insurance industry.

Table 1: Other investments of Sava Re in insurance companies at 31 December 2007

Name	Holding (%)
Slovenia	
Zavarovalnica Triglav, d.d.	0.6640
Skupina prva, zavarovalniški holding, d.d.	1.7588
Other non-domestic	
Croatia Lloyd, d.d. za reosiguranje, Zagreb, Croatia	0.4136
Bosna reosiguranje, d.d., Sarajevo, Bosnia	0.4785
Croatia osiguranje d.d., Zagreb, Croatia	0.0819
Münchener rückversicherungs AG, Munich, Germany	0.1001
Allianz SE, Munich, Germany	0.1693
Axa, Paris, France	0.0388
Zürich financial services, Zürich, Switzerland	0.1581

1.4. BUSINESS TRANSACTED BY THE GROUP

Sava Re, the Group parent, is a professional reinsurer. The subsidiary Zavarovalnica Tilia and affiliate Zavarovalnica Maribor are composite insurance comanies. Sava Osiguranje Belgrade, Sava Tabak Osiguruvanje Skopje, Dukagjini kompania e sigurimeve Priština and Montenegro osiguranje Podgorica are non-life insurance companies. Moja naložba is a pension company.

1.5. SAVA RE BASIC DETAILS

Company name:	Pozavarovalnica Sava, d.d.
Head and registered office:	Dunajska 56 1000 Ljubljana Slovenia
Telephone:	(01) 47 50 200
Facsimile:	(01) 47 50 264
E-mail:	info@sava-re.si
Web site:	www.sava-re.si
Company ID no:	5063825
Tax no:	17986141
Subscribed capital:	EUR 32,809,710.40 (no. of non-par value shares: 7,862,519)
Year of entry:	28.12.1990 Ljubljana District Court
Certified auditor:	BDO EOS Revizija d.o.o. Dunajska cesta 106, 1000 Ljubljana
Majority shareholder and holding:	Slovenska odškodninska družba, d.d. 99.8664% (no. of non-par value shares: 7,852,019)
Other shareholders:	0.1336% (no. of non-par value shares: 10,500)

The Company has no branches.

1.6. CORPORATE GOVERNANCE BODIES OF THE COMPANY

Management Board

Pursuant to the Articles of Association of Sava Re and the Act on the Management Board, the Company is managed and represented by a two-member Management Board consisting of the Chairman of the Management Board and the Deputy Chairman of the Management Board. The Chairman of the Management Board represents and acts on behalf of the Company independently and without limitation, except when approval of the Company's Supervisory Board is required. The company is always represented by both members of the Management Board together.

Members of the Management Board are appointed for a term of five years with the possibility of unlimited reappointment.

Management Board members in 2007:

Chairman of the Management Board: ***Dušan ČEČ***
Deputy Chairman: ***Zvonko IVANUŠIČ***
Member of the Management Board (until 30 October 2007): ***Sergej RUSJAN***

The Chairman of the Management Board was appointed by the Supervisory Board, his term of office starting on 1 October 2004, while the term of office of the Deputy Chairman of the Management Board began on the day of obtaining the authorisation to perform the function of Management Board Member issued by the Insurance Supervision Agency, i.e. from 23 November 2004.

Supervisory Board

Pursuant to the Articles of Association of the Company and the applicable legislation, the Supervisory Board is composed of six members, of which four – shareholder representatives – are elected by the Company's General Meeting and two – employee representatives – are elected by the Workers' Council, which informs the General Meeting of its decision. Members of the Supervisory Board shall be appointed for a period of up to four years and may be re-elected.

In 2007, the Supervisory Board experienced several changes. At its session held on 11 January 2007, the Supervisory Board elected from among its members Mr Marko Pogačnik as chairman. The terms of office of two members of the Supervisory Board expired in 2007 and the Workers' Council appointed two new members for the four-year term of office.

Members of the Supervisory Board in the 2007:

Chairman: ***Marko POGAČNIK***
Deputy Chairman: ***Dr Timotej JAGRIČ***
Member: ***Dr Edo PIRKMAJER***

Member: ***Anton SAGADIN***
Member – employee representative (until 9 June 2007): ***Samo SELAN***
Member – employee representative (until 9 June 2007): ***Nika MATJAN***
Member – employee representative (from 10 June 2007): ***Aleš MIRNIK***
Member – employee representative (from 10 June 2007): ***Nada ZIDAR***

The General Meeting

The General Meeting of Sava Re was convened once in 2007. The 19th General Meeting was held on 8 August 2007 at the Company's registered office. The General Meeting of Shareholders was informed of the Annual Report for 2006, the Auditor's Opinion, the Report of the Supervisory Board to the Annual Report and the Annual Reports on internal auditing for 2006, the opinion of the Supervisory Board to the Annual Report on internal auditing. The General Meeting also decided on the appropriation of accumulated profit and the granting of discharge to the Management Board and the Supervisory Board for 2006. Furthermore, it also decided on the changed method of paying compensation for performing the function of the members of the Supervisory Board and acknowledged the names of two new members of the Supervisory Board – employee representatives, elected by the Worker's Council of the Company as well as appointed the auditor for 2007 – BDO EOS Revizija, družba za revidiranje, d.o.o., Ljubljana.

Information on shareholders

Share capital of the Company totals EUR 32,809,710.40 and is divided into 7,862,519 no-par-value shares. These are ordinary and registered shares. Shares are issued as book-entry securities and are not listed on the Ljubljana Stock Exchange.

Based on the records of the Central Securities Clearing Corporation, Sava Re had 21 shareholders as at 31 December 2007.

Table 2: The shareholders' register of Sava Re as at 31 December 2007

No.	Name	Holding	
		No. of shares (in lots)	As % of total equity
1	Slovenska odškodninska družba, d.d.	7,852,019	99.8665
2	Zavarovalnica Triglav, d.d.	1,785	0.0227
3	PRIMORJE, d.d. Ajdovščina	945	0.0120
4	Šolski center Rogaška Slatina	840	0.0106
5	Nova Ljubljanska banka d.d.	840	0.0106
6	NAFTA Lendava d.o.o.	630	0.0080
7	Zavarovalnica Maribor d.d.	525	0.0066
8	Avtotehna d.d.	525	0.0066
9	Bosna Reosiguranje d.d.	420	0.0053
10	Croatia Lloyd d.d. za reosiguranje	420	0.0053
11	Mlinotest d.d.	420	0.0053
12	Vipava 1894 d.d.	420	0.0053
13	ADRIATIC SLOVENICA d.d.	420	0.0053
14	Istrabenz d.d.	420	0.0053
15	Krka, d.d.	420	0.0053
16	Sava, d.d.	420	0.0053
17	Agraria poslovne storitve Brežice d.o.o.	210	0.0026
18	Banka Celje d.d.	210	0.0026
19	SKB banka d.d.	210	0.0026
20	Nova KBM d.d.	210	0.0026
21	Sava Re d.d.	210	0.0026

2. KEY ACHIEVEMENTS IN 2007

The Group

The Sava Re Group ended the year 2007 successfully:

- It ended the year 2007 recording EUR 27,192,080 profit before tax, an increase by 71.8% over 2006. The Group's net profit for 2007 totalled EUR 20,845,254.
- The Group achieved a 13.7% rate of return on average engaged capital.
- In 2007, consolidated gross insurance premiums increased by 34.3% to EUR 188.6 million, while gross written premiums in 2006 totalled EUR 140.5 million. The reason for the increase was the first full consolidation of the newly acquired subsidiaries Sava Osiguranje, Dukagjini and Sava Tabak in 2007.

Sava Re

Sava Re ended the year 2007 successfully:

- It ended the year 2007 recording EUR 23,536,658 of profit before tax, an increase by 87.8% from 2006. The Company's net profit for 2007 totalled EUR 18,205,424.
- Sava Re achieved a 13.8% rate of return on average engaged capital.
- The increase in gross reinsurance premiums compared to 2006 was 14.1%. The increase in gross premiums on foreign markets totalled 22.7%. Thus, the share of premiums from abroad accounted for 32.3% of total premiums in 2007.
- In spite of the increase in the number of employees, the share of overhead in premiums is low, namely 4.4% in 2007.
- In June 2007, the rating agency Standard & Poor's confirmed the Company's credit rating, namely BBB+ with a stable mid-term outlook.
- In 2007, the Sava Re Group grew by two members: Tabak Osiguruvanje, Skopje and Montenegro Osiguranje, Podgorica.
- Positive results of operations were boosted by the realisation of capital gains from the sale of certain shares and real estate in 2007.

3. REPORT OF THE BOARD OF MANAGEMENT

Dear Shareholders,

The year 2007 was another year of important growth and expansion. The Sava Re Group is gradually developing towards direct insurance business, as in the past two years, it became an important insurance group in the region. Already in 2006, we acquired the Serbian non-life insurer Polis Osiguranje (later renamed Sava Osiguranje) and the non-life insurer Dukagjini. In 2007 two more companies joined the Group: in January 2007, we completed the acquisition of the non-life insurer Tabak Osiguruvanje (later renamed Sava Tabak) and in December, the Montenegrin insurer Montenegro Osiguranje. At the end of 2007, the Group comprised the parent and five insurance companies from five different insurance markets of the former Yugoslavia.

The expansion had a significant impact on consolidated performance figures. Gross written premiums increased by 34.3% to EUR 188.6 million in 2007 (in 2006: EUR 140.5 million). Of this EUR 98.3 million or 52.1% relate to the consolidated reinsurance premium, and EUR 90.3 million or 47.9% relates to the consolidated primary insurance premium. This shows that the two activities are of equal importance in the Group. Here it also needs to be stated the consolidated primary insurance premium does no include the premium of Montenegro as the acquisition was completed in December. Montenegro had EUR 13.1 million insurance income). Thus the strategy is to extend business towards primary insurance business, while not neglecting the activities of the parent, which remains the generator of development.

The Group ended the year with a good result and a return on equity of 13.5%. Profit before tax was EUR 27.2 million, which is an increase by 71.8% compared to 2006 (EUR 15.8 million). The net profit attributable to the majority owner was EUR 20.2 million, which is a growth of 56.2% compared to 2006, when it was EUR 12.9 million. A lower growth of the net profit compared to growth of the gross profit is due to a somewhat more restrictive tax legislation, which, despite a gradually lower tax rate, in fact increased the effective tax rate. An additional increase in the tax burden was due to the transition to IFRS in 2007.

Claims paid followed premium growth at a slightly lower pace and reached EUR 99.4 million or an 11% growth. One reason of the different growth rates for gross premiums and gross claims is in addition to claims development also the enlargement of the Group. The newly acquired Group companies come from less developed insurance markets in which loss ratios are generally lower. Profit was also supported by the investment return. Group net investment income grew from EUR 14 million in 2006 to EUR 25.5 million in 2007. The high return is the result of favourable trends in capital markets and of certain important transactions (sale of shares in Triglav Insurance Company and sale of real estate owned by Sava Re, which was located in Ljubljana).

At the end of 2007, total equity of the Group was EUR 168.6 million (of this, EUR 4.6 million attributable to minority shareholders); consolidated assets grew by 26% to EUR 479.0 million, gross technical provisions by 22% to EUR 224.1 million. These figures indicate that the Sava Re Group is growing organically as well as through acquisitions.

Rapid growth requires organisational adjustments. Over the past two years, Sava Re employed a number of insurance professionals to organise the development of the primary insurance segment. We took on professionals from marketing, product development, claims handling and actuarial science with extensive experience that is very much needed for the Group primary insurance operations. Also in the future this area holds demanding challenges for us. In all markets where we are present, we are planning to extend our product range to life insurance. Already in 2008, we believe we will be able to complete procedures for the establishment of two life insurers – in Serbia and in Kosovo. In addition, the Group intends to look for new opportunities in the insurance markets of the Western Balkan.

The expansion of reinsurance operations is also still very important for the Group. Although the industry is in the so-called soft part of the insurance cycle, which is less favourable for sellers of reinsurance as prices are low, in Sava Re we have a clearly set growth strategy. In the short-term, we will not follow the market down – many contracts were cancelled in the 2008 renewal season, which is why in this year we do not expect significant growth in the reinsurance segment. Still we will develop the portfolio towards greater diversification. In 2007 the consolidated reinsurance premium from abroad accounted for 35.6% of the total portfolio (unconsolidated premium: 32.3%). On the reinsurance side, we are primarily exposed to risks in Slovenia, therefore our strategy is directed towards growth in foreign markets. Even though our important markets (with regard to our existing portfolio) include Western Europe, we are now more focused on Central and Eastern Europe, former Yugoslavia and our neighbouring countries. In addition, we are establishing links with reinsurers who operate in a similar way as Sava Re – we intensify our co-operation with other regional reinsurers all over the world. Good business relations and careful growth during soft cycle periods will give us a good basis for faster growth when conditions in reinsurance markets will become more favourable for providers of reinsurance services. Also in this area, we strengthened business processes and employed additional staff. As head of reinsurance operations, a professional from abroad with over 35 years experience in international reinsurance markets joined us an expert specialised in our target markets. We also employed new staff in the underwriting department to provide professional assistance to underwriters. In addition, we adjusted business processes so as to be able to respond to every enquiry within 48 hours.

We realise that reinsurance operations are still very important for the entire Group. Not only because reinsurance premium accounts for more than half of the total Group premium income, but as the basis and source of growth. Even though our enlargement led to a fundamental restructuring, our basic activity remains reinsurance. Here it all began, and this activity remains the core of our future development.

In 2007 Sava Re wrote EUR 118 million in premium, which is a 14% growth. While Sava Re has limited opportunities of growth in the domestic reinsurance market and the Company can grow only in line with the growth of our cedants, a relatively larger growth is achieved in foreign reinsurance markets. In 2007 foreign-sourced premium accounted for 32.3% of the portfolio (in 2006: 30.1% and in 2005: 24.5%). The financial statements of Sava Re represent the core of the Group. Net investment income reached EUR 22.0 million (in 2006: EUR 10.5 million), net claims incurred reached EUR 63.1 million (in 2006: EUR 55.1 million), profit before tax was EUR 23.5 million (in 2006: EUR 12,5 million), net profit for the year was EUR 18.2 million (in 2006: EUR 9.6 million). As at 31 December 2007, the Group parent held EUR 145.6 million of equity and EUR 129.5 million gross technical provisions.

As already mentioned, the Group is in a phase of strong growth. Past acquisitions, anticipated organic growth, the planned establishment of new life insurance companies and the intention of the Management Board to maintain high capital adequacy of the parent company, all this requires the support of shareholders and additional capital. Thus at the beginning of 2008, we agreed with the majority owner, the Slovenian Restitution Fund, that share capital should be increased (at the end of April 2008, the General Meeting of Sava Re authorised the Management Board that upon adoption by the Supervisory Board, it could increase share capital by up to 50% from authorised capital). In January 2008, based on a joint decision of the Sava Re majority shareholder and the management, the Company started procedures for an initial public offering of shares. This public offering included the sale of existing shares held by the Slovenian Restitution Fund (who intended to retain 25% plus 1 share) and an issue of new shares. At the time of preparing this report, the initial public offering is coming to a successful conclusion. The Company issued 1,500,000 shares and obtained EUR 42 million of fresh capital. There are changes also in the ownership structure and in the manner we will operate as in the next days and months, we will be faced with the rules that apply to public companies. Within the next days, Sava Re shares will be floated on the Ljubljana Stock Exchange (trading symbol POSR); the ownership structure, apart from the 25% plus 1 share retained by the Slovenian Restitution Fund will be dispersed; there will be changed conditions and procedures of communicating with owners. We believe the Company is ready for new challenges. Already the initial public offering procedure, which was very demanding for the Company and put a large strain on the Sava Re staff, has prepared us for this.

Our journey started in 1973, when we set out as the reinsurance department of the then Sava Insurance Company. In 1977 the department became a separate entity, the Sava Reinsurance Community. Already in the late 1970s, the Company wrote inwards business in international reinsurance markets, where we gained experience and made acquaintances. This is the second period of our development. The hyperinflation in the 1980s induced the Company to temporarily withdraw from international reinsurance markets. Thus the share of foreign-sourced premium approached nil at the beginning of the 1990s. This was a new period for the Company, which reorganised into a stock insurance company. Our focus was then on the domestic market, which needed our professional support as it had only started to develop. At the end of the 1990s, we witnessed a new period starting with the acquisition of Tilia Insurance Company and thereby entering the direct insurance market. Then we also started to increase our holding in Maribor Insurance Company to currently 45.79% of the capital stock. We gradually grew our international portfolio and strengthened the financial stability of the Company. The last decade was marked by the growth in our foreign-sourced portfolio and expansion to new insurance markets, which also announced the next period – in which Sava Re is a public company. The road we took was not always easy. We were often tested and always succeeded. Believing in the capabilities of our staff, I am convinced that we will be able to meet the challenges ahead.

Dušan Čeč

Chairman of the Board of Management

4. REPORT OF THE SUPERVISORY BOARD

Composition of the Supervisory Board

The Supervisory Board of Reinsurance Company Sava Limited ended the year 2007 in the following composition: Marko Pogačnik, MSc, Chairman of the Supervisory Board; Timotej Jagrič, DSc, Deputy Chairman of the Supervisory Board; Edo Pirkmajer, DSc, member of the Supervisory Board; Anton Sagadin, member of the Supervisory Board; and employee representatives Nada Zidar and Aleš Mirnik. The employee representatives were appointed to the Supervisory Board on 10 June 2007 (for a four-year term of office, replacing the previous members Nika Matjan and Samo Selan.

Activities of the Supervisory Board

In 2007, the Supervisory Board met at eight sessions, i.e. seven regular and one correspondence meeting. At its meetings, the Supervisory Board – pursuant to its statutory powers and powers conferred on it by the Company Articles of Association – discussed all relevant issues related to the operation and activities 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 year, the Supervisory Board decided on the appointment of a new Chairman of the Supervisory Board and elected Marko Pogačnik, MSc, who had been appointed member of the Supervisory Board on 28 December 2006 and who was elected Chairman of the Supervisory Board on 11 January 2007. In addition, the Supervisory Board decided, based on the authorisation of the General Meeting, on the amendment to the Articles of Association and, due to the transition to EUR, on the change in the share capital of the Company and on the amount of allowed reserves provided for by the Articles of Association.

At its meeting in the beginning of the year, the Supervisory Board issued approval for the Business Policy and the Financial Plan of the Company for the business year 2007. Furthermore, in the second half of 2007 it adopted the Strategic Guidelines of the Group, which will be the future basic guidelines for annual policies and financial plans. The Company chose dynamic planning based on strategic guidelines and the derived five-year Strategic Plan of the Group. All members of the Group as well as the parent company will follow it.

In accordance with the statutory authorities, the Supervisory Board also reviewed the work of the Company's internal audit in 2007. Thus, it issued approval for the Annual Programme of the Internal Audit for 2007 and the Annual Report on internal auditing for the business year 2006. With respect to internal auditing, the Supervisory Board discussed the Report on Internal Auditing for the period from 30 June to 31 December 2006 and the Report on Internal Auditing for the period from 1 January to 30 June 2007. All documents relating to the activities of the Internal Auditing were presented by the Company's internal auditor. The Supervisory Board considers that the Internal Auditing reports were independent and objective, and that the Management Board of the Company considered all the comments and findings of the internal auditor. The Supervisory Board furthermore acknowledged that in its work, Internal Auditing did not find any significant irregularities in the Company's operations. In reviewing the Internal Auditing Reports, the Supervisory Board proposed the audits be expanded to include risk management in the Company and the Group. In 2007, the Company appointed a person to oversee the area of risk management, and his/her reporting will be included in the Supervisory Board's future meetings.

In addition to the aforementioned documents, the Supervisory Board also discussed in 2007 the Unaudited Annual Report for the business year 2006, and Interim Reports on the Operations of Sava Re for the periods January–June 2007 and January–September 2007.

The Supervisory Board also monitored the Company's investment activities, especially its large investments in insurance companies. In the beginning of 2007, the Company completed the acquisition of the Macedonian insurer Tabak Osiguruvanje, of which the Supervisory Board was informed already in the business year 2006 (when the agreement on the purchase of shares was signed). In 2007, the Supervisory Board specifically focused on the supervision of operations of all subsidiaries. The Company's Management Board therefore prepared a special report on the operations and activities assumed by the Company in the new Group members. At the end of 2007, the Supervisory Board decided on the Company's investment in a new subsidiary, the Montenegrin non-life insurer Montenegro Osiguranje, with a market share of approximately 23% in the relevant insurance market.

In 2007, the Supervisory Board adopted the Annual Report of Sava Re for the business year 2006 and presented it to the Company's General Meeting together with the Opinion on the Annual Report on Internal Auditing for the business year 2006 and the Report of the Supervisory Board of Sava Re for 2006, including an Opinion on the Annual Report 2006.

In co-operation with the Management Board of the Company, the Supervisory Board proposed the resolutions to be passed by the General Meeting and also decided on the appropriation of accumulated profit for 2006 (after allocation to legal reserves and reserves provided for by the Articles of Association). In 2007, the Company reached the maximum amount of reserves provided for by the Articles of Association with the amount of EUR 11,475,546.65.

During the year, the Supervisory Board examined the letter of resignation of a member of the Management Board, Mr. Sergej Rusjan. Mr Rusjan had been with the Company since 1990 and contributed greatly to the Company's success. The Supervisory Board examined and adopted the resignation, which was submitted by Mr Rusjan for personal reasons. In this respect, the Supervisory Board also decided to amend the Act on the Management Board, which sets out the number of the members of the Management Board and specifies the division of the members' tasks by area. The Supervisory Board decided that the Management Board should be composed of only two members after the resignation of Mr Rusjan.

The Supervisory Board established that the reports compiled by the Company's Management Board for the needs of the work of the Supervisory Board were sufficient and appropriate for making quality judgements regarding information and compliance with legal obligations and obligations set out in the Articles of Association of the members of the Supervisory Board.

The Company performed very well in 2007; in addition to growing reinsurance premium, the Company also enlarged the Group, which was supported by the Supervisory Board. In this respect, the Supervisory Board discussed at one of its last sessions in 2007 also the need to increase share capital. The Supervisory Board gave the Management Board the power to increase capital up to EUR 80 million, in view of the development potential and the medium-term goals regarding high capital adequacy.

Annual report

The Supervisory Board reviewed the Annual Report on the Company's operations in 2007 in accordance with its powers. It established that the Annual Report was prepared in a clear and transparent manner, and that it includes all the elements and disclosures required by the Companies Act, accounting standards and special regulations and any secondary legislation adopted on their basis.

The Supervisory Board also examined the opinion of the auditing company which audited the Annual Report of Sava Re and carried out audits in the associated company Zavarovalnica Maribor and the subsidiary Zavarovalnica Tilia. The Supervisory Board also thoroughly examined the consolidated annual report, as two companies were additionally included in the 2007 consolidation, the Macedonian insurer Sava Tabak Osiguruvanje and the Montenegrin insurer Montenegro Osiguranje, which was included in the consolidated balance sheet. Due to the principle of relevance and as the Company was acquired in early December 2007, Montenegro Osiguranje was not included in the consolidated income statement. On the basis of the review of the Annual Report and the opinion of the external auditor, the Supervisory Board considers that the Company's Annual Report provides a true and fair view of the assets and liabilities of the Company, its financial position and the income statement of Sava Re and the Group. The Supervisory Board hereby adopts the Annual Report of Sava Re for the financial year 2007.

Calculation and proposed appropriation of accumulated profit

Based on the review of the Annual Report, the Supervisory Board – in co-operation with the Management Board – prepared a proposal for the appropriation of accumulated profit.

The Company net profit for the year totalled EUR 18,205,423.03. Pursuant to the provisions of the Companies Act, the Management Board and the Supervisory Board are entitled to allocate 50% of the Company's accumulated profit, which amounts to EUR 9,102,711.52.

In December 2007, the Insurance Supervision Agency published the Decision pursuant to which the credit equalisation provision and the catastrophe equalisation provision in the balance sheet were transferred from technical provisions to profit reserves. Pursuant to actuarial calculations, the Company set aside additional catastrophe equalisation reserves of EUR 627,010.75 in 2007, while on the other hand, the credit risk equalisation reserves were reduced by EUR 454,084.64. The net amount of the necessary additional reserves for the equalisation of risks thus totals EUR 172,926.11.

The Management Board and the Supervisory Board therefore allocated EUR 172,926.11 to additional reserves for the equalisation of losses, while the remaining amount of the net profit, EUR 8,929,785.41, was allocated to other profit reserves. Allocations from net profit to equalisation reserves were adequately disclosed in the Company's accounting statements for 2007, while the allocation pursuant to the resolution of the Supervisory Board and the General Meeting will be disclosed in the statement of changes in equity for 2008.

Accumulated profit for the business year thus consists of unallocated net profit for the year of EUR 9,102,711.52 and retained earnings of EUR 26,811,969.28. Retained earnings represent the amount of cancelled technical provisions, which the Company was obliged to cancel upon the transition to International Standards of Financial Reporting as at 1 January 2007.

The total amount of accumulated profit earmarked for allocation by the General Meeting is EUR 35,914,680.80.

The Management Board and the Supervisory Board propose that the disclosed accumulated profit of EUR 35,914,680.80 be allocated to other profit reserves.

The Supervisory Board proposes the General Meeting of the Company to grant discharge from liability to the Supervisory Board and the Management Board, together with the adoption of the resolution of the appropriation of accumulated profit.

This report was compiled in accordance with Article 282 of the Companies Act.

Marko Pogačnik, MSc

Chairman of the Supervisory Board of Reinsurance Company Sava Limited

5. AUDITED REPORT

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

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INDEPENDENT AUDITOR'S REPORT
(translation from original Slovene report)

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

We have audited the accompanying financial statements of Pozavarovalnica Sava, d.d. (Company), which comprise the balance sheet as at December 31, 2007, 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 International Financial Reporting Standards as endorsed in the European Union. 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, 2007, and of their financial performance and their cash flows for the year then ended, in accordance with International Financial Reporting Standards as endorsed in the European Union.

Annual Report is prepared in accordance with audited financial statements.

Report on other regulatory requirements
We checked additional disclosures to the annual report, prepared according to the sub act of the Insurance Supervision Agency (ISA), relating to the annual report and quarterly accounts of insurance companies – SKL 2007. In our opinion the additional disclosures are prepared according to the sub act, relating to the annual report and quarterly accounts of insurance companies – SKL 2007.

Ljubljana, 31. March 2008

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

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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INDEPENDENT AUDITOR'S REPORT
(translation from original Slovene report)

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

We have audited the accompanying consolidated financial statements of Pozavarovalnica Sava, d.d. (Company), which comprise the consolidated balance sheet as at December 31, 2007, 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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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pozavarovalnica Sava, d.d. as of December 31, 2007, and of their financial performance and their cash flows for the year then ended, in accordance with International Financial Reporting Standards as endorsed in the European Union.

Annual Report is prepared in accordance with audited financial statements.

Report on other regulatory requirements

We checked additional disclosures to the annual report, prepared according to the sub act of the Insurance Supervision Agency (ISA), relating to the annual report and quarterly accounts of insurance companies – SKL 2007. In our opinion the additional disclosures are prepared according to the sub act, relating to the annual report and quarterly accounts of insurance companies – SKL 2007.

Ljubljana, 31. March 2008

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

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

Nadja Knez M.Sc.
Certified auditor, Managing Partner

6. OPINION OF THE APPOINTED ACTUARY TO THE ANNUAL REPORT

OPINION OF THE APPOINTED ACTUARY TO THE ANNUAL REPORT

I have performed an actuarial investigation of the amount of technical provisions set aside by Sava Re as at 31 December 2007. The actuarial investigation was performed in compliance with the Insurance Act and relevant executive acts.

Adequate technical provisions are the responsibility of the Company's Board of Management. My task is to verify whether proper records have been kept by the insurance undertaking adequate for the purpose of valuation of the liabilities of its reinsurance operations; to give an opinion whether the sum of the mathematical provisions set aside by the insurance undertaking constitutes proper provision for the liabilities of the Company arising out of or in relation to reinsurance contracts, and whether provisions are made in compliance of statutory regulations; in respect to reinsurance contracts, to confirm that premiums for contracts entered into during the financial year and the premiums and income earned thereon are sufficient, on reasonable actuarial assumptions, and taking into account the other financial resources of the Company that are available for the purpose, to enable the Company to meet its commitments in respect of those contracts and, in particular, to establish adequate mathematical provisions. My task is also to determine the amount of the required minimum capital of the Company and the effect of the Company's business strategy on the amount of the minimum capital, as well as establish the capital adequacy of the insurance undertaking.

I am convinced that the actuarial investigation carried out provides sufficient ground for my opinion.

In my opinion, records for the valuation of reinsurance liabilities of Sava Re are adequate. Technical provisions have been set aside in compliance with regulations and are sufficient to enable the Company to meet its commitments in respect of reinsurance contracts as they fall due. Premiums for reinsurance contracts and other financial resources of the Company that are available for this purpose, on reasonable actuarial assumptions, enable the Company to continuously meet its commitments in respect of these contracts.

The amount of the liability fund exceeds the gross technical provisions. Investments of the liability fund are made in compliance with regulations on limitations and diversification. Sava Re's available capital exceeds required capital by a large amount.

Katja Vavpetič, univ. dipl. mat.

Sava Re Appointed Actuary

Vavpetič

Ljubljana, 21 March 2008

SAVA

Pozavarovalnica Sava d.d.

Reinsurance Company Sava Limited.

SAVA RE GROUP

BUSINESS REPORT

7. SAVA RE GROUP BUSINESS STRATEGY

7.1. MISSION

Ensuring a safe and profitable future

- We are partners and consultants to our insured
- We enable personal and professional growth for our employees
- We guarantee equity return to our owners
- We are friendly and responsible towards the environment

7.2. VISION

To be an insurance group known in our target markets as the Group that provides the highest-quality insurance and financial services.

The insurance companies in the Group will become known in target markets by the highest-quality of insurance products offered. A comprehensive range of products will allow policy holders to select the optimal level of financial safety in view of each individual's specific needs. When selecting the range of insurance products and in all further processes related to insurance services, the insurance companies will offer the policy holders quality expert assistance guided by the principle of client satisfaction and safety.

Since we believe that our employees are key to success, the Group will set up a systematic programme of training, education and motivation for the employees so that they can be creative in their contribution to the development and reputation of the insurance companies and at the same time achieve their own professional and personal development. The Group will build its own corporate culture, which will be recognisable outwards, as it will be reflected in the quality of services and commitment of the employees to the Group and the company.

Setting up quality service for the insured, continued development in the area of insurance products, business processes and back-office systems will be reflected in the profitability of operations and assurance of adequate rates of return on equity.

By definition, insurance is the provision of economic security by diversifying economic risks, which means that it covers a broad economic environment. In the framework of this system, the insurance companies are responsible for making an active contribution to environmentally-friendly activities by supporting the development of scientific research in the area of healthcare, education, transport, ecology, geological and geographical surveys, etc. The insurance companies in the Group will actively contribute to the development of the said activities in local markets.

7.3. VALUES

The Group shall promote the following values:

- commitment to clients,
- employee satisfaction and loyalty,
- innovation,
- business conduct,
- ethical behaviour,
- performance and reputation,
- responsibility to the social and natural environments.

7.4. STRATEGIC FOCUSES OF THE GROUP

- In its target markets, the Group will be recognised as the provider of the highest-quality of insurance and reinsurance services (products) and as the most responsive and flexible insurance group.
- In the area of reinsurance, the Group will provide a transparent range of services based exclusively on expert decisions.
- As a rule, premium growth in the Group will be above the average of the relevant industry in individual markets while the goal related to growth will be subordinated to the above-mentioned goals. Premium growth is a secondary goal, since the Group will focus on quality and profitability of the Group and its individual members as a top priority.
- The Group will continue to expand in SEE markets but the expansion will be subordinated to the ability of providing quality corporate governance.
- In all target foreign markets where the Group operates as a provider of non-life insurance services, the parent company will expand the range to the area of life insurance services by establishing life insurance companies and complementary companies for managing investment and mutual funds.
- The Group will fully implement the Group Corporate Governance Policy.
- It will upgrade its operations at all levels by efficient processes and information technology.
- The Group will build its own modern corporate culture by means of quality corporate governance, constant in-house and external training and implementation of the Group Ethical Code.

8. PLANS FOR 2008

A summary of goals relating to reinsurance business:

- growth in the share of foreign clients in total gross reinsurance premiums;
- maintaining a high level of capital adequacy pursuant to Standard & Poor's requirements;
- maintaining the level of the expense ratio;
- looking for new opportunities to enter the markets of Central and Eastern Europe;
- adapting the organisation to the needs of the core activity and the needs of managing strategic investments;
- establishing life insurance companies and companies for managing investment and mutual funds on target markets;
- increasing capital for the needs of financing new strategic investments and the establishment of life insurance companies and companies for managing investment and mutual funds.

Summary of operating goals of the Group members:

- strengthening the position of insurance companies on local insurance markets;
- ajusting the level of technical provisions to European actuarial standards (in the mid-term);
- containing operating expenses;
- expanding the agency network;
- optimising the structure of investments;
- hiring highly qualified personnel;
- achieving the maximum possible return on equity while giving priority to the above-mentioned development goals.

9. GOALS ACHIEVED IN 2007

The Group

Table 3: Comparison of premium income by insurance company in the Group with planning figures

Gross premiums written (EUR)	Plan 2007	Realisation 2007	Index
Tilia	57,507,915	58,108,415	101.0
Sava Tabak	13,826,436	14,281,122	103.3
Montenegro	10,876,893	10,625,220	97.7
Sava Osiguranje	9,660,700	10,158,323	105.2
Dukagjini	8,174,000	7,794,922	95.4
	100,045,944	**100,968,002**	**100.9**

Sava Re

Table 4: Comparison with planning figures

(EUR, except percentages)	2006	2007	Plan 2007	Index 2007/2006	Index 2007 / plan
Gross premiums written	103,903,448	118,539,939	113,096,000	114.1	104.8
Net premiums written	86,181,460	97,207,906	93,304,000	112.8	104.2
Gross claims and benefits paid	71,194,242	70,358,934	70,730,000	98.8	99.5
Net claims and benefits paid	51,952,515	58,761,716	56,449,000	113.1	104.1
Gross loss ratio	68.5%	59.4%	62.5%	86.6	95.0
Net loss ratio	60.3%	60.4%	60.5%	100.3	99.9
Operating expenses as% of gross premiums written	4.3%	4.4%	4.2%	102.3	104.8
Profit before tax	12,530,226	23,536,658	12,680,000	187.8	185.6
Profit for the period	9,631,981	18,205,424	435,000	189.0	4.185.2
Assets	293,419,902	356,701,026	306,979,000	121.6	116.2
Equity	117,924,009	145,637,435	109,871,000	123.5	132.6
Gross technical provisions	117,429,814	129,483,842	129,322,000	110.3	100.1
Net technical provisions	100,502,672	108,010,647	108,231,000	107.5	99.8
Return on equity ROE	8.5%	13.8%	0.4%	162.3	3,453.7
Return on investments (excl. strategic investments)	7.96%	10.67%	4.7%	134.0	227.0
Capital adequacy (surplus)	49,642,261	43,492,062	37,808,632	87.6	115.0

10. ORIGIN AND DEVELOPMENT OF THE GROUP

2007	Enlargement of the Group Sava Re acquires a majority share in the Macedonian non-life insurer Sava Tabak and the Montenegrin non-life insurer Montenegro Osiguranje.
2006	Enlargement of the Group Sava Re acquires a majority share in the Serbian non-life insurer Sava Osiguranje and the Priština non-life insurer Dukagjini.
2003	New owner of Save Re Capital not allocated to any specific owners was transformed to the state – owned Slovenian Restitution Comapany which gained 99.8665% shareholding.
1999	Enlargement of the Group Sava Re acquires more than 40% of the Slovenian insurer Maribor.
1998	Sava Re Group Reinsurance Company Sava takes a 99-percent shareholding in the Slovenian insurer Zavarovalnica Tilia.
1991	Reinsurance Company Sava Limited, Ljubljana The Company reorganises as a joint-stock company.
1977	Reinsurance Community Sava The reinsurance division is separated from the Insurance Community Sava and operates as an independent company.
1975	Insurance and Reinsurance Community Sava
1973	Reinsurance Department of Insurance Company Sava (Zavarovalnica Sava) The department starts reinsurance underwriting.

11. THE COMPANY'S BUSINESS ENVIRONMENT IN 2007

11.1. AMENDED LEGISLATION IN 2007

Insurance industry

Amended Insurance Act (ZZavar-D, Official Gazette of the RS, no. 102/07)

The basic goal of the amended ZZavar-D is to align Slovenian law with European law, especially to Directive 2005/68/EC on reinsurance companies and to achieve the principle of assuring adequate control over reinsurance companies and conditions for cross-border provision of reinsurance services. Furthermore, Amendment D involves the change the amounts of fines from tolar to euro and certain provisions in relation to the Slovenian Insurance Association.

Act Amending the Compulsory Motor Third-Party Liability Act (ZOZP-D, Official Gazette of the RS, no. 52/07)

The basic goal of the new ZOZP-D is to achieve harmonisation with the provisions of Directive 2005/14/EC. Furthermore, changes have been determined which regulate the ranges of fines, and due to the introduction of the euro, the amounts of fines have been converted into euro. Other changes are of an editorial nature.

Secondary legislation of the Insurance Supervision Agency, issued on the basis of the Insurance Act

AMENDMENT: *Decision on Detailed Contents of the Documentation to Accompany an Application for a Licence to Carry Out the Function of Management Board Member (Official Gazette of the RS, no. 7/07)*

AMENDMENT: *Decision on the Detailed Contents of Summary Audited Annual Report - SKL-2002 (Official Gazette of the RS, no. 21/07)*

NEW: *Instructions for Calculating the "Capital Revaluation Adjustment for Assets not Financed from Technical Provisions" in forms KUS-P and KUS-Ž (Official Gazette of the RS, no. 25/07)*

AMENDMENT: *Decision on the Detailed Method of Calculating Capital and Compliance with Capital Requirements and Capital Adequacy Requirements by Insurance Companies (Official Gazette of the RS, no. 25/07)*

NEW: *Decision on Detailed Rules for Calculating the Insurance Companies' Minimum Capital (Official Gazette of the RS, no. 25/07)*

NEW: *Decision on the Annual Report and Quarterly Financial Statements of Insurance Companies – SKL 2007 (Official Gazette of the RS, nos. 28/07, 119/07)*

NEW: *Decision on Rules for Calculating and Capital Items of Additional Own Capital (Official Gazette of the RS, No. 28/07)*

AMENDMENT: *Instructions on the Method of Electronic Reporting by Insurance Companies on Investments of Liability Fund and Life Insurance Liability Fund and on Investments not Financed from Technical Provisions (Official Gazette of the RS, No. 28/07)*

SUPPLEMENT: *Decision on Detailed Conditions for the Acquisition and Testing of Knowledge Necessary to Perform the Function of Insurance Agent or Intermediary (Official Gazette of the RS, No. 55/07)*

SUPPLEMENT: *Decision on Registers of Insurance Agents, Insurance Brokers, Insurance Agencies and Insurance Brokerage Companies (Official Gazette of the RS, No. 55/07)*

NEW: *Decision on Detailed Rules of Assets Covering Technical Provisions and Assets Covering Mathematical Provisions, and Rules of Investments not Financed from Technical Provisions (Official Gazette of the RS, no. 115/07)*[1]

Companies

Amended Companies Register Act (ZSReg-B, Official Gazette of the RS, no. 33/07)

The purpose of the amended ZSReg-B is to ensure simple and rapid publication of entries in the Companies Register. Amendments were also needed due to the alignment with the European Directive on the adaptation of the register to electronic operations.

Employment relationships

Amended Employment Relationships Act (ZDR-A, Official Gazette of the RS, no. 103/2007)

The most important amendments of the new ZDR-A are the following: changes in the registration and deregistration of jobs, flexible possibilities of arranging the working hours of mobile employees, better protection of employees against discrimination and all forms of violence on the job (i.e. mobbing), better internal mobility of employees, widening the range of conditions for suspending the contract, widening the range of conditions of employment for limited periods of time, project work arrangements, introduction of

1 On the day of enforcement of the new Decision, the previous Decision is revoked; on the same day, the Decision about the Report on the Types and Value of Investments that are not Financed by Insurance Technical Provisions is also revoked.

the proportionality of rights arising from employment for short periods of time, introduction of shorter notice period and reduced severance payments, supplemented arrangement of working hours and use of annual leave.

11.2. MACROECONOMIC INDICATORS

Slovenia

Real economic growth in Slovenia is the highest in the last ten years and amounted to 5.9% at the end of 2007. In the scope of domestic demand, the most important and dynamic component in Slovenia, for the time being, is investment demand, which strongly defines the present trend with 9–14% real growth. The European Commission has assessed that Slovenia will rank seventh in terms of GDP growth among the EU Member States.

December inflation in Slovenia was 5.6%, in the Eurozone 3.1% and in the EU-27 3.2%. The impact of the introduction of the euro as the national currency was only partial, even though the convergence of prices in the Eurozone means an upward pressure for Slovenia due to reduced average prices (especially the prices of services). Inflation is also impacted by impulses from the international environment (the prices of energy products, metals, food), income policy, wage pressures and public finance trends. Estimated inflation for 2007 is 3.5%.

In addition to the rapid growth in investments, increasing production capacity utilisation also contributed to employment growth in the first half of 2007. Manufacturing companies, which represented approximately 88% of industry and 21% of total GDP in 2006, also reported increased utilisation of production capacity (both in terms of personnel and technology) in 2007. In this period, fewer companies reported that they had appropriate production capacity at their disposal with regard to expected demand in the next 12 months. As a consequence, companies have significantly increased employment, which achieved high growth of 2.3% year-on-year in 2007. According to the ILO, the expected growth in unemployment in 2007 is 5%.

On 1 January 2007, Slovenia entered the EMU and thus waived the right to lead independent monetary policy. For financial institutions, entry into the EMU involved the influence in the area of interest rates and access to a broader money market. The level of interest rates was thus adjusting to the level of key interest rates of the European Central Bank during the entire year and Slovenian banks were granted access to a wider interbank market.

The year 2007 (the second half in particular) was characterised by a global financial crisis, the reasons for which were mainly the overheated American market of mortgage loans and the related issue of structured products. The crisis in one segment of the financial market quickly spread to all other segments – namely to interbank, share and bond markets.

For the time being, Slovenia has managed to avoid a crisis to a considerable extent. Among those most affected were Slovenian banks, since the cost of cash increased (as a result of higher interest rates on the interbank market in the EMU); for now, the effect was not strong enough to influence the banks' operations and their lending ability. For the time being, the real financing terms for non-financial companies in Slovenia are more favourable than those in the euro area and can therefore contribute to continued high growth in lending to non-financial corporations in Slovenia.

Table 5: Important indicators for Slovenia in 2004, 2005, 2006 and 2007

	2004	2005	2006	2007
Real GDP growth (%)	4.4	4.1	5.7	5.9
GDP per capita (EUR)	13,103	13,807	15,167	16,684
Gross wages (real growth in%)	1.0	2.2	2.2	2.2
Employment (real growth in%)	0.4	0.7	1.2	2.3
Productivity (real growth in%)	4.0	3.4	4.5	3.5
Export of goods and services (real growth in%)	12.5	10.1	12.3	13.0
Import of goods and services (real growth in%)	13.3	6.7	12.2	13.2
Consumer prices (average annual growth in%)	3.7	2.5	2.5	3.5

Source: CCIS, Cyclical trends, November 2007 and January 2008
Bank of Slovenia, Report on Price Stability, October 2007

The international environment

The IMF maintained its forecast for global economic growth in 2007 at 5.2%. The situation on the global financial market is gradually stabilising but the high level of uncertainty is still present. Short-term interbank interest rates in the euro area (overnight, 3-month) fell, but bank financing terms became stricter. Global stock exchange indices grew at first and then started falling in October due to increased uncertainty (poor performance of the US banks). In the first half of October, the EUR/USD exchange rate changed quickly. The reason for this was in the mixing of data, especially in the USA (e.g. improvement of the labour market, deterioration of the real estate market). The price of a barrel of Brent Crude Oil grew to USD 85. The main reasons for this rise in prices were the low stocks of oil in the USA, the weak dollar, and the geopolitical tensions between Iraq and Turkey.

The forecast of economic growth for the euro area in 2007 remains close to 2.5%. The forecast of October growth by International Monetary Fund was 2.5% while Consensus foresaw 2.6%. In the forthcoming years, growth is about to level off at around 2.0% (Consensus). Growth will mainly be slowed because of stricter lending terms and conditions in banks and falling indicators of corporate and consumer confidence. In some countries of the euro area, the trend of falling prices of real estate has been present for some time, which, according to some estimates (JP Morgan), does not have a significant impact on household spending. These are above all Italy, France and Spain (gradually since 2004) and since 2006 also Ireland. In September 2007, inflation grew to 2.1%, mainly due to the effect of the low base of energy prices last year. The ECB did not change its key interest rate in October.

In the ex-Yugoslav republics, economic growth in 2007 is expected to accelerate and remain higher than the spring forecast, also in the next two years. Economic growth was a positive surprise in the first quarter in all countries, which influenced the more optimistic future growth estimates. Domestic demand will be the most important factor in economic growth in the next few years. In Croatia, private consumption is expected to increase due to a high growth rate, while the growth of investments is forecast to slow down as a result of a reduced number of infrastructural projects. On the other hand, investments are expected to grow faster in Serbia, BiH and Macedonia, a trend that could already be noticed at the beginning of 2007; the data on high growth of investments in machinery and equipment are particularly upbeat, since these investments, together with the implementation of major infrastructure projects, are expected to boost economic growth in these countries. Economic growth is expected to slow down a bit in the next two years, especially due to the stabilisation of international trends.

Table 6: Growth rates of key macroeconomic indicators for certain European countries in 2006 and 2007

(percentages)	GDP		Inflation		Unemployment	
	2006	2007	2006	2007	2006	2007
EU27	3.1	2.8	2.1	2.1	7.9	7.6
Euro area	2.8	2.5	2.2	2.0	7.8	7.3
Austria	3.3	3.3	1.7	1.9	4.8	4.5
Belgium	3.0	2.6	2.3	1.8	8.3	7.8
Finland	5.0	4.3	1.3	1.5	7.7	7.5
France	2.0	1.9	1.9	1.6	9.0	8.3
Greece	4.3	3.9	3.3	3.0	8.9	8.3
Ireland	5.7	4.6	2.7	2.5	4.4	4.5
Italy	1.9	1.7	2.2	1.9	6.8	6.8
Luxembourg	6.2	5.4	2.7	2.2	4.4	4.6
Germany	2.9	2.4	1.8	2.1	8.1	7.8
The Netherlands	3.0	2.6	1.7	2.0	3.9	3.2
Portugal	1.3	1.8	3.0	2.5	7.7	7.4
Spain	3.9	3.7	3.6	2.5	8.6	7.8
Slovenia*	**5.7**	**5.9**	**2.5**	**3.5**	**6.0**	**5.0**

Source: Bank of Slovenia: Economic indicators of international environment, October 2007
*CCIS, Cyclical trends, November 2007

Other countries in which Sava Re has interests in insurance companies

Serbia

Economic growth in 2006 was 5.7% and was mainly driven by the service sector (transport, financial intermediation and trade, in particular). The manufacturing industry also got stronger. The growth in GDP in the first quarter of 2007 grew to 8.7% as a result of high growth in domestic demand, which was boosted by the growth in bank loans and pre-election increase in salaries. Similarly to 2006, the service sector recorded the highest growth also in the first quarter of 2007 – the most significant increase was noticed in the volume of trade (by 24.1% at the annual level), followed by transport, telecommunications and financial intermediation. Similar economic growth is forecast for 2007 and 2008, namely 6.0 and 5.8%, respectively. The growth will be higher due to more expansive fiscal policy, which includes larger public investments in the scope of the national investment plan, investments in newly privatised companies and relatively high private consumption (due to high growth in salaries).

Inflation, which totalled 12.7% in 2006, was under control in the first half of 2007 as a result of a strong dinar and consistent monetary policy. In June 2007, basic inflation totalled 2.8% at the annual level and, taking into account the prices controlled by the Government, it grew slightly to 5.1% (due to higher prices of electricity and fuel). Inflation pressures in the second half of the year grew stronger, also due to higher growth in salaries, more expansive fiscal policy, the increase in prices controlled by the Government and high global prices of oil. Average inflation is expected to reach 6.4% in 2007. The unemployment rate is high but gradually falling. In February 2007, the official number of unemployed persons was 921,740, which accounts for 30% of the labour force; however, taking into account the grey economy, this represented around 20%. Similarly to other countries in transition in this region, the unemployment rate was the highest among the young, especially young first-time job seekers. Real net salaries are growing quickly, also in 2007, and the high growth in salaries is causing some concern, since it stimulates inflation pressures and reduces competitiveness.

Macedonia

Compared to other countries in the region, Macedonian economic growth is low. In 2006, it amounted to 3.0%, boosted above all by private and investment consumption. The former grew by 4.8 % and the latter by 6.5%. The growth in public consumption was low, namely merely 0.5%. The Government predicts that economic growth in 2007 and 2008 will be higher, namely 6 to 8%, since it plans to introduce reforms that will boost competitiveness and stimulate foreign direct investments. Foreign analysts are somewhat more pessimistic – they estimate that GDP growth in 2007 will be 5%, which is still high, and boosted by high growth in private consumption and domestic investments. Among the branches, the highest growth was recorded in trade, transport and communications, and banking services, and in the second half of the year, the situation in manufacturing and construction also improved.

Average inflation, which was 3.2% in 2006 due to high prices of oil, food and tobacco, is estimated to fall to 2.0% in 2007 (in the first half of the year it was merely 0.9, on average). The pressure on inflation was caused by high prices of electricity and heating, and increased excise duties on tobacco, while inflation fell due to a relatively restrictive fiscal policy and a stable denar/euro exchange rate. Unemployment, which is one of Macedonia's most troubling issues, dropped to 35% in 2006 (the actual rate of unemployment is said to be lower due to the extensive grey economy). Low economic growth and stiff labour legislation and conditions on the labour market obstruct faster creation of new jobs. The growth in salaries is high, although they remain rather low.

Montenegro

GDP growth in 2006 was high, 6.5%, boosted by strong growth in construction, tourism and financial services. The high growth continued in the first half of 2007, when it reached 6.9 percent according to the central bank. The growth was boosted by tourism and transport, and hindered by industrial production, which fell by 5% in the period concerned. In 2007, tourism contributed significantly to economic growth, which was 5%.

Inflation was rather low in 2006 – the average rate of inflation measured with the index of retail prices was 3.0%, while for the years 2007 and 2008, analysts forecast that the level of inflation will not change. In 2007 the prices of electricity and telephone services increased, while the prices of food and chemical products grew by 30 to 40% in September. The increase in the minimum salary and rapid growth in loans also influenced inflationary pressures. In addition, the consumer price index has been used for measuring inflation since 1 January 2007, which is why the central bank forecast that this year's inflation will be considerably above the planned level. The rate of employment has been growing since December 2006. In June, it increased by 0.9 percent at the monthly level, while it rose by 4% at the annual level. The rate of employment is increasing mainly in public administration, which employs around 60% of all employed persons but not in the private sector, which is still rather weak. According to the official data, the unemployment rate stood at around 10 percent in the middle of 2007, while it was as high as 30% according to some estimates. Salaries grew faster than productivity, namely fourfold, according to some estimates. In July 2007, nominal net salaries grew by 17.8% at the annual level, which, taking into account the low rate of inflation, represents high real growth.

Kosovo

In 2007 the macroeconomic development of Kosovo was upbeat and indicated continued growth in the private sector. In 2007, GDP grew by 3.5% in real terms, totalling EUR 2,378 million, while BDP per capita was EUR 1,150 (1.8% real growth). As mentioned before, the economic growth of Kosovo is generated above all by the private sector, which grew by 7.2% in 2007 (115.7% of GDP). Even though the development of the private sector was positive and GDP recorded growth, the Kosovo economy is still concerned about the high deficit of the balance of payments.

In 2007, Kosovo recorded an average annual rate of inflation totalling 4.5%. At the quarterly level, consumer prices grew on average by 6.8% in the last quarter, compared to the previous quarter and by 10.7% compared to the fourth quarter of the previous year. Moreover, the prices of bread and non-alcoholic beverages also grew at the end of the year, contributing 2 percentage points to the total increase.

Registered unemployment in Kosovo grew by 2.6% in the last quarter compared to the last quarter of 2006. More than 90% of unemployed persons had no employment for a period longer than 12 months. In general, fewer new jobs were created – as a result of reduced employment in the general sector.

Table 7: Growth rates of key macroeconomic indicators for CEE countries in 2006 and 2007

(percentages)	GDP		Inflation		Unemployment	
	2006	2007	2006	2007	2006	2007
EU candidate countries						
Croatia	4.8	5.6	3.2	2.3	11.1	10.8
Macedonia	3.0	5.0	3.2	2.0	36.0	35.0
Turkey	6.1	5.1	9.6	8.2	9.9	9.5
Other countries of former Yugoslavia						
Bosnia and Herzegovina	6.0	5.8	7.5	2.5	31.1	30.0
Montenegro	6.5	5.0	3.0	3.0	30.0	30.0
Serbia	5.7	6.0	12.7	6.4	20.9	22.0

11.3. FINANCIAL MARKETS

Securities market

There were 188 securities of 119 issuers traded on the Ljubljana Stock Exchange at the end of December 2007, while the stock exchange listing (stock exchange and OTC market) comprised 89 shares, 89 bonds, 3 short-term securities, 7 investment companies and 3 mutual funds. Total market capitalisation amounted to EUR 19,740.1 million (64.8% of GDP – without investment funds).

All stock exchange indices with the exception of the bond index reached record values in 2007. The value of the Slovenian stock market index (SBI20) rose by 78.1% over the last twelve months, the blue-chip index (SBI TOP) grew by 71.0%, and the value of the investment fund index (PIX) rose by 45.0%. The bond index (BIO) was the only index of the Ljubljana Stock Exchange that lost value in 2007, namely 2.1%.

In 2007 there was a special segment active on the Ljubljana Stock Exchange in addition to the secondary market, namely that of the market makers (TUVL). On this market, the market makers daily list the supply of and demand for selected Government securities, which considerably improved the liquidity of this segment of the market. Last year, they registered 272 transactions through the TUVL segment with a total value of EUR 401.4 million.

In 2007, the Government stopped issuing six- and twelve-month treasury bills and only kept the three-month bills. At the end of the year, the balance of the three-month treasury bills totalled EUR 150 million and the interest rate of the last issue was 3.98%.

In 2007, the Republic of Slovenia issued 11-year RS bonds in the amount of EUR 1,000 million with a fixed interest rate of 4% and repaid its RS46 and RS47 bonds early in a total amount of EUR 454.8 million, and redeemed the RS38, RS49, RS50, RS52, RS53, RS54, RS56, RS57, RS58, RS60, RS61 and RS62 bonds in a total amount of EUR 710.5 million.

11.4. INSURANCE MARKETS AND MARKET POSITION

Slovenia

In 2008, the Slovenian Insurance Association changed the method of informing about the Slovenian insurance market, which is why we are only presenting premiums this year and not the claims on the Slovenian insurance market, which were disclosed in the previous years.

In 2007 the Slovenian insurance market generated premiums in the amount of EUR 1,891 million, or 9.6% more than in 2006.

Life insurance grew at the rate of 12.2% in 2007, while non-life insurance products recorded an 8.5% growth in gross premiums.

Table 8: Breakdown of gross premiums into life and non-life insurance in 2006 and 2007

(EUR)	Non-life insurance	Life insurance	Total
2006	1,184,649,445	540,654,519	1,725,303,964
2007	1,284,848,550	606,665,402	1,891,513,952
Index	108.5	112.2	109.6

Source: Slovenian Insurance Association, statistical data for 2007; February 2008

Table 9: Market shares of insurance companies in view of premiums (reaching at least 1% market share in total premiums) in 2006 and 2007

Insurance Company	2006			2007			Index		
	Total	Life	Non-life	Total	Life	Non-life	Total	Life	Non-life
Triglav Insurance Company Ltd.	38.2%	37.7%	38.5%	37.4%	37.1%	37.5%	97.9	98.6	97.6
ADRIATIC SLOVENICA d.d.	15.7%	10.2%	18.3%	13.3%	2.9%	18.2%	84.3	28.1	99.6
Maribor Insurance Company Ltd.	12.2%	10.4%	13.0%	12.4%	10.5%	13.3%	101.6	100.8	102.2
Mutual Helth Insurance VZAJEMNA	12.7%	0.0%	18.5%	12.0%	0.0%	17.7%	94.6		95.6
PFM	6.5%	20.6%	0.0%	6.3%	19.5%	0.0%	96.9	94.7	
Zavarovalnica TILIA d.d.	3.0%	1.5%	3.7%	3.1%	1.6%	3.8%	102.7	107.7	102.4
KD Life, Incurance Company, pk	0.0%	0.0%	0.0%	3.0%	9.4%	0.0%			
Generali Zavarovalnica d.d.	2.6%	3.3%	2.2%	2.8%	2.6%	2.8%	107.3	79.4	126.5
Triglav Health Insurance Comoany Ltd.	2.3%	0.0%	3.4%	2.7%	0.0%	4.0%	118.3		119.6
Merkur zavarovalnica d.d.	2.2%	5.9%	0.5%	2.2%	5.8%	0.5%	99.9	98.7	95.4
NLB Vita, d.d.	1.8%	5.4%	0.1%	1.9%	5.8%	0.1%	108.3	106.5	95.5
GRAWE Zavarovalnica d.d.	1.9%	4.1%	0.8%	1.9%	4.0%	0.9%	101.7	96.9	108.5

Source: Slovenian Insurance Association, statistical data for 2007; February 2008

Table 10: Market shares of Group members in 2006 and 2007

(in percentages)	2007	2006	Index
Tilia non-life	3.8	3.7	102.7
Tilia life	1.6	1.5	114.3
Tilia total	3.1	3.0	103.3
Sava Tabak	15.1	14.8	102.0
Montenegro	23.0	22.7	101.3
Sava Osiguranje	1.8	1.8	100.0
Dukagjini	18.7	18.0	103.9

11.5. REINSURANCE MARKET

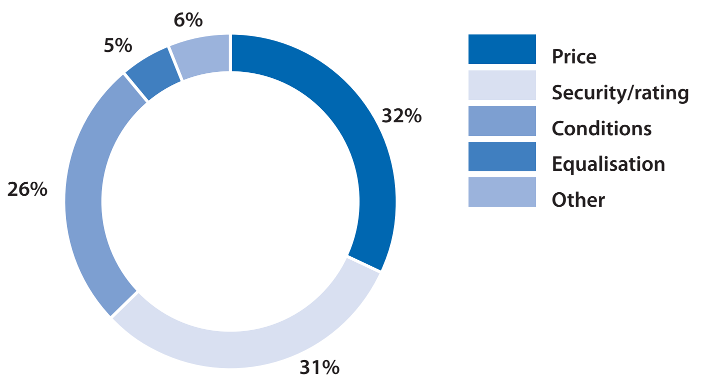
Although 2007 was a very calm year as regards catastrophes, there were a number of major natural disasters in Europe. The storm Kyrill at the end of 2007 and summer floods in Great Britain caused 40% of all estimated catastrophic losses in the amount of USD 30 billion in 2007. The prices of reinsurance products dropped all over Europe, namely from 5% in Great Britain to 25% in Poland, with the exception of Austria, where reinsurers responded to the losses resulting from the January storm and heavy snowfalls at the end of 2006.

Premium rates thus decreased in the fierce struggle for market share while own shares of cedants grew, which could mean that the prices are high enough, at least in non-life insurance. The demand for high intervals of catastrophe covers, which was boosted by modernised catastrophe models, also grew.

It seems that joint efforts of rating companies, supervisors and investors for a more efficient use of capital yielded some results nonetheless. Thus investments with available assets prefer returning capital to shareholders rather then reducing prices.

With increased awareness of the general public and the political leadership on global warming and climate change, demands for more active participation of the state in taking out insurance against natural disasters are becoming louder every day.[2]

Graph 1: Important criteria in the selection of reinsurance protection



Source: Benfield, Global Reinsurance Market Review, January 2008

Table 11: Premium and market shares on the Slovenian reinsurance market in 2007

(EUR, except percentages)	Sava Re	Triglav Re	Total
Slovenia	80,196,155	56,166,947	136,363,101
International	38,343,784	31,458,345	69,802,128
Total	**118,539,939**	**87,624,842**	**206,165,229**
Market share	**54.9%**	**45.1%**	**100.0%**

2 Source: Benfield, Global Reinsurance Market Review, January 2008

12. OVERVIEW OF OPERATIONS IN 2007

Under this heading, key financial information is given for the Group and separately for Sava Re as the parent, as reinsurance activities are specific in nature and need to be treated separately. In addition, the gross reinsurance premium of Sava Re accounts to approximately half of the total consolidated gross premium.

The Group

Table 12: Key financial data for the Sava Re Group in 2005, 2006 and 2007

(EUR '000)	2007 (IFRS)	2006 (IFRS)	2005 (IFRS) unaudited
Gross premiums written	188,637	140,461	126,633
Net earned premiums	157,736	118,618	108,778
Net income from investments in affiliates	1,656	2,056	4,913
Net investment income	25,491	13,995	10,357
Other technical income	17,599	17,704	16,545
Other income	2,470	1,026	746
Net insurance claims and benefits incurred	97,853	77,442	75,224
Change in other technical provisions	4,364	2,656	2,296
Bonuses and rebates	1,308	24	106
Operating expenses	34,779	20,050	17,255
Other technical expenses	2,927	1,653	1,933
Other expenses	1,330	336	331
Profit before tax	27,192	15,830	11,102
Current and deferred tax	6,347	2,884	2,265
Profit for the period	**20,845**	**12,945**	**8,837**
Profit for the period attributable to equity holders of the Company	**20,218**	**12,941**	**8,836**

Table 13: Financial ratios in 2005, 2006 and 2007

(percentages)	2007 (IFRS)	2006 (IFRS)	2005 (IFRS) unaudited	2006 (SAS) unaudited	2005 (SAS) unaudited
Retention ratio	87.5%	87.3%	86.2%	87.3%	86.3%
Loss ratio, net of reinsurance	62.0%	65.3%	69.2%	65.0%	69.0%
Cost ratio, net of reinsurance	33.8%	32.5%	31.4%	32.9%	31.9%
Combined ratio, net of reinsurance	95.8%	97.8%	100.6%	97.9%	100.9%
Return on investments	9.0%	6.2%	6.3%	5.3%	4.6%
Return on equity (after tax)	13.7%	10.0%	7.7%	13.5%	7.0%
Capital adequacy – Surplus (Sava Re)	368.0%	N.A.	N.A.	477.6%	365.0%

Gross premiums written

Consolidated gross premiums written increased by 34.3% to EUR 188.6 million in the year ended 31 December 2007 from EUR 140.5 million in 2006. This increase was mainly due to the consolidation of the newly acquired subsidiaries Sava Osiguranje, Dukagjini and Sava Tabak for the first time in the year ended 31 December 2007. Another factor was an increase in gross premiums written of more than 20.0% in the reinsurance business outside Slovenia, in particular in Austria, Sweden, Macedonia and Israel. Consolidated gross premiums written increased by 10.9% to EUR 140.5 million in the year ended 31 December 2006 from EUR 126.6 million in the year ended 31 December 2005. This increase was mainly due to growth of our international reinsurance business in year ended 31 December 2006.

Loss ratio, net of reinsurance

In 2007, loss ratio, net of reinsurance decreased by 3.3 percentage points to 62.0% (EU IFRS) from 65.3% (EU IFRS) in 2006. This decrease was mainly due to the consolidation of Sava Osiguranje, Dukagjini and Sava Tabak in the year ended 31 December 2007, each of which had lower loss ratios, net of reinsurance than our Group average — due to the markets in which they operate having lower loss ratios.

In 2006, loss ratio, net of reinsurance decreased by 4.0 percentage points to 65.0% (SAS) from 69.0% (SAS) in 2005. This decrease was mainly due to lower claims incurred relative to earned premiums in 2006. While net earned premiums grew by 9.0%, net claims and benefits incurred only increased by 2.7%. The main reason for this is that in 2005, an unfavourable claims development occurred in the reinsurance segment due to hurricanes Emily, Katrina and Wilma, storm Gudrun and a major fire in a building in Madrid. In the year ended 31 December 2006, the level of claims, in particular large claims, was lower than in 2005.

Cost ratio, net of reinsurance

In the year ended 31 December 2007, cost ratio, net of reinsurance increased by 1.3 percentage points to 33.8% (EU IFRS) from 32.5% (EU IFRS) in the year ended 31 December 2006. This was mainly due to the consolidation of Sava Osiguranje, Dukagjini and Sava Tabak in the year ended 31 December 2007. These newly acquired subsidiaries had higher cost ratios net of reinsurance than the Group average, mainly due to substantially higher premium acquisition costs due to strong competitive pressure, in particular from new market entrants.

In the year ended 31 December 2006, cost ratio, net of reinsurance increased by 1.0 percentage point to 32.9% (SAS) from 31.9% (SAS) in the year ended 31 December 2005. This was mainly due to an increase in administrative cost and reinsurance commission expenses, but also to increased premium acquisition costs of Tilia due to the growth of its life insurance portfolio. Another factor was an increase in labour costs due to an increase in workforce in connection with the expansion of the non-life business through acquisitions.

Combined ratio, net of reinsurance

In the year ended 31 December 2007, combined ratio, net of reinsurance decreased by

2.0 percentage points to 95.8% (EU IFRS) from 97.8% (EU IFRS) in the year ended 31 December 2006.

In the year ended 31 December 2006, combined ratio, net of reinsurance decreased by 3.0 percentage points to 97.9% (SAS), from above 100% (100.9% (SAS)) in the year ended 31 December 2005. In both periods, the decrease in combined ratio reflected a decrease in the loss ratio, net of reinsurance.

Return on investments

In the year ended 31 December 2007, return on investments increased by 2.8 percentage points to 9.0% (EU IFRS) from 6.2% (EU IFRS) in the year ended 31 December 2006 as a result of exceptional gains principally from the sale of shares in several Slovenian companies (Zavarovalnica Triglav, Telekom Slovenije, Banka Celje) and the sale of real estate in Ljubljana.

In the year ended 31 December 2006, return on investments increased by 0.7 percentage points (SAS). The increase reflected a change in accounting policies in SAS relating to the accounting treatment of revaluation losses in 2006, and the sale of a 9.4% stake in Adriatic Slovenica and 29.6% stake in Osiguranje Helios Zagreb.

Return on equity after tax

In the year ended 31 December 2007, return on equity increased by 3.7 percentage points. This was mainly due to the improved return on investments in the year ended 31 December 2007, partially offset by exceptional tax expense due to the transition to EU IFRS and the resulting release of the equalization provision (permitted under SAS but not under EU IFRS) to retained earnings which was taxable under Slovenian tax regulations. In the year ended 31 December 2006 return on equity increased by 6.5 percentage points (SAS). This was primarily due to the improved loss ratios.

Sava Re

Gross premiums and income from premiums

Table 14: Gross reinsurance premiums by market

(EUR, except percentages)	2007	2006	Index	Structure 2007	Plan 2007	Index 2007/plan
Slovenia	80,196,155	72,657,166	110.4	67.7%	74,819,004	107.2
International	38,343,784	31,246,282	122.7	32.3%	38,277,148	100.2
Total	**118,539,939**	**103,903,448**	**114.1**	**100.0%**	**113,096,152**	**104.8**

In 2007 Sava Re collected gross reinsurance premiums in the amount of EUR 118.5 million, or 14.1% more than in 2006. The premiums grew more than planned, namely by 4.8%.

Compared to the same period last year, gross premiums collected from Slovenian cedants were 10.4% higher. The highest growth in Slovenian cedants was recorded by Zavarovalnica Tilia (12.5% growth), while the total premiums of Zavarovalnica Maribor grew by 11.5%. The premiums of Adriatic Slovenica dropped by 6% compared to 2006 (of this, only EUR 17,000 resulted from Adriatic's business as an independent legal entity in 2007, while the figure recorded in the previous year was EUR 350,000). Total reinsurance premiums from domestic cedants exceeded the plan by 7.2%.

Premiums from foreign business grew by 22.7% in 2007 compared to 2006, and the planned value was exceeded by 0.2%. The largest share of foreign premium came from Sirius Stockholm, which accounted for 10.7% of total foreign premiums (the premiums of the abovementioned partner grew by 49% compared to last year). Sirius was followed by Mapfre, Madrid and Osiguranje Helios, Zagreb with 7.8 percent and Sava Tabak from Macedonia with 7.5 percent.

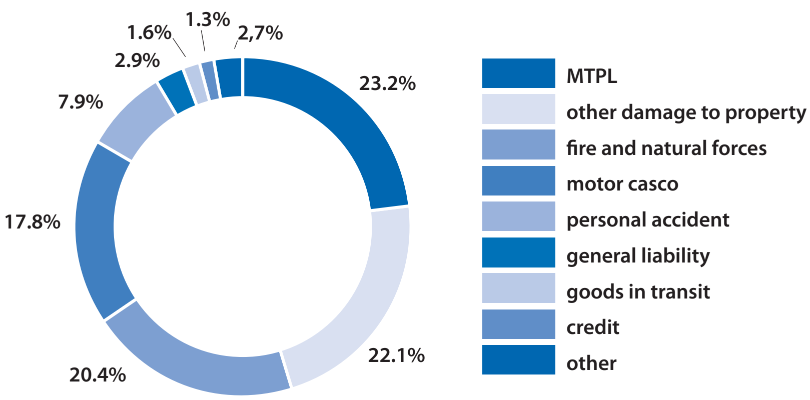
In the structure of premiums, the share of foreign business increased compared to 2006, reaching 32.3% (30.1% in 2006).

Table 15: Structure of foreign premiums by market

(EUR, except percentages)	2007	Share
EU-27 (excluding Slovenia)	22,665,370	59.1%
Countries of former Yugoslavia	9,291,090	24.2%
Asia and Africa	6,009,332	15.7%
Other countries	377,992	1.0%
Total	**38,343,784**	**100.0%**

The largest share of foreign premium in 2007 was contributed by Austria, Sweden and Croatia, which together represent 44.9% of total collected foreign premiums.

Graph 2: Structure of gross reinsurance premiums by class of insurance in 2007



It is evident from the above graph that the largest share in the structure of gross inwards reinsurance premiums in 2007 was that of MTPL. The share of these premiums in the structure of inward premiums was 2.5 percentage points lower than in 2006. The share of other damage to property and fire insurance accounted for 42.5% of total premiums and grew by 2.8 percentage points compared to 2006. The increase was mainly the result of the growth in foreign business with predominant fire and other damage to property (premiums from abroad in the two above-mentioned classes of insurance grew by 24.9%)

Absolute amounts of gross premiums are presented under the heading on performance indicators, where the growth compared to 2006 is given for each class of insurance.

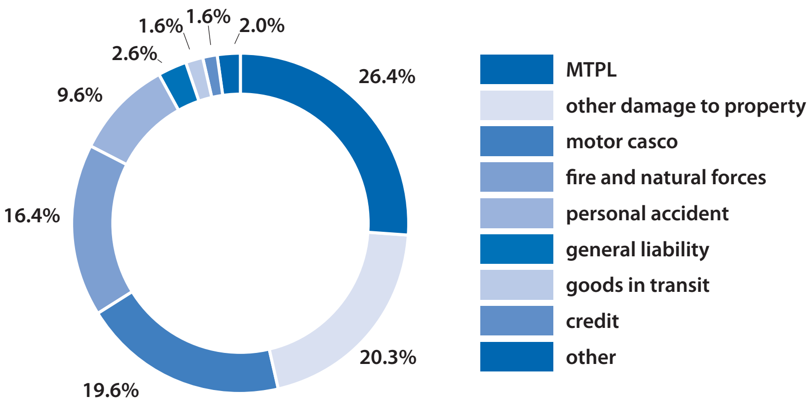
Table 16: Net reinsurance premiums by market

(EUR, except percentages)	2007	2006	Index	Structure 2007	Plan 2007	Index 2007/plan
Slovenia	62,801,811	57,436,707	109.3	64.6%	58,358,823	107.6
International	34,406,094	28,744,753	119.7	35.4%	34,945,502	98.5
Total	**97,207,905**	**86,181,460**	**112.8**	**100.0%**	**93,304,325**	**104.2**

In 2007, net premiums totalled EUR 97.2 million, which is 12.8% more than in 2006. Net premiums grew less than gross premiums and consequently, the retention rate was 0.9 percentage points lower than in 2006. In 2007 it was 82.0%. The retention rate of Maribor's cession dropped by 3.4 percentage points, that of Tilia by 4.5 percentage points, while that of Adriatic Slovenica Insurance Company grew by 4.5 percentage points. The reason for the above mentioned reduction of retention rates of the most important Slovenian clients lies in the retrocession treaty, concluded for the first time in 2007. With this treaty, Pozavarovalnica Sava retroceded part of net quota share treaty of Tilia and Maribor (fire and other damage to property and motor business) for reciprocity purposes.

The retention rate for international business fell from 92.0% in 2006 to 89.7% in 2007. In 2007, total foreign premiums was further increased by the premiums of subsidiaries in ex-Yugoslav countries, which were partly retroceded abroad (they reduce the retention rate in the international segment of business). In addition, Sava Re purchased the third layer of the CAT cover protecting foreign business.

Graph 3: Structure of net reinsurance premiums by class of insurance in 2007



The largest share in the structure of net premiums was that of MTPL, namely 26.4% (28.9% in 2006). The share of fire and other damage to property in the net premium was lower than in the gross premium, since that part of business is exposed to natural catastrophes and is therefore mostly retroceded (the Slovenian part in particular) and protected by non-proportional coverage (these two classes of insurance represent approximately 69.0% of total retroceded premiums).

Gross claims and claims incurred

Table 17: Gross reinsurance claims

(EUR, except percentages)	2007	2006	Index	Structure 2007	Plan 2007	Index 2007/plan
Slovenia	51,685,980	55,202,369	93.6	73.5%	53,401,000	96.8
International	18,662,026	15,911,785	117.3	26.5%	17,329,000	107.7
Total	**70,348,006**	**71,114,154**	**98.9**	**100.0%**	**70,730,000**	**99.5**

Gross reinsurance claims in 2007 totalled EUR 70.3 million, or 1.1% less than in 2006. Gross reinsurance losses were by 0.5% below the planned level.

Compared to last year, domestic losses dropped by 6.4%. The reinsurance losses for Maribor dropped by 18.9% (along with an 11.5% growth in premiums), while the reinsurance losses for Tilia grew by 7.1% (along with a 12.5% growth in premiums). For the cedent Adriatic Slovenica Insurance Company we have recorded significant growth in reinsurance losses in 2007 (125.8%) – along with a fall in premiums by 6.0%. Realised losses of domestic operations were 3.2% below the plan.

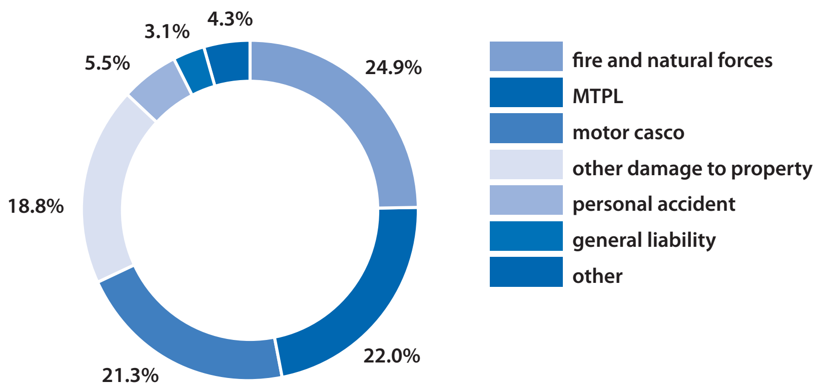
The results of the cedant Adriatic Slovenica Insurance Company deteriorated in 2007 due to the payment of a large claim to the Seaway Group relating to underwriting year 2006 (EUR 400,000) and the expiry of business with Adriatic Insurance Company. In 2007 Adriatic incurred EUR 1.3 million of claims relating to previous business while the claims provision even increased slightly.

In addition to the above, we also witnessed a major flood in Železniki in 2007; however, half of the loss was reinsured abroad under the CAT cover. The gross loss for Sava Re amounted to EUR 0.9 million while the net loss was EUR 0.4 million. This claim had no significant impact on total results.

Foreign claims grew by 17.3%. This increase is a result of the growth in the international portfolio by 22.7%. Realised foreign claims were 7.7% above the plan. A large foreign claim that influenced the increase in losses in 2007 was the storm Kyrill in the beginning of 2007. In 2007, EUR 1.9 million were paid in relation to the above-mentioned loss and EUR 2 million were reserved (gross amount). After deduction of the CAT protection, Sava Re's net share in this loss will be EUR 2 million. In addition to the above-mentioned large loss, the following major claims were also paid in 2007 (Sava's net share):

Fire on construction site of Gotmar (Bulstrad): EUR 183,515
Floods in India in 2005 (GIC of India): EUR 169,515
Fire on floating object of Sea Club Admiral (Military): EUR 166,852
Fire in business building Ekart Group (Military): EUR 201,152
Storm Per (Lansförsakringar): EUR 119,320
Fire in warehouse of telephone equipment of the insured Time Shuttle (Osiguranje Zagreb): EUR 113,212

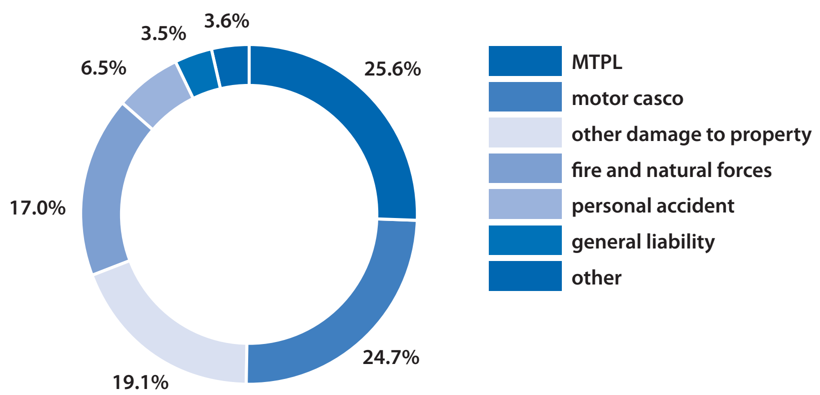
Graph 4: Structure of gross reinsurance claims by class of insurance in 2007



In the 2007 structure of claims, the largest share was fire insurance (24.9%), which grew by 5.3 percentage points compared to 2006 and MTPL (22%), which decreased by 0.1 percentage points on average, compared to 2006. These were followed by losses arising from motor insurance, with 21.3% (18.7% in 2006), and other damage to property, with 18.8% (15.1% in 2006). The increased share of claims arising from fire and other damage to property was mainly the result of higher losses of domestic cedants in fire insurance (up by 48.2%) and claims by foreign cedants relating to other damage to property (up by 44.3%).

The growth in gross reinsurance losses by class of insurance compared to 2006 is shown in under the heading of performance indicators.

Graph 5: Structure of net reinsurance claims by class of insurance in 2007



The prevailing share in the structure of net claims was MTPL and motor casco (other damage to property and fire dominated retrocession business) so that the share of motor insurance in total net claims accounted for 50.3%.

In the domestic portfolio, we only incurred only one major claim in 2007 (Seaway), which was reinsured abroad, so that the share of net claims incurred by Sava was approximately EUR 400,000. The largest share of claims was recorded by Maribor, namely from the years 2006 and 2007.

As mentioned before, the foreign portfolio was impacted by only one large loss (Kyrill), while more claims relating to underwriting year 2006 were settled. Regarding Kyrill, there were several reinsurers involved in the payment of claims; the largest portion of the loss was covered by the Wiener Städtische (EUR 725,000) and Sirius (EUR 589,000). Mapfre Re from Madrid, which suffered several minor losses from 2006, also recorded a high level of claims.

Results of inwards reinsurance business

Table 18: Technical results of inward reinsurance business in 2007

(EUR)	Premiums	Claims	Fees and commissions	Result	Change in the provisions for claims out-standing	Change in the provisions for unearned premiums	Change in deferred provisions	Result
	1	2	3	4 (1-2-3)	5	6	7	8 (4-5-6+7)
Slovenia	80,196,155	51,685,980	18,889,453	9,620,721	10,222,156	3,100,956	914,843	–2,787,549
International	38,343,784	18,662,026	9,948,119	9,733,639	–2,387,029	1,436,829	1,031,761	11,715,600
Total	**118,539,938**	**70,348,006**	**28,837,572**	**19,354,361**	**7,835,128**	**4,537,785**	**1,946,603**	**8,928,051**

Table 19: Paid and incurred loss ratios for inward reinsurance business

(percentages)	Paid loss ratio		Incurred loss ratio	
	2007	2006	2007	2006
Slovenia	64.4%	76.0%	103.6%	91.9%
International	48.7%	50.9%	68.3%	79.8%
Total	**59.3%**	**68.4%**	**92.2%**	**88.4%**

The paid loss ratio of inward reinsurance, which reflects the ratio of gross losses and gross premiums, dropped by 9.1 percentage points compared to 2006, which indicates a favourable loss trend.

The paid loss ratio for the business of Slovenian cedants went down by 11.6 percentage points compared to 2006. Maribor and Tilia recorded favourable paid loss ratios (58.5% and 65.9%, respectively), while that of Adriatic Slovenica Insurance Company was somewhat worse (136.5%), as explained below.

The paid loss ratio of foreign business recorded a fall compared to 2006 of 2.2 percentage points, since the largest claims that affected this segment of portfolio in 2007 have not been paid out yet.

The combined incurred loss ratio of inward reinsurance, which includes all unearned items and commission, rose by 3.8 percentage points. In absolute terms, the incurred loss ratio was somewhat worse compared to 2006, but still positive, namely EUR 8.9 million (EUR 11.7 million in 2006).

For domestic business, the incurred loss ratio grew by 11.7 percentage points while in foreign business it fell by 11.5 percentage points. This trend is the result of the transfer of the reinsurers' share of IBNR from the segment of foreign business to the segment of domestic business.

The increase in incurred loss ratio for the business of Slovenian cedants was also influenced by the result of the cedant Adriatic Slovenica due to the payment of a large claim (Seaway) and changed methodology for calculating IBNR of the former insurance company Adriatic for business prior to 2005.

The above-mentioned good performance in 2007 is the result of favourable loss developments in the previous years and adequate level of provisions. Similarly to the end of 2006, our forecasts are that the prudent methodology of establishing provisions for claims outstanding will guarantee a sufficient scope of provisions for managing the insurance risk of the growing portfolio.

Results for the net retained business

Net premiums in this section were up 12.8% compared to 2006. Lower growth in net compared to gross premiums is the result of a retrocession treaty concluded for the first time in 2007 (retrocession of the net quota share of Maribor and Tilia). Compared to 2006, net losses grew by 13.1%.

Table 20: Technical result of net retained business in 2007

(EUR)	RET premiums	RET claims	RET commission	Result	RET change in the provision for claims outstanding	RET change in the provision for unearned premiums	RET change in the deferred provision	Result
	1	2	3	4 (1-2-3)	5	6	7	8 (4-5-6+7)
Slovenia	62,801,812	40,693,162	16,065,384	6,043,265	9,082,999	2,724,860	749,101	–5,015,492
International	34,406,094	18,068,554	9,449,013	6,888,528	–4,758,856	801,433	1,008,634	11,854,585
Total	**97,207,906**	**58,761,715**	**25,514,397**	**12,931,794**	**4,324,143**	**3,526,293**	**1,757,736**	**6,839,093**

*RET = net retention = net technical items = gross items less outward retrocession

Table 21: Paid and incurred loss retention ratio in 2006 and 2007

(percentages)	Paid loss ratio		Incurred loss ratio	
	2007	2006	2007	2006
Slovenia	64.8%	64.4%	108.3%	97.4%
International	52.5%	52.1%	64.7%	83.5%
Total	**60.4%**	**60.3%**	**92.7%**	**92.9%**

The paid loss ratio for the net retention did not change much in 2007 compared to 2006, while the incurred loss ratio was 92.7%, or 0.2 percentage points higher than in 2006. In absolute terms, the underwriting result was a profit of EUR 6.8 million (in 2006 it was also a profit – EUR 5.9 million).

Similarly to the underwriting result for inwards business, the somewhat poorer underwriting result compared to 2006 was due to the Slovenian cedant Adriatic Slovenica Insurance Company (increased IBNR estimate for Adriatic business). The incurred loss ratio for the cedant Adriatic Slovenica for 2007 was 180.7%.

Development of technical provisions

Table 22: Development of gross technical provisions and special capital reserves in 2007

(EUR)	1 January 2007	31 December 2007	Index
Gross unearned premiums	33,040,080	37,577,865	113.7
Gross provisions for outstanding claims	83,383,909	91,219,036	109.4
Provisions for bonuses, discounts and cancellations	143,404	195,280	136.2
Other gross technical provisions	862,421	491,661	57.0
Total technical provisions	**117,429,814**	**129,483,843**	**110.3**
Earthquake reserve	401,193	1,028,204	256.3
Credit risk reserve	4,123,636	3,669,552	89.0
Total capital reserves	**4,524,830**	**4,697,756**	**103.8**

Table 23: Development of the retroceded share of technical provisions in 2007

(EUR)	1 January 2007	31 December 2007	Index
Retroceded unearned premium	2,105,940	3,117,433	148.0
Retroceded provision for outstanding claims	14,821,202	18,332,186	123.7
Retroceded other technical provisions	0	23,577	–
Total retroceded technical provisions	**16,927,142**	**21,473,196**	**126.9**

The movement of gross unearned premiums in 2007 was in line with the growth in gross premiums; gross premiums grew by 14.1% compared to 2006 and gross unearned premiums by 13.7%. Unearned premiums for the business of Slovenian cedants grew by 11.5% (along with 10.4% growth in premiums), while unearned premiums for foreign business grew by 23.5% (along with 22.7% growth in premiums). Retroceded unearned premiums grew by 48% compared to 2006, which is the result of a 49.7% growth in premiums from the retrocession of proportional reinsurance.

The gross claims provision in 2007 rose by 9.4%. The claims provision for the business of Slovenian cedants grew by 18.1%, while the claims provision for foreign business dropped by 8.9%. This reduction is the result of the payment of some large claims from previous years. Unlike in previous years, the reinsurance part of IBNR in 2007 was formed mainly in the segment of business with Slovenian cedants, which impacts the increase in the claims provision for Slovenian cedants and reduced the claims provision for foreign business. The growth in the retroceded claims provision was strongly influenced by the storm Kyrill, since the resulting loss significantly exceeded the priority of the non-proportional protection of the international portfolio of Sava Re; the share of retrocessionaires in relation to this loss reserve totalled EUR 1.9 million. Thus the retroceded claims provision for foreign business increased by as much as 88.6% and the retroceded claims provision for the business of Slovenianh cedants by 9.4%.

The provision for bonuses, discounts and cancellations remains at a relatively low level, growing in line with the growth in operations in which the Company participates in the relevant segment (quota share reinsurance of Tilia and Prva kreditna zavarovalnica).

Pursuant to the International Standards of Financial Reporting, other technical provisions as at 1 January 2007 only comprise the provision for unexpired risks and the provision for currency risks. Other gross technical provisions in 2007 decreased by 43.0%. Part of the above amount is due to the cancellation of provisions for currency risks, which amounted to EUR 38,000 in the beginning of 2007, after the amendment of the law regulating insurance and reinsurance companies (amended ZZavar-D) in which reinsurance companies are no longer obliged to maintain 80% of currencies matched, which is why this provision is no longer required. The provision for unexpired risks is calculated for each class of insurance, when the expected combined ratio exceeds 100%. In accordance with the IFRS, the gross and retroceded part must be calculated separately, which is why part of these provisions is formed also for retrocession. The expected combined ratios are more favourable than the year before, which is why the provision for unexpired risks was reduced.

The balance of provision for nuclear risks as at 31 December 2006 (EUR 9.5 million) was transferred on 1 January 2007 partly to retained profits and partly to tax liabilities.

On 1 January 2007, all earthquake provisions were transferred to capital reserves and increased in 2007 by the 80% of the surplus of income over expenses relating to the retained earthquake business. Due to the increased share of Sava Re in earthquake business, this provision increased by 156.3%.

The entire credit risk equalization provisions was transferred, on 1 January 2007, to capital reserves and changed in 2007 in line with the ZZavar. Due to the reduced ceiling, the level of provisions fell by 11%.

On 1 January 2007, the equalisation provision as at 31 December 2006 (EUR 25.6 million) was transferred partly to retained profits and partly to tax liabilities in line with ZZavar-C.

13. FINANCIAL INVESTMENTS

The Group

In 2007, the Sava Re Group was further expanded by purchasing two companies in Macedonia and Montenegro (Tabak Osiguruvanje for EUR 8.3 million and Montenegro Osiguranje for EUR 15 million, not including acquisition expenses and other charges).

Last year, Sava Re used the favourable situation on the capital market and sold some large lots of shares of Triglav Insurance Company, Banka Celje and Telekom Slovenije. The company generated a total profit in the amount of EUR 13.3 million.

In the beginning of 2007, there was an inflow from the sale of real estate owned by Sava Re, generating profit in the amount of EUR 2.2 million.

In January 2007, the issue of a subordinated debt of Sava Re in the total amount of EUR 32 million was completed. At the end of 2006 Sava Re already issued subordinated debt in the amount of EUR 11 million, the rest was issued at the beginning of 2007.

Sava Re took advantage of the favourable situation on the total market and sold and repurchased the interest hedging instrument "KIKO IRS", generating profit in the amount of EUR 0.9 million.

In 2007, the Company had to cancel the equalisation provisions and provisions for nuclear risks and earthquake, where the joint effect of the cancellation of provisions was EUR 35,463 million (of which EUR 27,306 million increased retained earnings and EUR 8,165 million were tranferred to tax liabilities that will be settled in three years).

The parent company granted loans to two subsidiaries last year in the total amount of EUR 2 million.

The Sava Re Group pursued a conservative investment policy since it had more than 53% of its investment portfolio in deposits and debt securities in 2007.

Sava Re

In 2007, the investment portfolio of Sava Re increased by EUR 62 million, which represents a 28.2% growth compared to the year before.

Table 24: Structure of investments as at 31 December 2007 compared to the structure as at 31 December 2006

(EUR, except percentages)	Investments as at 31 December 2006	Structure	Investments as at 31 December 2007	Structure	Index
Deposits and CDs	32,433,074	14.7%	26,571,404	9.4%	81.9
Government bonds	70,615,564	32.0%	53,291,116	18.8%	75.5
Corporate bonds	34,483,387	15.6%	60,704,018	21.5%	176.0
Structured products	9,937,599	4.5%	12,448,172	4.4%	125.3
Shares	10,621,141	4.8%	25,142,599	8.9%	236.7
Mutual bond funds	0	0.0%	0	0.0%	–
Other mutual funds	14,940,566	6.8%	32,863,990	11.6%	220.0
Loans	3,719	0.0%	2,003,719	0.7%	53.882.7
Buildings and land	4,550,674	2.1%	728,514	0.3%	16.01
Other	0	0.0%	355,000	0.1%	–
Strategic equity securities	43,125,240	19.5%	68,816,774	24.3%	159.6
Total	**220,710,963**	**100.0%**	**282,925,305**	**100.0%**	**128.2**

On the last day of 2007, the Company had the majority of its investments in shares of subsidiaries. In 2007, the amount increased by almost 60%, since Sava Re successfully acquired 2 insurance companies – Sava Tabak Osiguruvanje and Montenegro Osiguranje. The second largest type of investment are corporate bonds. In 2007 they recorded a 76.0% growth, mainly thanks to the restructuring of the bond portfolio from government to corporate bonds. The third largest portfolio was investments in government bonds. In 2007, the Company reduced the size of this portfolio by 24.5% as a result of redeeming Slovenian Government bonds RS46 and RS47 and selling some illiquid Slovenian Government bonds. This part of the portfolio also experienced the most significant geographical change, since

Slovenian Government bonds accounted for 97% of the portfolio at the end of 2006, while the share fell to 62% at the end of 2007. Ranking fourth in terms of amount invested were investments in mutual funds at the end of 2007. The balance of deposits and certificates of deposit dropped by 18% in 2007, since the investment policy of the Company foresaw that this part of the portfolio only guaranteed the liquidity of the Company while other types of investments represented a portfolio that brings additional return. In equity securities which amounted to EUR 25.1 million as at 31 December 2007, part are funds managed by domestic stockbroking companies and commercial banks which place investments mainly into foreign equity securities, and part of them are direct placements in domestic and foreign equity securities (mainly "blue chip" investments). Investments in real property dropped in 2007 since the Company sold its real estate in Celovška cesta.

The structure of the Company's investment portfolio changed slightly compared to 2007, following the structure defined in the five-year strategic plan. In 2007, the trend of reducing the share of deposits continued in accordance with the insurance company's investment policy (from 27.7% in the structure of investments in 2005 to 14.7% in 2006 and 9.4% in 2007). The reduction in the amunt of deposits was compensated by investments in all other categories with the exception of investments in real estate. In 2007, the structure of the bond portfolio changed too, with corporate bonds prevailing at the end of 2007. In comparison with 2006, the total bond portfolio fell by 6 percentage points. The largest structural shift was noticed in investments in mutual funds, since they represented 11.6% in the structure of the portfolio as at 31 December 2007, while the share at the end of 2006 was 6.8%.

In the structure of investments, investments in mutual funds grew the most considerably, in absolute terms (EUR 17.9 million) compared to the previous year, while in relative terms, the increase was 120.0%. In investments in equity and mixed mutual funds, the Company aimed at appropriate diversification in relation to industry, geography as well as regarding fund managers. Thus the balance of these investments placed with domestic managers was EUR 24.8 million, while investments abroad totalled EUR 8.1 million.

In terms of amount, investments in Government bonds lost a considerable share (EUR 17.3 million in absolute terms or 13.1 percentage points in relative terms). As mentioned before, the reduction of this part of the portfolio was the result of redeemed Slovenian Government bonds RS46 and RS47 in the first half of 2007 (as at 31 December 2006, the investment in these two bonds was EUR 22.9 million). Due to the market situation, the Company reinvested its assets in corporate bonds. The total bond portfolio increased by 76.0% to EUR 26.2 million in 2007. This was partly also related to the Company's strategy to find bonds with variable interest rates in the time of increasing interest rates and thus assure natural protection for its bond portfolio in terms of interest risks.

Investments in shares, structured products and granted loans increased by the same amount, in absolute terms (all by approx. EUR 2 million). The Company increased its investments in shares and structured products with the aim of achieving higher returns. Granted loans also increased due to loans extended to associated companies, since Sava Re granted a short-term loan to the Dukagjini in 2007 in the amount of EUR 0.5 million and 2 long-term loans to the Sava Osiguranje in total amount of EUR 1.5 million.

Investments in affiliated companies rose by EUR 25.7 million or 59.6% in 2006. The increase in the balance of investments in affiliated companies was enhanced by the acquisition of the Macedonian insurance company Tabak Osiguruvanje (EUR 8.5 million) and the Montenegrin insurance company Montenegro Osiguranje (EUR 15.3 million). In 2007, the Company increased the capital of the insurance companies Dukagjini (EUR 102,000) and Tilia (EUR 1.67 million).

Return on investments

Below we present the return of individual forms of investment in 2007, compared to profitability achieved in 2006.

Table 25: Profitability of the investment portfolio in 2007

(EUR, except percent-ages)	Deposits and CD's	Govern-ment bonds	Corporate bonds	Struc-tured products	Shares	Strategic shares	Bond mutual funds	Other mutual funds	Loans	Invest-ment property	Other	Total
Investments balance as of 1. 1. 2007	32,160,502	70,499,517	34,527,466	10,165,916	10,627,482	43,125,240	0	14,940,566	3,719	4,550,674	0	220,601,081
Investments balance as of 31. 3. 2007	36,499,623	61,134,515	47,886,933	11,316,936	10,220,161	51,751,278	0	23,809,800	3,719	4,539,444	–396,037	246,766,372
Investments balance as of 30. 6. 2007	28,956,609	52,585,009	56,081,940	12,463,719	13,500,959	53,354,082	0	29,678,921	1,503,719	4,528,214	1,000,700	253,653,871
Investments balance as of 30.9. 2007	31,623,131	52,554,023	56,838,088	12,594,563	13,238,561	53,536,156	0	30,544,471	1,503,719	4,516,984	364,970	257,314,667
Investments balance as of 31. 12. 2007	26,571,404	53,291,116	60,704,018	12,448,172	25,142,599	68,816,774	0	32,863,990	2,003,719	728,514	355,000	282,925,305
Average balance	31,162,254	58,012,836	51,207,689	11,797,861	14,545,952	54,116,706	0	26,367,550	1,003,719	3,772,766	331,158	252,252,259
Investment income	1,474,584	2,802,733	2,353,029	265,561	14,919,162	961,507	0	472,453	56,426	2,568,520	1,570,620	27,444,596
Investment expenses	239,150	362,619	245,118	668,572	786,411	0	0	3,336	0	40,121	476,730	2,822,057
Liability expenses	0	0	0	0	0	0	0	0	2,523,704	0	0	2,523,704
Annual return	**3.96%**	**4.21%**	**4.12%**	**–3.42%**	**97.16%**	**1.78%**	**N.A.**	**1.78%**	**5.62%**	**67.02%**	**330.32%**	**8.76%**
Annual return as of 31. 12. 2006	4.54%	5.08%	3.73%	N.A.	71.41%	N.A.	N.A.	0.81%	N.A.	1.50%	N.A.	6.25%

The average balance of investments taken into account in calculating the return on investments is the arithmetic average of five balance sheet cross-sections in 2007. Net income compared to the average balance of investments calculated according to the above methodology represents the return on investments of Sava Re.

The profitability of the entire investment portfolio of Sava Re in 2007 was 8.8%, i.e. 2.5 percentage points higher than in 2006. The two calculations of profitability are not fully comparable, since Sava Re excluded investment in affiliated companies when calculating the profitability of the portfolio in 2006, while it included them when calculating the profitability of the portfolio in 2007. If the impact of investments in affiliated companies were excluded in 2007, the profitability of the portfolio would be 12.1% and the increase in profitability 5.8 percentage points.

The higher total profitability of the investment portfolio in 2007 was influenced by the sale of the real estate on Celovška cesta, where the Company earned EUR 2.2 million in capital gains and the sale of Zavarovalnica Triglav shares, where the Company earned EUR 11.8 million in capital gains.

The highest return in 2007 was that of investments in equity securities, with the sale of interests in Zavarovalnica Triglav, Banka Celje and Telekom Slovenije contributing the lion's share.

In 2007 investments in deposits and debt securities resulted in a lower return than the year before. The return on deposits was strongly influenced by exchange rate losses, since the deposit interest rates dropped by as much as 17% in 2007. Lower profitability of debt securities is the result of redeemed bonds RS46 and RS47 in the beginning of 2007. Both bonds yielded high coupon returns in the past, which, under existing market conditions, could not be achieved again.

Mutual funds again recorded low profitability, as the Company realised no sales in this part of its investments. Mutual funds are long-term investments and are not purchased by the Company for realising short-term profits. Nevertheless, the potential profitability (being the profitability of the portfolio if the entire portfolio of investment funds were sold on 31 December 2007) is 18.0%.

The "Other" category includes derivatives purchased by Sava Re to hedge its exposure against changes in interest rates. The aim is to protect the subordinated debt in cases where Sava Re has concluded an IRS (interest rate swap) contract. The Company established active hedging and in 2007 the market situation allowed for the exchange of the hedging instrument, earning capital gains in the amount of EUR 0.91 million.

14. FINANCIAL RESULTS AND FINANCIAL POSITION

The Group

Table 26: Profit for the period by class of business in 2007

(EUR)	Net eared premiums	Net insurance claims and benefits incurred	Change in other technica provisions	Operating expenses	Commission expenses	Investment income - expenses	Other expenses - income	Profit before tax
01 Personal Accident	14,976,272	6,914,577	14,263	2,869,364	−1,955,309	1,966,463	−173,237	5,015,985
02 Health	160,525	40,085	0	29,916	5,980	4,915	−1,806	99,613
03 Land vehicles casco	33,423,636	24,331,255	−612,289	6,963,460	−3,560,540	6,426,169	−420,417	5,186,423
04 Railway rolling stock	1,378	0	0	254	0	0	−15	1,108
05 Aircraft casco	−1,693	4,605	−54	56,737	14,714	34,910	−3,425	−16,782
06 Ships Hull	772,901	468,657	−1,223	181,867	−105,505	179,648	−10,980	186,762
07 Goods in transit	1,797,228	1,344,132	−593	418,216	−31,261	180,218	−25,250	159,181
08 Fire and natural forces	17,151,183	11,103,346	−11,721	4,990,571	−3,093,287	4,895,934	−301,304	2,570,330
09 Other damage to property	25,586,671	14,436,957	−120,697	6,273,200	−3,895,814	4,373,748	−378,743	5,096,403
10 Motor liability	47,423,268	37,511,134	−718	9,332,328	−5,137,887	6,942,860	−563,436	1,822,060
11 Aircraft liability	182,429	−59,183	−1,120	74,865	−54,215	17,028	−4,520	126,161
12 Liability for ships	113,700	−3,992	20	28,426	−21,789	5,633	−1,716	71,373
13 General liability	3,629,316	−1,691,321	245,705	902,284	−400,187	823,407	−54,475	4,541,392
14 Credit	1,951,980	−203,748	31,316	494,589	−191,663	424,790	−29,861	1,833,089
15 Suretyship	161,321	129,964	−7,808	31,611	−5,252	31,130	−1,909	31,523
16 Miscellaneous finacial loss	428,458	130,950	−19,182	152,061	−86,660	239,022	−9,181	307,811
17 legal expenses	67,663	−45	0	13,352	−291	1,229	−806	54,488
18 Assistance	447,030	−43,361	−1,623	122,535	−9,180	18,649	−7,398	371,550
19 Life	2,479,169	1,668,582	543,674	503,149	−64,377	434,644	−30,377	103,655
20 Wedding and childbirth insurance	0	0	0	0	0	0	0	0
21 Unit-linked life	6,983,466	1,770,321	4,305,945	1,340,590	−2,331	146,613	−80,938	−370,045
22 Tontine	0	0	0	0	0	0	0	0
23 Capital redemption	0	0	0	0	0	0	0	0
Total	**157,735,900**	**97,852,916**	**4,363,895**	**34,779,373**	**−18,594,854**	**27,147,012**	**−2,099,794**	**27,192,080**
Current tax								**8,961,318**
Deferred tax								**2,614,492**
Profit for the period								**20,845,254**

Sava Re

Table 27: Profit for the period by class of business in 2007

(EUR)	Net earned premiums	Net insurance claims and benefits incurred	Change in other technical provisions	Operating expenses	Commission expenses	Investment income - expenses	Other expenses-income	Profit before tax
01 Personal accident	8,996,130	3,574,090	–10,056	503,405	2,903,933	2,154,188	–39,308	4,119,526
02 Health	0	0	0	0	0	0	0	0
03 Land vehicles casco	18,144,085	15,835,472	431,694	1,025,623	4,270,271	4,009,663	–80,085	1,373,991
04 Railway rolling stock	0	0	0	0	0	0	0	0
05 Aircraft hull	–2,549	4,598	38	–26	–14,552	2,488	2	9,959
06 Ships hull	766,237	599,516	862	44,882	106,240	189,100	–3,505	202,056
07 Goods in transit	1,548,325	1,121,750	418	85,832	287,618	311,513	–6,702	358,354
08 Fire and natural forces	14,942,867	10,359,877	8,264	857,847	4,267,509	3,301,901	–66,985	2,700,814
09 Other damage to property	19,054,042	11,916,580	85,097	1,063,676	4,673,792	4,140,084	–83,057	5,542,118
10 Motor liability	25,422,475	23,123,503	506	1,382,311	6,027,558	6,166,818	–107,935	948,492
11 Aircraft liability	181,528	–59,189	790	9,781	54,955	47,416	–764	223,423
12 Liability for ships	103,882	–3,989	–14	6,256	24,764	29,733	–489	106,081
13 General liability	2,455,433	–2,764,245	–173,234	137,985	661,063	1,047,481	–10,775	5,284,102
14 Credit	1,306,884	–644,317	–22,079	83,488	288,036	423,880	–6,519	1,974,959
15 Suretyship	72,005	52,917	5,505	3,401	13,551	16,307	–266	23,682
16 Miscellaneous financial loss	382,995	85,681	13,524	21,919	106,871	91,645	–1,712	271,981
17 Legal expenses	1,894	–47	0	333	492	3,180	–26	4,270
18 Assistance	48,483	–69,490	1,144	2,317	12,065	12,930	–181	117,484
19 Life	220,071	–48,332	1	11,950	67,576	52,101	–933	240,046
20 Wedding and childbirth insurance	0	0	0	0	0	0	0	0
21 Unit-linked life	36,826	1,483	0	1,986	4,919	7,037	–155	35,320
22 Tontine	0	0	0	0	0	0	0	0
23 Capital redemption	0	0	0	0	0	0	0	0
Total	**93,681,613**	**63,085,858**	**342,460**	**5,242,966**	**23,756,661**	**22,007,465**	**–409,395**	**23,536,658**
Current tax								**7,966,107**
Deferred tax								**–2,634,873**
Profit for the period								**18,205,424**

15. RISK MANAGEMENT

The Group

Risk management techniques employed by Sava Re are described in more detail hereinafter and in the Notes to the financial statements of Sava Re under the heading Risk Management. Subsidiaries mostly manage risk as part of other activities within the scope of prescribed procedures for regular operations. Thus, for example, underwriting risk is mainly managed by appropriate underwriting, while market risks are managed by adequate procedures carried out by financial services.

In the formation of technical provisions, all subsidiaries comply with local regulations, which are yet to reach Slovenian standards. Thus, in 2007 we strengthened technical provisions following harmonised principles based on actuarial standards.

A conference was organised for the managements of all Group members, where they were informed of the bases of risk management, while one of the subsidiaries (Sava Osiguranje, Belgrade) has already adopted the appropriate rules in accordance with their local regulations.

Otherwise, risk management by the parent in subsidiaries is also carried out in the form of training relating to underwriting, determining maximum retentions, and similar.

All subsidiaries comply with capital adequacy regulations, and the required solvency margin is equal or higher than that that required under EU regulations.

Sava Re

Sava Re is obliged under the Insurance Act (ZZavar) to continuously ensure adequate capital for the scope and type of services it provides, as well as with regard to the risks it is exposed to. Sava Re is obliged to operate so as to be able, at any point in time, to settle debts due (liquidity) and to continuously meet all its obligations (solvency).

In addition to the fulfilment of the legal requirements, Sava Re is already adapting to future regulation, which will be introduced by the Solvency II project.

In its operations, Sava Re is primarily exposed to underwriting risks, market risks, liquidity risks, credit risks and operating risks. These risks are presented in more detail in the Notes to the financial statements of Sava Re, together with an assessment of exposure and measures for reducing these risks.

16. ORGANISATION, EMPLOYEES AND KNOW-HOW

The Group

Organisation

All insurance companies in the Group have a combined function and product organisation structure. Most of the insurance companies outside Slovenia are currently changing their organisational structure to focus on the significance of marketing, development and actuarial functions.

Personnel structure and training

At the Group level, a person was employed to provide education and training in the field of marketing insurance products. Training in other areas is also partly carried out on the Group level with the parent company assisting in organising training.

Sava Re

Number and educational structure of employees

In 2007, Sava Re hired 11 staff, of these six experts in direct business for more optimal management of subsidiary insurance companies, one actuary, one secretary, one IT professional, and two new staff for underwriting including one top-level underwriting professional recognised in the international reinsurance community.

Employment relationships of five persons were terminated last year, which includes the retirement of the Director of Technical Accounting, while other terminations are the result of regular fluctuation of employees.

Compared to 2006, the number of employees increased by six, so that there were 55 employees in the Company as at 31 December 2007, of which 52 for unlimited and three for a limited period of time. The average number of employees in this year was 54.5.

Table 28: Personnel records as at 31 December 2007

Education	No. of full-time employees		
	Total	Men	Women
Primary and lower secondary (I-IV)	1	1	0
Secondary (V)	15	0	15
Higher (VI)	5	4	1
University (VII)	26	14	12
Master's degree (VIII)	8	7	1
Total	**55**	**26**	**29**

The average age of the Company's employees in 2007 was 40.54 years, with eight persons under 30 years of age and nine over 55.

Education and training

The employees of Sava Re have the opportunity to participate in the processes of education and training with the aim of achieving a high level of expert and general know-how, taking care of personal and professional growth, successful management of new challenges and the ability to work as individuals or in teams.

We put great emphasis on keeping up with the latest developments in finance, accounting and law and foster specialist training in auditing, actuarial science, IT and business processes, and in insurance and reinsurance as provided by foreign business partners.

In 2007, there were thirteen employees with study contracts, three of them for undergraduate studies, seven for master's degrees and three for specialist studies. One of the employees successfully graduated in 2007.

17. BUSINESS PROCESSES AND IT SUPPORT

The Group

As the Company has very heterogeneous hardware and software, most of the activities in the first year were focused on the establishment of guidelines for further purchases and development of information technology and the search for possibilities of implementing best practices in several companies.

The Company entered an agreement with a Slovenian programming company for the development of software supportin life insurance operations to be implemented at Tilia and at two newly founded companies in Serbia and Kosovo.

The company Sava Osiguranje continued with the development of software for its core business in line with the plan but also taking into account the new common guidelines. All planned modules were produced by the end of the year, so that next year the application will be put into operation.

In the middle of the year, a web portal was set up with the aim of stimulating better intra-group communication between the members and ensure easier transfer of knowledge and best practices. Representatives of all business lines from all companies of the Group use this web portal.

Sava Re

The year 2007 was an intensive one for the Business Processes and IT Department, with many changes in the area of hardware and application software.

At the beginning of the year, the Company decided to upgrade its telecommunications system. It purchased and installed a new telephone exchange with higher capacity, and changed its internet provider with one who offered better terms. Internet connection speed increased fivefold, while costs were cut and at the end of the summer, IP telephony equipment was also installed, which considerably reduced telephone costs. Costs were cut further thanks to GMS interfaces enabling cheaper calls between stationary and mobile phones.

Due to intensified operations of the Sava Re Group, the Company purchased a data server and a software solution for the needs of exchanging information and reports between companies in the Group. The messaging system is installed in the Company's business premises and available to all subsidiaries via the Internet, while the Sava Re IT department is in charge of maintenance and upgrading.

To facilitate final implementation of the financial and investment package Taurus, the Company purchased an additional data server and increased disk space for the existing data server. As part of the continuous upgrading of existing hardware and to provide equipment to new staff, eight desktop and laptop computers were added or replaced, as well as ten LCD large monitors and six printers.

Special attention was paid to the protection of business data against breaches and malicious code coming from the Internet. The company purchased and installed the security device Webwasher, which considerably reduces the possibility of computer virus infection and other inconveniences in electronic messages or when viewing Internet content.

In the area of application software, the programme Reinsurance Contract (Pozavarovalna pogodba) was put into operation in 2007, which is crucial for quality information support of the core business. The solution fully supports the business processes of underwriting and analytical reporting on reinsurance contracts. Support for more complex accounting as part of business processes has also been provided, which will shortly be followed by integration with the financial and accounting information sub-system.

18. FINANCIAL INDICATORS

Sava Re

1. Development of gross premiums written in 2007

(EUR)	2007	2006	Index
Class of insurance	**1**	**2**	**1/2**
01 Personal accident	9,420,014	8,705,793	108.2
03 Land motor casco	21,094,801	18,456,652	114.3
05 Aircraft hull	304,966	304,613	100.1
06 Marine hull	982,763	810,913	121.2
07 Goods in transit	1,944,201	1,263,515	153.9
08 Fire and natural forces	24,176,833	21,335,300	113.3
09 Other damage to property	26,238,296	19,924,246	131.7
10 Motor liability	27,453,384	26,682,158	102.9
11 Aircraft liability	403,525	294,887	136.8
12 Liability for ships	141,777	88,118	160.9
13 General liability	3,434,782	3,136,106	109.5
14 Credit	1,547,915	1,625,599	95.2
15 Suretyship	69,754	63,530	109.8
16 Miscellaneous financial loss	752,666	666,572	112.9
17 Legal expenses	6,167	6,731	91.6
18 Assistance	43,034	62,531	68.8
19 Life	481,634	440,665	109.3
21 Unit-linked life	43,426	35,518	122.3
Total non-life	**118,014,879**	**103,427,265**	**114.1**
Total life	**525,060**	**476,183**	**110.3**
Total health	**0**	**0**	**–**
Total	**118,539,939**	**103,903,448**	**114.1**

2. Net reinsurance premium as percentage of gross reinsurance premium, 2007

(EUR, except percentages)	Gross premiums written	Net premiums written	%	%
Class of insurance	**1**	**2**	**2/1**	**2006**
01 Personal accident	9,420,014	9,333,451	99.1%	98.9%
03 Land motor casco	21,094,801	19,015,699	90.1%	90.0%
05 Aircraft hull	304,966	–489	–0.2%	30.1%
06 Marine hull	982,763	832,133	84.7%	84.5%
07 Goods in transit	1,944,201	1,591,388	81.9%	86.2%
08 Fire and natural forces	24,176,833	15,905,024	65.8%	64.3%
09 Other damage to property	26,238,296	19,721,234	75.2%	79.7%
10 Motor liability	27,453,384	25,628,918	93.4%	93.2%
11 Aircraft liability	403,525	181,343	44.9%	57.5%
12 Liability for ships	141,777	115,996	81.8%	75.2%
13 General liability	3,434,782	2,558,328	74.5%	65.8%
14 Credit	1,547,915	1,547,915	100.0%	100.0%
15 Suretyship	69,754	63,061	90.4%	90.5%
16 Miscellaneous financial loss	752,666	406,392	54.0%	54.4%
17 Legal expenses	6,167	6,167	100.0%	100.0%
18 Assistance	43,034	42,956	99.8%	100.0%
19 Life	481,634	221,565	46.0%	40.5%
21 Unit-linked life	43,426	36,826	84.8%	100.0%
Total non-life	**118,014,879**	**96,949,515**	**82.2%**	**83.1%**
Total life	**525,060**	**258,391**	**49.2%**	**44.9%**
Total health	**0**	**0**	**–**	**–**
Total	**118,539,939**	**97,207,906**	**82.0%**	**82.9%**

3. Development of gross reinsurance claims, 2007

(EUR)	2007	2006	Index
Class of insurance	1	2	1/2
01 Personal accident	3,877,362	4,322,788	89.7
03 Land motor casco	14,976,402	13,311,784	112.5
05 Aircraft hull	133,326	29,805	447.3
06 Marine hull	643,604	637,654	100.9
07 Goods in transit	488,313	405,803	120.3
08 Fire and natural forces	17,528,077	13,908,231	126.0
09 Other damage to property	13,238,338	10,721,815	123.5
10 Motor liability	15,508,733	15,702,665	98.8
11 Aircraft liability	65,527	80,495	81.4
12 Liability for ships	7,457	9,907	75.3
13 General liability	2,197,464	2,364,614	92.9
14 Credit	521,456	647,084	80.6
15 Suretyship	106,623	31,816	335.1
16 Miscellaneous financial loss	852,558	8,732,707	9.8
17 Legal expenses	81	0	–
18 Assistance	25,149	27,736	90.7
19 Life	176,055	179,249	98.2
21 Unit-linked life	1,483	0	–
Total non-life	**70,170,468**	**70,934,905**	**98.9**
Total life	**177,538**	**179,249**	**99.1**
Total health	**0**	**0**	**–**
Total	**70,348,006**	**71,114,154**	**98.9**

4. Loss ratio, 2007

(EUR, except percentages)	Gross premiums written	Gross claims paid	%	%
Class of insurance	1	2	2/1	2006
01 Personal accident	9,420,014	3,877,362	41.2%	49.7%
03 Land motor casco	21,094,801	14,976,402	71.0%	72.1%
05 Aircraft hull	304,966	133,326	43.7%	9.8%
06 Marine hull	982,763	643,604	65.5%	78.6%
07 Goods in transit	1,944,201	488,313	25.1%	32.1%
08 Fire and natural forces	24,176,833	17,528,077	72.5%	65.2%
09 Other damage to property	26,238,296	13,238,338	50.5%	53.8%
10 Motor liability	27,453,384	15,508,733	56.5%	58.9%
11 Aircraft liability	403,525	65,527	16.2%	27.3%
12 Liability for ships	141,777	7,457	5.3%	11.2%
13 General liability	3,434,782	2,197,464	64.0%	75.4%
14 Credit	1,547,915	521,456	33.7%	39.8%
15 Suretyship	69,754	106,623	152.9%	50.1%
16 Miscellaneous financial loss	752,666	852,558	113.3%	1310.1%
17 Legal expenses	6,167	81	1.3%	0.0%
18 Assistance	43,034	25,149	58.4%	44.4%
19 Life	481,634	176,055	36.6%	40.7%
21 Unit-linked life	43,426	1,483	3.4%	0.0%
Total non-life	**118,014,879**	**70,170,468**	**59.5%**	**68.6%**
Total life	**525,060**	**177,538**	**33.8%**	**37.6%**
Total health	**0**	**0**	**–**	**–**
Total	**118,539,939**	**70,348,006**	**59.3%**	**68.4%**

5. Operating expenses as percentage of gross premiums written, 2007

(EUR, except percentages)			
Gross premiums written	**Operating expenses**	**%**	**%**
1	**2**	**2/1**	**2006**
118,539,939	5,242,966	4.4%	4.3%

6. Acquisition costs (commission income) as percentage of gross premiums written, 2007

(EUR, except percentages)			
Gross premiums written	**Commission income**	**%**	**%**
1	**2**	**2/1**	**2006**
118,539,939	23,756,661	20.0%	20.9%

7. Net investment income as percentage of average investments, 2007

(EUR, except percentages)	Average investments	Investment income	Investment expenses	Net investment income	Net investment income in 2006
Liability fund	103,617,813	5,497,883	1,337,804	4.01%	6.6%
Capital fund excl. strategic inv.	94,517,740	20,985,206	4,007,957	17.96%	12.0%
Capital fund incl. strategic inv.	148,634,446	21,946,713	4,007,957	12.07%	N.A.
Total investments excluding strategic investments	**198,135,553**	**26,483,089**	**5,345,761**	**10.67%**	**8.0%**
Total investments including strategic investments	**252,252,259**	**27,444,596**	**5,345,761**	**8.76%**	**N.A.**

8. Net claims provision as percentage of net earned premiums, 2007

(EUR, except percentages)	Net claims provision	Net earned premiums	%	%
	1	**2**	**1/2**	**2006**
01 Personal accident	7,097,769	8,996,130	78.9%	87.2%
03 Land motor casco	6,542,420	18,144,085	36.1%	33.4%
05 Aircraft hull	25,601	–2,549	–1004.3%	45.2%
06 Marine hull	890,842	766,237	116.3%	112.9%
07 Goods in transit	873,810	1,548,325	56.4%	24.9%
08 Fire and natural forces	6,406,318	14,942,867	42.9%	42.9%
09 Other damage to property	8,963,868	19,054,042	47.0%	57.6%
10 Motor liability	32,083,354	25,422,475	126.2%	97.3%
11 Aircraft liability	228,649	181,528	126.0%	196.6%
12 Liability for ships	171,236	103,882	164.8%	304.5%
13 General liability	8,627,211	2,455,433	351.4%	671.7%
14 Credit	624,954	1,306,884	47.8%	151.8%
15 Suretyship	16,667	72,005	23.1%	174.6%
16 Miscellaneous financial loss	181,131	382,995	47.3%	98.5%
17 Legal expenses	126	1,894	6.7%	–5.9%
18 Assistance	16,421	48,483	33.9%	180.2%
19 Life	130,474	220,071	59.3%	135.0%
21 Unit-linked life	5,999	36,826	16.3%	16.9%
Total non-life	**72,750,377**	**93,424,716**	**77.9%**	**82.7%**
Total life	**136,474**	**256,897**	**53.1%**	**115.9%**
Total health	**0**	**0**	**–**	**–**
Total	**72,886,850**	**93,681,613**	**77.8%**	**82.8%**

9. Profit before tax as percentage of net premiums written, 2007

(EUR, except percentages)			
Profit before tax	Net premiums written	%	%
1	2	1/2	2006
23,536,658	97,207,906	24.2%	16.9%

10. Profit before tax as percentage of average equity, 2007

(EUR, except percentages)			
Profit before tax	Average equity	%	%
1	2	1/2	2006
23,536,658	131,780,722	17.9%	18.0%

11. Profit before tax as percentage of average assets, 2007

(EUR, except percentages)			
Profit before tax	Average assets	%	%
1	2	1/2	2006
23,536,658	325,060,464	7.2%	5.6%

12. Profit before tax per share, 2007

(EUR, except percentages)			
Profit before tax	Number of shares		
1	2	1/2	2006
23,536,658	7,862,519	3.0	1.9

13. Profit for the period as percentage of average equity, 2007

(EUR, except percentages)			
Profit for the period	Average equity	%	%
1	2	1/2	2006
18,205,424	131,780,722	13.8%	14.0%

14. Available solvency margin as percentage of net premiums written, 2007

(EUR, except percentages)			
Available solvency margin	Net premiums written	%	%
1	2	1/2	2006
59,719,900	97,207,906	61.4%	66.3%

15. Available solvency margin as percentage of required solvency margin, 2007

(EUR, except percentages)			
Available solvency margin	Required solvency margin	%	%
1	2	1/2	2006
59,719,900	16,227,837	368.0%	434.6%

16. Available solvency margin as percentage of technical provisions, 2007

(EUR, except percentages)			
Available solvency margin	Technical provisions	%	%
1	2	1/2	2006
59,719,900	129,483,842	46.1%	40.8%

17. Available solvency margin as percentage receivables arising out of reinsurance and reinsurers' share of technical provisions, 2007

(EUR, except percentages)			
Available solvency margin	Receivables arising out of reinsurance and reinsurers' share of technical provisions	%	%
1	2	1/2	2006
59,719,900	54,567,406	109.4%	116.0%

18. Net premiums written as percentage of average equity and average technical provisions, 2007

(EUR, except percentages)				
Net premiums written	Average equity	Average technical provisions	%	%
1	2	3	1/(2+3)	2006
97,207,906	131,780,722	123,456,828	38.1%	39.5%

19. Net premiums written as percentage of average equity, 2007

(EUR, except percentages)			
Net premiums written	Average equity	%	%
1	2	1/2	2006
97,207,906	131,780,722	73.8%	106.5%

20. Average technical provisions as percentage of net earned premiums, 2007

(EUR, except percentages)			
Average tehnical provisions	Net earned premiums	%	%
1	2	1/2	2006
123,456,828	93,681,613	131.8%	166.5%

21. Equity as percentage of net unearned premiums, 2007

(EUR, except percentages)			
Equity	Net unearned premiums	%	%
1	2	1/2	2006
145,637,435	34,460,432	422.6%	279.8%

22. Equity as percentage of equity and liabilities, 2007

(EUR, except percentages)			
Equity	Liabilities and equity	%	%
1	2	1/2	2006
145,637,435	356,701,026	40.8%	31.3%

23. Net technical provisions as percentage of equity and liabilities, 2007

(EUR, except percentages)			
Net technical provisions	Liabilities and equity	%	%
1	2	1/2	2006
108,010,647	356,701,026	30.3%	50.6%

24. Gross premiums written per number of employees, 2007

(EUR)			
Gross premium wtitten	Number of employees		
1	2	1/2	2006
118,539,939	55	2,155,272	2,120,476

Pozavarovalnica Sava d.d.
Reinsurance Company Sava Limited.

FINANCIAL STATEMENTS OF SAVA RE WITH NOTES

BALANCE SHEET AS AT 31 DECEMBER 2007

(EUR)	Notes	31 December 2007	31 December 2006	Index
ASSETS		**356,701,026**	**293,419,902**	**121.6**
A. Intangible assets	1)	162,140	49,190	329.6
B. Property and equipment	2)	1,907,468	1,891,151	100.9
C. Non-current assets held for sale		0	3,811,863	0.0
D. Deferred tax assets	3)	131,804	169,169	77.9
E. Investment property	4)	728,514	738,811	98.6
F. Investments in Group companies and in associates	5)	72,487,296	44,710,952	162.1
G. Financial investments	6)	215,610,292	174,303,623	123.7
– held to maturity		0	0	–
– available for sale		187,458,823	133,989,424	139.9
– at fair value through profit or loss		4,799,223	2,588,495	185.4
– loans and receivables		23,352,246	37,725,704	61.9
H. Assets from investment contracts		0	0	–
I. Reinsurers' share of technical provisions	7)	21,473,195	16,927,142	126.9
J. Inventories		0	0	–
K. Receivables	8)	35,484,845	34,571,521	102.6
1. Receivables arising out of primary insurance business		0	0	–
2. Receivables arising out of co-insurance and reinsurance business		33,094,211	32,330,785	102,4
3. Other receivables		2,390,634	2,240,736	106.7
L. Other assets	11)	8,576,418	9,000,542	95.3
M. Tax receivables		0	0	–
N. Cash and cash equivalents	12)	139,054	7,245,938	1.9
LIABILITIES AND EQUITY		**356,701,026**	**293,419,902**	**121.6**
A. Equity	13)	145,637,435	117,924,009	123.5
1. Called-up capital		32,809,710	32,809,710	100.0
2. Share premium	14)	106,162	106,162	100.0
3. Profit reserves	15)	55,385,397	44,704,197	123.9
4. Revaluation surplus	17)	12,491,698	2,957,098	422.4
5. Retained earnings	18)	26,811,969	33,371,512	80.3
6. Net profit for the period	19)	18,032,498	3,975,330	453.6
B. Subordinated liabilities	21)	31,136,034	11,614,395	268.1
C. Technical provisions	22)	129,483,842	117,429,814	110.3
1. Unearned premiums		37,577,865	33,040,080	113.7
2. Mathematical provision		0	0	–
3. Provision for outstanding claims		91,219,036	83,383,909	109.4
4. Technical provision for the benefit of life insurance policyholders who bear the investment risk		0	0	–
5. Other technical provisions		686,941	1,005,825	68.3
D. Other provisions	25)	165,762	191,801	86.4
E. Liabilities related to non-current assets held for sale		0	0	–
F. Deferred tax liabilities	26)	3,585,825	8,898,637	40.3
G. Financial liabilities	27)	2,308	0	–
1. Liabilities from investment contracts		0	0	–
2. Other financial liabilities		2,308	0	–
H. Other liabilities	28)	36,523,792	36,200,271	100.9
1. Liabilities from primary insurance business		0	0	–
2. Liabilities from co-insurance and reinsurance business		27,267,893	28,342,213	96.2
3. Diverse liabilities		9,255,899	7,858,058	117.8
I. Current income tax liabilities	28)	10,166,029	1,160,975	875.6

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(EUR)	Notes	1 January–31 December 2007	1 January–31 December 2006	Index
I. Net earned premiums		93,681,613	82,553,053	113.5
– Gross premiums written	30)	118,539,939	103,903,448	114.1
– Written premiums ceded to reinsurers and co-insurers	30)	–21,332,033	–17,721,988	120.4
– Change in unearned premiums		–3,526,293	–3,628,407	97.2
II. Income from investments in affiliates	31)	1,133,600	103,444	1095.9
III. Investment income	32)	26,706,893	12,354,310	216.2
IV. Other technical income, of this		–23,627,652	–21,542,929	109.7
– Commission income	33)	–23,756,661	–21,758,717	109.2
V. Other income	34)	30,157	1,026,216	2.9
VI. Net insurance claims and benefits incurred		–63,085,858	–55,125,201	114.4
– Gross claims and benefits paid	35)	–70,358,934	–71,194,242	98.8
– Reinsurers' and co-insurers' share of claims and benefits paid	35)	11,597,218	19,241,727	60.3
– Change in the provision for outstanding claims		–4,324,142	–3,172,686	136.3
VII. Change in other technical provisions	36)	342,460	–58,587	–584.5
VIII. Change in liabilities relating to investment contracts		0	0	–
IX. Bonuses and rebates		0	0	–
X. Operating expenses, of this	37)	–5,242,966	–4,497,541	116.6
– Acquisition costs		0	0	–
XI. Expenses relating to investments in affiliates		0	0	–
XII. Investment expenses	41)	–5,833,028	–1,818,156	320.8
XIII. Other technical expenses	42)	–567,303	–130,764	433.8
XIV. Other expenses	43)	–1,258	–333,619	0.4
XV. Profit before tax	44)	23,536,658	12,530,226	187.8
XVI. Current tax	45)	–7,966,107	–3,430,424	232.2
XVII. Deferred tax	46)	2,634,873	532,179	495.1
Profit for the period	**47)**	**18,205,424**	**9,631,981**	**189.0**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(EUR)			31 December 2007	31 December 2006
A. Cash flows from operating activities				
a.)	**Items of the income statement**		**15,356,743**	**7,982,597**
	1.	Net premiums written	93,681,613	86,181,460
	2.	Investment income	22,007,465	2,562,369
	3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	159,166	1,242,004
	4.	Net claims and benefits paid	–63,085,858	–51,952,515
	5.	Expenses arising out of liabilities relating to insurance contracts	0	0
	6.	Net operating expenses excl. depreciation and change in deferred acquisition costs	–28,870,975	–26,155,914
	7.	Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	–568,561	–464,384
	8.	Tax on profit and other taxes not included in operating expenses	–7,966,107	–3,430,424
b.)	**Changes in net operating assets (and in accruals/deferrals and deferred tax receivables/ liabilities) of operating items of the balance sheet**		**10,050,337**	**–26,715**
	1.	Change in operating receivables	–913,324	–5,853,308
	2.	Change in short-term deferred costs and accrued income	424,124	–769,633
	3.	Change in deferred tax receivables	37,365	–169,169
	4.	Change in assets held for sale	3,811,863	0
	5.	Change in inventories	0	0
	6.	Change in operating liabilities	11,800,449	7,156,392
	7.	Change in accrued costs, deferred income and provisions	202,672	–503,120
	8.	Change in deferred tax liabilities	–5,312,812	112,123
c.)	**Net cash from/used in operating activities (a + b)**		**25,407,080**	**7,955,882**
B. Cash flows from investing activities				
a.)	**Cash receipts from investing activities**		**113,932,613**	**176,839,447**
	1.	Interest received from investing activities	7,047,135	7,616,139
	2.	Cash receipts from participation in the profit of others	1,594,724	101,255
	3.	Proceeds from sale of intangible assets	0	0
	4.	Proceeds from sale of property and equipment	32,897	5,663
	5.	Proceeds from sale of investment property	0	0
	6.	Proceeds from sale of investments in affiliated companies	0	0
	7.	Proceeds from sale of financial investments	105,257,857	169,116,391
b.)	**Cash disbursements in investing activities**		**–168,240,631**	**–185,003,991**
	1.	Purchase of intangible assets	–135,979	–24,878
	2.	Purchase of property and equipment	–169,766	–142,052
	3.	Purchase of investment property	0	0
	4.	Purchase of financial investments in affiliated companies	–25,691,564	–4,317,837
	5.	Purchase of financial investments	–142,243,322	–180,519,224
c.)	**Net cash from/used in investing activities (a + b)**		**–54,308,018**	**–8,164,544**
C. Cash flows from financing activities				
a.)	**Cash receipts from financing activities**		**19,456,954**	**11,614,395**
	1.	Proceeds from paid-in capital		0
	2.	Proceeds from long-term borrowing	19,456,954	11,614,395
	3.	Proceeds from short-term borrowing		0
b.)	**Cash disbursements in financing activities**		**2,337,100**	**–50,310**
	1.	Interest paid	2,337,100	0
	2.	Redemption of equity		0
	3.	Repayment of long-term financial liabilities		0
	4.	Repayment of short-term financial liabilities		0
	5.	Dividends and other profit participations paid		–50,310
c.)	**Net cash from/used in financing activities (a + b)**		**21,794,054**	**11,564,084**
Č. Cash and cash equivalents as at 31.12.			**139,054**	**7,245,946**
x.)	Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)		–7,106,884	7,037,585
Cash and cash equivalents as at 1.1.			**7,245,938**	**208,361**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(EUR)	Called-up capital		Share premium	Profit reserves	Revaluation surplus	Retained earnings	Net profit or loss for the period	Total
	Share capital	Uncalled capital						
Balance at 1 January	32,809,710	0	106,162	44,704,197	2,957,098	33,371,512	3,975,330	117,924,009
Movements to equity								
– Subscription of called-up share capital	0	0	0	0	0	0	0	0
– Subscription of uncalled share capital	0	0	0	0	0	0	0	0
– Call for subscribed capital	0	0	0	0	0	0	0	0
– Additional paid-in capital	0	0	0	0	0	0	0	0
– Net profit or loss for the period	0	0	0	0	0	0	18,205,424	18,205,424
– Equity revaluation adjustment	0	0	0	0	22,436,327	0	0	22,436,327
– Purchase of treasury shares	0	0	0	0	0	0	0	0
– Other increases in components of equity	0	0	0	0	0	0	0	0
– Foreign exchange gains	0	0	0	0	0	0	0	0
Movements within equity								
– Allocation of net profit as a component of equity by decision of the management and the supervisory board	0	0	0	0	0	0	0	0
– Allocation of net profit to additional reserves by resolution of the annual general meeting of shareholders	0	0	0	10,508,273	0	–6,532,943	–3,975,329	1
– Settlement of loss as a deduction component of equity	0	0	0	0	0	0	0	0
– Formation of reserves for treasury shares from other components of equity	0	0	0	0	0	0	0	0
– Decrease in reserves for treasury shares and reallocation to other components of equity	0	0	0	0	0	0	0	0
– Equity share options issued	0	0	0	0	0	0	0	0
– Other reallocation of components of equity	0	0	0	172,927	0	0	–172,927	0
Movements from equity								
– Dividends	0	0	0	0	0	0	0	0
– Redemption of equity	0	0	0	0	0	0	0	0
– Use of revaluation surplus for impairment of assets	0	0	0	0	0	0	0	0
– Transfer of revaluation surplus to operating or financial income	0	0	0	0	–12,901,727	0	0	–12,901,727
– Disposal or cancellation of treasury shares	0	0	0	0	0	0	0	0
– Other decreases in components of equity	0	0	0	0	0	–26,600	0	–26,600
– Foreign exchange losses	0	0	0	0	0	0	0	0
Balance at 31 December	32,809,710	0	106,162	55,385,397	12,491,698	26,811,969	18,032,498	145,637,435

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(EUR)	Called-up capital		Share premium	Profit reserves	Revaluation surplus	Retained earnings	Net profit or loss for the period	Total
	Share capital	Uncalled capital						
Balance at 1 January	**32,809,710**	**0**	**106,162**	**39,567,553**	**2,953,727**	**31,670,231**	**1,231,584**	**108,338,967**
Movements to equity								
– Subscription of called-up share capital	0	0	0	0	0	0	0	0
– Subscription of uncalled share capital	0	0	0	0	0	0	0	0
– Call for subscribed capital	0	0	0	0	0	0	0	0
– Additional paid-in capital	0	0	0	0	0	0	0	0
– Net profit or loss for the period	0	0	0	0	0	0	9,631,981	9,631,981
– Equity revaluation adjustment	0	0	0	0	117,485	0	0	117,485
– Purchase of treasury shares	0	0	0	0	0	0	0	0
– Other increases in components of equity	0	0	0	0	0	0	0	0
– Foreign exchange gains	0	0	0	0	0	0	0	0
Movements within equity								
– Allocation of net profit as a component of equity by decision of the management and the supervisory board	0	0	0	5,656,651	0	0	–5,656,651	0
– Allocation of net profit to additional reserves by resolution of the annual general meeting of shareholders	0	0	0	0	0	1,231,584	–1,231,584	0
– Settlement of loss as a deduction component of equity	0	0	0	0	0	0	0	0
– Formation of reserves for treasury shares from other components of equity	0	0	0	0	0	0	0	0
– Decrease in reserves for treasury shares and reallocation to other components of equity	0	0	0	0	0	0	0	0
– Equity share options issued	0	0	0	0	0	0	0	0
– Other reallocation of components of equity	0	0	0	–520,007	0	520,007	0	0
Movements from equity								
– Dividends	0	0	0	0	0	–50,310	0	–50,310
– Redemption of equity	0	0	0	0	0	0	0	0
– Use of revaluation surplus for impairment of assets	0	0	0	0	0	0	0	0
– Transfer of revaluation surplus to operating or financial income	0	0	0	0	–114,114	0	0	–114,114
– Disposal or cancellation of treasury shares	0	0	0	0	0	0	0	0
– Other decreases in components of equity	0	0	0	0	0	0	0	0
– Foreign exchange losses	0	0	0	0	0	0	0	0
Balance at 31 December	**32,809,710**	**0**	**106,162**	**44,704,197**	**2,957,098**	**33,371,512**	**3,975,330**	**117,924,009**

19. NOTES TO THE FINANCIAL STATEMENTS

19.1. GENERAL

Pozavarovalnica Sava d.d. ("Sava Re" or "the Company") was established under the Foundations of the Life and Non-life Insurance System Act and was entered in the company register at the Basic Court of Ljubljana, Ljubljana Unit on 28 December 1990.The legal predecessor of the Company, the Pozavarovalna skupnost Sava, was established in 1977.

Sava Re carries out reinsurance business both in the domestic and in the international market. According to the Standard Classification of Activities of the Statistical Office of the Republic of Slovenia, its subclass code is 65.200. According to the Slovenian Companies Act ("CA"), the Company is classified as a large company.

The financial statements of the Company have been prepared in accordance with the Insurance Companies Act ("ICA"), executive acts and notes issued by the Slovenian Insurance Supervision Agency ("ISA"), and the International Financial Reporting Standards ("IFRS").

The registered office of Sava Re is Pozavarovalnica Sava d.d., Ljubljana, Dunajska cesta 56, Ljubljana.

In 2007, the average number of employees was 55. As at 31 December 2007, the Company had 54 employees.

The corporate governance bodies of the Company comprise the Shareholders' Assembly, the Supervisory Board and the Board of Management.

The majority shareholder of the Company is the Slovenska odškodninska družba (Slovenian Restitution Fund) with a share holding of 99.87%.

The Company is the parent of an insurance group.

In addition to the parent, the Group comprises the following companies:

Zavarovalnica Maribor d.d., Maribor – associated company;
Zavarovalnica Tilia, d.d., Novo mesto – subsidiary company;
Moja naložba, d.d., Maribor – associated company;
Sava Osiguranje a.d.o., Belgrade, Serbia – subsidiary company;
Dukagjini kompania e sigurimeve, sh.p.k., Priština, Kosovo – subsidiary company;
Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje, Macedonia – subsidiary company;
Montenegro osiguranje a.d., Podgorica, Montenegro – subsidiary company.

In 2007, the Company acquired the companies Sava Tabak and Montenegro Osiguranje.

All amounts in the financial statements and notes thereto are expressed in euro, unless otherwise stated.

20. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of financial statements are set out below.

20.1. STATEMENT OF COMPLIANCE

Sava Re prepared both company and consolidated financial statements for the year ended 31 December 2007. The Company has adopted the IFRS for its separate as well as for the consolidated financial statements, for the first time, for the year ended 31 December 2007. The consolidated financial statements include disclosures of Sava Re, as parent company, and for all the Group companies in which the Group holds, directly or indirectly, more than half of the voting rights. All subsidiaries, except Montenegro Osiguranje, were fully consolidated in the year ended 31 December 2007. Montenegro Osiguranje was first consolidated on 31 December 2007.

The financial statements of the Company have been prepared in compliance with the IFRS issued by the International Accounting Standards Board (IASB), and the interpretations of the International Financial Reporting Interpretations Committee's (IFRIC), as adopted by the EU. The financial statements were compiled in compliance with the Slovenian law – the CA (ZGD-1), ICA, executive acts, and the Decision on Insurance Company Annual Reports and Quarterly Financial Statements (SKL 2007). Interested parties can obtain the correct information on the financial position and results of operations of the Sava Re Group by consulting the separate financial statements of the Company together with the consolidated financial statements of the Group.

In selecting and applying accounting policies as well as in preparing the financial statements, the Board of Management aims at providing understandable, relevant, reliable and comparable accounting information.

The Company records business events as incurred and not when paid. The financial statements have been prepared on a going concern basis. As fluctuations in prices and euro exchange rates are inevitable in modern economies, the financial statements have been prepared in line with the assumption of true and fair disclosure under non-hyper inflation conditions.

In the notes to the financial statements, the Company presents all prescribed disclosures. If events that would otherwise require disclosure did not occur, the Company would not disclose such event in the notes to the financial statements set out below.

The Board of Management of the Company approved the financial statements on 31 March 2008.

20.2. FUNCTIONAL AND PRESENTATION CURRENCY

All items of the financial statements are presented in euro. The euro is both the functional currency of the Sava Re's primary economic environment as well as the presentation currency of the financial statements.

Translation of business events and balances

On 1 January 2007, Slovenia adopted the euro as the functional currency. As at the same date, all assets, liabilities and equity were translated, in compliance with the IAS 21.37, into euro at the exchange rate of 239.64 SIT/EUR, whilst income and expenses for 2007 have already been recognised and are presented in euro.

As regards 2006 comparatives, all assets, liabilities and equity as at 31 December 2005 were translated to euro using the exchange rate of 239.5756 SIT/EUR. Due to the difference between the SIT/EUR exchange rate as at 31 December 2005 and as at 1 January 2006, there are exchange rate differences in the tables showing movements in the various categories. The financial statements included herein are presented in euro (EUR) rounded without decimals. Due to rounding, figures in tables may not add up to totals.

Assets and liabilities as at 31 December 2007 denominated in foreign currencies have been translated into euro using the mid-rate of the European Central Bank ("ECB") as at 31 December 2007. During 2007 assets and liabilities were translated into euro using the applicable mid-rate of the ECB. Exchange difference arising on settlement of transactions and the translation of monetary items are recognised in the income statement. Translation differences on non-monetary items, such as equity securities carried at fair value through profit or loss, are recognised in the income statement, while translation differences on non-monetary items, such as equity securities classified as available for sale, are recognised in equity.

20.3. EARNED PREMIUMS

Earned premiums are accounted for on an accrual basis taking into account any increase in economic benefits in the form of cash inflows or increases in assets. The Company separately discloses gross (re)insurance premiums, co-insurance and retrocession premiums and earned premiums. These items constitute net earned premiums in the income statement. Premium income is measured based on confirmed reinsurance account statements.

20.4. INSURANCE CLAIMS AND BENEFITS INCURRED

Insurance claims and benefits incurred are accounted for on an accrual bases, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. Net claims incurred comprise gross claims paid net of subrogation recoveries and reinsurance claims, i.e. amounts invoiced to retrocessionaires. The amount of insurance claims and benefits is decreased or increased according to the change in the provision for outstanding claims. These items constitute net insurance claims and benefits incurred in the income statement.

20.5. INVESTMENT INCOME AND EXPENSES

The Company records investment income and expenses relating to investments supporting the liability fund (i.e. investments covering technical provisions) separately from income and expenses relating to the capital fund. Interest income is recognised using the effective interest rate. Revaluation income and expenses arise from the revaluation to fair value of financial assets of the two groups: financial assets at fair value through profit or loss, and available-for-sale financial assets.

20.6. LIABILITIES RELATING TO INVESTMENT CONTRACTS

The Company only provides classic reinsurance, the basic purpose of which is transfer of insurance risk. The Company accordingly classified all reinsurance contracts both with cedants and retrocessionaires as insurance contracts. Proportional reinsurance contracts are associated with the same risk as the underlying insurance policies, i.e., insurance contracts. Non-proportional reinsurance contracts provide for significant additional payments in case of a reinsurance loss event, which qualifies them to be classified as insurance contracts. The Company therefore has no liabilities from investment contracts.

20.7. OPERATING EXPENSES

The Company classifies expenses by nature. Expenses are recorded under sub-accounts that are Company-specific.

20.8. FINANCIAL ASSETS

20.8.1. Classification

The Company classifies its financial assets in the following groups:

Financial assets at fair value through profit or loss

This group consists of two sub-groups, as follows:
- financial instrument held for trading, and
- financial instruments designated as at fair value through profit or loss.

Financial instruments held for trading comprise instruments that the Company acquires exclusively for the purpose of trading and realising gains in the near term. These are managed by banks and stock brokers in accordance with asset management contracts signed with the Company. Derivatives are always classified as held for trading unless such derivative financial instruments are used, successfully, for hedging. The gain arising on the revaluation is not recognised in the income statement but as revaluation surplus under equity.

Loans granted and receivables

This group includes loans and bank deposits with fixed or determinable payments that are not quoted in an active market.

Held-to-maturity financial assets

Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Company can, and intends to, hold to maturity. Due to the nature of its basic activities, Sava Re does not hold such assets and is planning to hold such assets only to a minor extent.

Available-for-sale financial assets

Available-for-sale financial assets are assets intended to be held for an indefinite period, but may be sold to address the need for liquidity arising, for example, from obligations to settle claims or the respond to changes in interest rates, foreign exchange rates or prices.

Derivative financial instruments

The Company concluded an interest rate swap contract to hedge against fair value changes of a certain issue of bonds which are, the same as the derivate financial instrument, classified as financial assets at fair value through profit or loss. Any gains or losses arising from re-measurement of such assets are thus recognised directly in the profit or loss. The Company concluded another interest rate swap contract to hedge against interest rate risk associated with its long-term subordinated debt.

20.8.2. Recognition, measurement and derecognition

Financial assets other than financial instruments carried at fair value through profit or loss are initially recognised at their fair value plus transaction costs.

Purchases and sales of financial instruments, financial assets and loans and receivables are recognised on trade date. Financial instruments at fair value through profit or loss and financial assets available for sale are measured at their fair value.

Gains and losses arising from revaluation of available-for-sale investments to fair value are recognised in equity and are transferred to the income statement on disposal or when they are impaired. However, gains and losses on financial instruments at fair value through profit or loss are recognised directly in the income statement. The same applies to the gains and losses arising on derivative instruments which are used for hedging but do not qualify for hedge accounting. Loans and receivables and held-to-maturity financial assets are measured at amortised cost.

Financial assets are derecognised when the contractual rights to the cash flows pertaining to them expire.

20.8.3. Fair value measurement principles

The fair value of financial instruments is based on their quoted market price as at the balance sheet date. If a quoted market price is not available, the fair value of the instrument is established using discounted cash flow models.

20.8.4. Impairment of financial assets

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events occurring after the initial recognition of the asset which have an impact on future cash flows that can be reliably estimated. The Company assesses the objective evidence of any impairment for all financial assets.

Impairment of investments

The Company continuously reviews its investment portfolio and is capable of responding promptly to changes in market conditions which may impair the value of individual investments. The fair values of financial instruments that are not quoted in an active market are determined by using discounted future cash flow models. These form part of the IT support implemented by the Company in 2007. The Company does not increase its risk exposure by acquiring low-rated securities. In the event of a material drop in the fair value of any individual financial instrument, the Company considers all available facts that may impact circumstances and may make the drop a permanent one.

Impairment of reinsurance receivables

As regards its basic activities, i.e. reinsurance business, the Company transacts business exclusively with legal entities. Before entering into a business relationship with any new customer, especially if foreign, the Company carefully scrutinises the customer's financial rating status or recommendations by trusted business partners. The Company individually assesses receivables in terms of their recoverability or impairment. Provisions are made on the basis on the likelihood of recovering debts taking into account the payment history of ceding companies and retrocessionaires.

Nevertheless, the Company, at least annually, reviews receivables on an individual basis. Throughout its business activities, the Company has had no material write-offs of trade receivables.

20.9. EQUITY INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in the equity of subsidiary and associated companies are accounted for in the Company's financial statements under the cost method. Subsidiaries are companies in which the Company holds more than 50% of all voting rights. Associates are companies in which Sava Re holds between 20 and 50% of voting rights. In accordance with the cost method, any profits in the form of dividends are recorded in the income statement. If distributions exceed the owner's share of profit, the carrying value of the investment is reduced by the excess amount.

20.10. INTANGIBLE ASSETS

Intangible assets are stated at cost plus any expenses directly attributable to preparing the asset for its intended use, less accumulated amortisation and any impairment losses. Amortisation is individually calculated on a straight-line basis. Amortisation of intangible assets starts upon their availability for use.

Intangible assets include computer software and licenses pertaining to computer software. The useful life is assumed to be 5 years.

20.11. PROPERTY AND EQUIPMENT

Property and equipment is initially recognised at cost plus direct expenses. Subsequently, these assets are held at cost less accumulated depreciation and any impairment. Each year the Company assesses whether there are indications that assets may be impaired. If such indication exists, the Company assesses the recoverable amount. The recoverable amount is the higher of value in use and net selling price. If the value in use exceeds the carrying value, the asset is not impaired.

Depreciation is calculated from the date that the asset is put in use. Depreciation is individually calculated on a straight-line basis. Depreciation rates are designed to write off the cost of the asset over its useful life.

Depreciation rates for property and equipment

Depreciation group	Rate
Land	0%
Buildings	1.3% to 1.8%
Transportation	15.5%
Computer equipment	33.0%
Office and other furniture	10% to 12.5%
Other equipment	6.7% to 20%

Gains and losses on disposal of property and equipment, which are the difference between the sales proceeds and the carrying amount, affect operating profit in the income statement. Maintenance and repairs are charged to the income statement in the financial period in which they are incurred. Investments which increase future economic benefits are recognised in the carrying amount of property and equipment.

20.12. INVESTMENT PROPERTY

Investment property is property or equipment that the Company does not use directly in the carrying out of its activities but holds to earn rental income. The Company uses the cost model and the straight-line depreciation method. The depreciation rate for investment property is 1.3%. All leases where the Company acts as lessor are operating leases. Payments received and/or rental income are recognised as income on a straight-line basis over the period of the lease.

20.13. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are those assets the carrying amount of which will be recovered through a sale transaction rather than through continuing use. A non-current asset is classified as held for sale when the sale is highly probable and the asset is available for immediate sale in its present condition. The Company must be committed to the sale, which must be effected within one year. Such assets are measured at the lower of the asset's carrying amount and fair value less costs to sell.

20.14. CASH AND CASH EQUIVALENTS

This item of the balance sheet and the cash flow statement comprises balances in transaction accounts and overnight deposit accounts.

20.15. TAXES

Pursuant to the Income Tax Act, taxable profits in 2007 are taxed at the applicable rate of 23%.

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. The principle temporary differences arise from the valuation of financial instruments available-for-sale, where deferred tax is disclosed directly in equity and subsequently charged to the income statement together with any gain or loss pertaining to the instrument.

In 2007, deferred tax assets were accounted for at the rate of 22% (pursuant to amendments to the Income Tax Act, deferred tax assets will be accounted for at the rate of 21% in 2008 and 20% in 2009).

20.16. EMPLOYEE BENEFITS

Employee benefits include severance indemnity, jubilee benefits and other benefits. Provisions for these benefits have been calculated by a certified actuary.

20.16.1. Severance indemnity

The provisions are calculated based on the employees' personal data: date of birth, date of commencement of employment, anticipated retirement, salary. Retirement benefits are assumed to be the higher of the following two amounts: twice the last salary received or twice the average salary in the country. The assumed long-term inflation rate is 3.5%. Currently, the non-taxable part of retirement benefits is fixed at EUR 3,443.

20.16.2. Jubilee benefits

Employees are entitled to a jubilee benefit for every 10 years of service with the Company. The jubilee benefit for 10, 20 and 30 years of service is equal to one salary, one and a half salary and two salaries for the first-tariff class respectively (currently EUR 580.17 to EUR 1,160.34). Currently, the non-taxable part of jubilee benefits is around 80%.

The probability of an employee staying with the Company takes into account both the probability of death and the probability of termination of the employment contract. In this, Slovenian mortality tables 2000-2002, M/F, are used, as well as internal data on turnover rate since 1998, which is 3.1%, 3.3% and 0.9% in the less than 35 years, 35 to 45 years and over 45 years age brackets.

Provisions for employee benefits calculated based on the above-mentioned assumptions are discounted to the net present value at the rate of 4.55%.

20.17. PENSION INSURANCE

The Company has a legal responsibility to pay pension insurance contributions at the rate of 8.85% of gross salary. The Company also concluded a contract in 2001 on establishment of a pension insurance scheme within the voluntary pillar of the pension system, and has been making monthly contributions to it since then.

20.18. SHARE CAPITAL

Share capital comprises 7,862,519 no-par value shares. Shares are recorded in the Central Securities Clearing Corporation (KDD) under symbol POSR. As at 31 December 2007, the Company held 210 treasury shares, which represent a deductible item in equity. One of the shareholders of Sava Re is an associated company (Maribor holding 525 shares).

20.19. TECHNICAL PROVISIONS

Technical provisions are calculated by an actuary appointed by the Company, in accordance with the actuary rules set out in the Rules on Technical Provisions and in the Insurance Act. Movements in technical provisions and management of associated risks are presented in greater detail in section 21 and notes 7, 22, 23 and 24.

20.20. COMPARATIVE DATA

The Company ensures comparability of current period figures by restating comparative figures.

20.21. SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged in providing products and services (business segment) or products and services within a particular economic environment (geographical segment), and is subject to risks and returns that are different from those of other segments.

The main and prevailing activity of the Company is non-life reinsurance. The Company is therefore not subject to segment reporting. The Company does use geographical segments as the secondary segment reporting, as it transacts business in an international environment.

Segment statements

Gross premiums written (by market) in 2006 and 2007

Area	2007	2006
Slovenia	80,196,155	72,657,166
Europe	22,714,548	19,328,944
The Balkans (former Yugoslavia)	9,291,090	6,873,908
Other	6,338,146	5,043,430
Total	**118,539,939**	**103,903,448**

Gross claims paid (by market) in 2006 and 2007

Area	2007	2006
Slovenia	–51,685,980	–55,202,369
Europe	–12,251,709	–10,176,134
The Balkans (former Yugoslavia)	–3,540,811	–3,279,630
Other	–2,869,506	–2,456,021
Total	**–70,348,006**	**–71,114,154**

Investments (by market) in 2007

Area	2007
Slovenia	51,013,171
Europe	59,178,930
The Balkans (former Yugoslavia)	13,048,522
Other	164,856,965
Total	**288,097,588**

Investments broken down by geographical segments comprise both portfolio investments and financial investments in subsidiary and associated companies.

20.22. MATERIALITY

Material amounts in the balance sheet are amounts that, on the balance sheet date, exceed 1% of total assets as at 31 December 2007 or EUR 3,567,010. Material amounts in the income statement are those that as at 31 December 2007 exceed 0.5% of all assets or EUR 1,783,505.

20.23. CASH FLOW STATEMENT

Cash flows from operating activities are prepared by using the indirect method; cash flows from financing activities and investing activities are prepared by using the direct method. The cash flow statement is prepared by using the indirect method based on data from the balance sheet as at 1 January 2007 and 31 December 2007 and the income statement for the year 2007 and on additional data required to make adjustments to receipts and expenditures and to provide a more detailed breakdown of material items.

20.24. STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows movements in individual components of equity in the accounting period. Pursuant to a decision of the Insurance Supervision Agency, the credit risk equalization reserve and the catastrophe equalization reserve are included in other profit reserves.

20.25. NEW STANDARDS, AMENDMENTS TO PUBLISHED STANDARDS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE FROM 1 JANUARY 2008

Many new standards, supplements thereto and the interpretations for the year ended 31 December 2007 have not yet become effective and were therefore not taken into account in compiling the consolidated financial statements:

- IFRS 8 – Operating Segments introduces the concept of "management approach" into segment reporting. IFRS 8, which will have to be taken into account in preparing the 2009 financial statements, sets out the disclosures about segments on the basis of internal reports. These internal reports will be reviewed on a regular basis, by the Company's board of management, in order to assess individual segment performance and allocate funds accordingly. The Company currently uses only geographical segment reporting.
- The revised IAS 23 – Borrowing Costs prohibits immediate expensing of borrowing costs, requiring that the borrowing costs of an entity that are directly attributable to the acquisition, construction or production of an asset under construction are capitalised as part of the cost of that asset. IAS 23 is not expected to have an impact on the Company's financial statements.
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions provides that share-based payment arrangements in which an entity receives goods or services as consideration for its own equity-instruments should be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments were obtained. IFRIC 11 will be effective for accounting periods beginning on or after 1 January 2008. The interpretation will have to be applied retroactively. IFRIC 11 is not expected to have an impact on the Company's financial statements.
- IFRIC 12 – Service Concession Agreements provides guidance as regards certain issues relating to disclosing and evaluating public service concessions. IFRIC 12, which will have to be taken into account in the preparation of financial statements for the 2008 financial year, is not expected to have an impact on the Company's financial statements.
- IFRIC 13 – Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes. It addresses customer loyalty programmes under which the customer can redeem credits for awards, such as free or discounted goods or services. IFRIC 13, which will have to be taken into account in the preparation of financial statements for the 2009 financial year, is not expected to impact the Company's financial statements.
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be deemed to be available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also clarifies when a MFR may give rise to a liability. IFRIC 14, which will have to be taken into account in the preparation of financial statements for the 2008 financial year, is not expected to have an impact on the Company's financial statements.

21. RISK MANAGEMENT

21.1. SOLVENCY RISK

Sava Re must comply with regulatory requirements (including capital adequacy requirements) according to the scope and type of reinsurance business transacted. As at 31 December 2007 the required solvency margin amounts to EUR 16,227,837 (EUR 13,146,208 as at 31 December 2006), and available solvency margin to EUR 59,719,900 (EUR 62,788,469 at 31 December 2006).

Sava Re has a significant capital surplus (i.e. surplus of available solvency margin over the required solvency margin). This amounted to EUR 43,492,062 at 31 December 2007 and EUR 49,642,261 at 31 December 2006, therefore solvency risk is negligible. Sava Re's capital surplus in 2007 is lower than in 2006. This is due to the increase of the deduction items, i.e. the investments in subsidiaries.

21.2. UNDERWRITING RISK

The risks ceded to Sava Re by its subsidiaries and other ceding companies are partly retroceded. Therefore, all (re)insurance contracts fall within the IFRS 4 classification of insurance contracts. As Sava Re has no liabilities from investment contracts, the risks relating to insurance contracts are disclosed in detail below in accordance with IFRS 4.

Underwriting risks, relevant for reinsurance companies, mainly comprise underwriting process risk (insurance and reinsurance), pricing risk, claim risk, retention risk and reserving risk. Some other underwriting risks, e.g. product design risk, economic environment risk and policyholder behaviour risk could potentially be relevant for individual insurance companies. Undoubtedly, reinsurance companies are indirectly exposed to such risks as well and they may manage them only indirectly by adequately underwriting the risks to be reinsured and by adequate retrocession programmes, therefore they will not be dealt with specifically.

21.2.1. Underwriting process risk

The underwriting process risk represents the risk of incurring financial losses caused by an incorrect assessment and approval of risks to be (re)insured. In respect of reinsurance treaties, Sava Re takes this risk over from ceding companies, while in respect of facultative contracts, the decision on reinsuring the risk is on Sava Re.

It follows from the above, that in order to manage this risk it is essential to check the practice of the existing and future ceding companies and an analysis of developments on the relevant markets and in the relevant classes of insurance. Consequently, coverage may be assumed only by taking into account internal underwriting guidelines. These guidelines define requirements for customers, minimum required level of information on the business and the framework of the expected business result. At the same time they also lay down the coverage procedure and levels of competence so that as many controls as possible are included in the process.

Sava Re reduces the underwriting risk also by transferring it to retrocessionaires.

There was no substantial difference in the underwriting process risk of 2007 and 2006.

21.2.2. Pricing risk

Pricing risk represents the risk that the (re)insurance premiums charged will be inadequate to support future obligations arising from (re)insurance contracts.

In respect of proportional reinsurance treaties, the reinsurance premium is linked to the insurance premium, which is determined by the ceding companies. Therefore this risk is managed by adequate underwriting of risks to be reinsured. In respect of non-proportional reinsurance treaties, the pricing risk is also managed by properly underwriting the risks to be reinsured and by determining adequate reinsurance premiums. This takes into account the state of the reinsurance market, especially the ceding companies' previous claims experience.

Pricing risk in both 2007 and 2006 is deemed moderate.

21.2.3. Claims risk

This is the risk that the number of claims is higher than expected, or that the average claim amount is larger than expected.

In respect of proportional reinsurance this risk is closely connected with the same risk in relation to ceding companies, which may arise due to incorrect assessments made in the course of underwriting, changes in court practice, new types of losses, increasing public awareness of the rights attached to insurance contracts, new human and animal diseases, and macroeconomic changes.

This is particularly important in relation to non-proportional reinsurance, especially with higher layers where the anticipated small number of claims may be exceeded by accident, while natural disasters may also occur as a result of a human intervention in the environment.

This risk is managed by appropriate underwriting, controlling risk concentration in a particular location or geographical area, and especially adequate reinsurance and retrocession programmes.

We consider that there was no material difference in the level of claims risk in 2007 as compared to 2006.

21.2.4. Net retention risk

This is the risk that high (aggregate) losses net of reinsurance due to catastrophic or concentrated claims experience. This risk may arise if the limits for the maximum net retention per risk are set at a too high level or in the event of »shock losses« in which a number of insured properties are damaged. This could happen especially with losses caused by natural perils, which are covered by basic or additional fire insurance or by a policy attached to an underlying fire insurance policy (e.g. business interruption insurance cover and earthquake policy).

Sava Re manages the net retention risk by way of adequate professional underwriting of the risks to be insured, measuring exposure (by aggregating sums insured) by geographic areas relating to a specific natural perils (e.g. earthquake, flood, hail, storm, and such like), conservatively defining the maximum net retention limits, designing appropriate reinsurance programmes and adopting a conservative approach in setting the level of technical reserves.

We consider that there was no material difference in the level of net retention risk in 2007 as compared to 2006.

21.2.5. Reserving risk

This is the risk that technical provisions are inadequate. We consider that this risk does exist, mainly in respect of the claims provision, however, it is minor. New types of losses could occur, which are not excluded in ceding companies' insurance conditions and for which claims provisions are not established yet, which could incur mainly in respect of liability insurance contracts.

Sava Re manages reserving risk by strict adherence to the law and regulations on technical provisions, by applying recognized actuarial methods, critical observation of information, received from ceding companies on reinsurers' shares of their claims provisions and, especially, by adopting a conservative approach in setting the level of technical reserves. Sava Re does not discount the claims provision.

As is generally the case for insurance companies, Sava Re is not able to use triangles of paid losses based on accident year data for actuarial estimations. This is because ceding companies provide information about claims covered under quota share reinsurance by individual underwriting years. In respect of one-year policies written during any one year, claims may occur either in the year in which the policy is written or in the year after. As a result, ceding companies are not able to produce aggregate data for quota share reinsurance broken down by accident years. Ceding companies would normally be able to produce this information for other type of reinsurance. However, for quota shares, this would involve a significant increase in the administrative work-load of the ceding companies.

In line with industry practice, Sava Re analyses data about claims paid by underwriting years and estimates its future liabilities with respect to individual underwriting years by using appropriate actuarial methods. The estimated liabilities relate to claims that have already been incurred (reported and not reported) the settlement of which is provided for within the claims provision, and claims that have not yet been incurred, the settlement of which is covered by unearned premiums. The claims provision is derived by deducting the unearned premium from the estimated future liabilities. The unearned premium is calculated separately.

Due to the above, tables 24 and 25 show the adequacy tests of the claims provision with added unearned premiums set aside in previous years. This test can be applied to past years — the further back in time, the more precise the test method. The test entails comparing the provision originally estimated with the actual liability arising from claims in previous years. Based on the results of the test, and given that the claims provision in 2007 is calculated using the same actuarial method as in previous years, we conclude that the provisions as at 31 December 2007 are adequate.

Outstanding claims provision gross of reinsurance adequacy test

(EUR '000)	Year ended 31 December					
Claims provision plus unearned premiums, gross of reinsurance	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
As originally estimated	87,831	96,346	104,552	119,374	116,218	128,797
Reestimated as of 1 year later	64,490	66,326	73,051	92,911	91,285	
Reestimated as of 2 years later	69,055	68,524	81,057	91,162		
Reestimated as of 3 years later	69,107	71,942	78,388			
Reestimated as of 4 years later	67,872	66,989				
Reestimated as of 5 years later	63,597					
Cumulative redundancy	**24,234**	**29,357**	**26,164**	**28,212**	**24,933**	
Cumulative claims paid						
1 year later	25,804	28,348	33,645	43,068	35,967	
2 years later	37,090	37,628	44,771	52,185		
3 years later	42,603	43,169	49,542			
4 years later	45,159	45,549				
5 years later	46,951					

Note: Amounts in Slovenian tolar have been translated to euro amounts at the rate of EUR 1 = SIT 239.64.

As at the end of 2004, future gross liabilities for all claims incurred in the course of 2004 and for claims which according to the contracts will arise after 31 December 2004, were estimated at EUR 104,552k. This comprise the claims provision (claims already incurred), and unearned premiums (claims to occur after 31 December 2004). In 2005, Sava Re paid a total of EUR 33,645k in respect of claims relating to contracts taken into account in the original calculation of the 2004 provisions. As at 31 December 2005, future liabilities relating to the same contracts were estimated at EUR 39,406k (this amount is not presented in the table). This amount plus the amount of claims paid in 2005 equal the total 2005 estimated liabilities of EUR 73,051k. In the same way, the liabilities as at 31 December 2004 were re-estimated at the end of 2006 and 2007. Given that the cumulative amount of claims paid in 2005, 2006 and 2007 was EUR 49,542k, the 2007 estimate relating to liabilities estimated at the end of 2004 amounts to: EUR 78,388k - 49,542k = EUR 23,846k (this amount is not presented in the table). This estimate will almost certainly differ from the final and currently unknown value of remaining liabilities. However, the difference in absolute terms is very likely to be smaller than the error in the estimate of 31 December 2004. Over the years, the difference reduces as the number of claims remaining open until all claims are settled decreases. This may take ten years or longer for certain classes of insurance.

Outstanding claims provision net of reinsurance adequacy test

(EUR '000)	Year ended 31 December					
Claims provision plus unearned premiums, net of reinsurance	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
As originally estimated	74,662	82,821	85,012	92,696	99,291	107,347
Reestimated as of 1 year later	51,343	50,684	54,333	69,202	70,092	
Reestimated as of 2 years later	51,664	53,192	62,519	66,400		
Reestimated as of 3 years later	52,407	56,789	58,982			
Reestimated as of 4 years later	51,509	51,280				
Reestimated as of 5 years later	46,917					
Cumulative redundancy	**27,744**	**31,541**	**26,031**	**26,295**	**29,199**	
Cumulative claims paid						
1 year later	21,324	23,438	24,576	29,514	28,637	
2 years later	29,653	30,623	33,470	37,890		
3 years later	33,418	35,576	37,749			
4 years later	35,590	37,575				
5 years later	37,107					

Note: Amounts in Slovenian tolar have been translated to euro amounts at the rate of EUR 1 = SIT 239.64.

Sava Re's cumulative redundancy relating to the years from 2002 to 2006, as shown in the table above, represents 37%, 28%, 31%, 28% and 29% of the liabilities as originally estimated. This over-provisioning is the result of prudent estimation methods used and the effect of the unearned premiums. Specifically, if the loss ratio is less than 100%, the unearned premiums have the effect of overstating the cumulative redundancy. The provision re-estimated as of one year later is significantly lower than the liability as originally estimated. However, it does not significantly differ from the provision re-estimated two or more years later. This is due to the effect of the provision for unearned premiums relating to one-year insurance contract the bulk of which is released in the following year.

In respect of those classes of insurance where the sum of claims and cost ratio exceeds 100%, Sava Re sets aside provisions for unexpired risks in addition to unearned premiums.

Tables on the previous page also show the adequacy assessment of technical provisions (or claims provisions) for the year end of 2006. The main diagonal comprising estimates as at 31 December 2007 should be disregarded and the cumulative redundancy re-calculated. However, the comparison between existing and re-calculated data, would be less meaningful than a simple comparison between the estimates on the main diagonal and the estimates above it.

In respect of Sava Re, the cumulative redundancy is stable; and it may be concluded that the reserving risk at the end of 2007 is comparable with the reserving risk at the end of 2006.

21.2.6. Retrocession programme

An adequate retrocession programme is fundamental for managing the underwriting risks to which Sava Re is exposed. The programme is designed to reduce potentially large risk exposures; maximum amounts in tables of limits are used only for the best risks. Sava Re uses reciprocal treaties to diversify risk. Sava Re's net retained insurance portfolio (relating to both Slovenian and foreign ceding companies) is further covered for potentially large losses through a prudently selected non-proportional reinsurance programme.

We consider that Sava Re retrocession programmes for 2007 and 2006 are comparable.

21.2.7. Estimated exposure to underwriting risks

Sava Re's maximum net retentions and its retrocession programmes are of key importance for the estimate of the exposure to underwriting risks. Maximum net retentions for the majority of non-life classes of business amount to EUR 1 million. These are increased to EUR 2 million for fire, natural disasters and other damage to property. In respect of life insurance, maximum net retentions are much lower. In principle, this enables Sava Re to cap any net claim arising out of any single loss event to a maximum of EUR 2 million. In the event of a catastrophe such as flood, hail, storm or even earthquake, the maximum net claim is limited by the priority of the non-proportional reinsurance programme (protection of the net retention), which amounts to EUR 1 million and EUR 3 million (in 2006 2 million) for Slovenia and other countries respectively. These amounts represent the maximum net claim for a single catastrophe event based on reasonable actuarial expectations. Although it is possible that several events of a catastrophe occur in the same year, it is less likely than 0.5% which is, according to Solvency II (the anticipated) allowed risk level which would result in a (re)insurance company to become insolvent in one year. In the case of Sava Re with the stated probability, the most that can be expected are »additional« net claims in the amount of a few million euro, which would have to be charged to equity, but its solvency would not be threatened at all.

If the net combined ratio in the amount of 98.3% (98.6% in 2006) increased/decreased due to higher/lower underwriting risks by one percentage point, net profit before tax would decrease/increase by EUR 936,816 (EUR 825,531 in 2006). An additional maximum net claim of EUR 3 million (EUR 2 million in 2006) would deteriorate the combined ratio by 3.2% in 2007 or 2.4% in 2006, which is deemed acceptable.

The probability that the underwriting risk may seriously undermine the Company's financial stability is deemed, according to our assessment, low in both 2007 and 2006.

21.3. MARKET RISK

The investment policy of Sava Re must be in compliance with local legal requirements. These are set to ensure safety, profitability and liquidity of the investments as well as risk diversification. The Company focuses its investment policy to ensure: liquidity of the investments, appropriate allocation of investments in the liability fund to the technical provisions, and matching of the currency of the investment to that of the respective technical provision.

Sava Re is exposed to market risk in relation to its financial activities in particular: interest rate risk, equity securities risk, foreign exchange risk, investment concentration risk and the risk of financial assets not being appropriately matched to technical provisions. Information on investments in EUR as at 31 December are shown in the table below.

Investment structure as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
Type of investment	Amount	Structure	Amount	Structure
Bond portfolio	113,995,134	40.3%	105,098,951	47.6%
Deposits and money market instruments	26,571,404	9.4%	32,433,074	14.7%
Equity securities	25,142,599	8.9%	10,621,141	4.8%
Investments in subsidiaries and associates	68,816,774	24.3%	43,125,240	19.5%
Mutual funds	32,863,990	11.6%	14,940,566	6.8%
Real estate	728,514	0.3%	4,550,674	2.1%
Other	14,806,890	5.2%	9,941,317	4.5%
Total	**282,925,305**	**100.0%**	**220,710,963**	**100.0%**

21.3.1. Interest rate risk

As Sava Re does not guarantee returns on its liabilities, which do not include mathematical provisions sensitive to interest rate changes, it is not exposed to conventional interest rate risk relating to their assets and liabilities. However, the Company does try to mitigate the risk of change in interest rates which affect the value of its assets and rate of return of its investment portfolio. In 2007 the Company started to implement natural hedging strategy and restructured its bond portfolio (most exposed to changes in market interest rate) to such an extent that the ratio between fixed interest rate bonds and variable rate bonds as at December 31, 2007 stood at 69.68% to 30.32% (end of 2006: 90.75% to 9.25%).

The sensitivity to changes in interest rates can be assessed by moving the yield curve for all maturities by one or two percentage points upwards or downwards, and then calculating how much the value of investments in bonds would change. The effect of a small interest rate change can very well be approximated by knowing the first and the second derivatives of the bond price in relation to the interest rate, or by knowing the duration and convexity.

The average duration of the bond portfolio as at 31 December 2007 is 3.85 years. Our sensitivity analysis shows that an increase in the bond yield curve of 2 percentage points would have the effect of decreasing the value of investments in bonds by EUR 7,700,000 (representing a 6.75% decrease of the value of EUR 114,000,000). If the same sensitivity is also applied to investments in bond mutual funds, mixed mutual funds (with a weight of 0.5) and funds of funds mutual funds (with a weight of 0.5), the value of investments would further decrease by EUR 570,000.

In addition to hedging the interest rate risk of the investment portfolio, Sava Re also actively hedged its financial liabilities, specifically its subordinated variable interest rate debt. In 2007, the Company entered an interest-rate swap contract to hedge the subordinated debt. Owing to favourable market conditions, Sava Re sold the interest swap agreement in August realising a gain of EUR 915,000. In autumn Sava Re entered another interest rate swap agreement to hedge the subordinated debt, thus ensuring a fixed interest rate on subordinated debt.

A comparative sensitivity analysis on financial investments for 2006 was not carried out due to lack of data relating to the bond portfolio. Nevertheless, we consider that in 2007, the level of interest rate risk decreased despite a larger interest rate risk exposure.

21.3.2. Equity securities risk

The Company holds EUR 68,816,774 (2006: EUR 43,125,240) of investments in shares of subsidiaries and associates, EUR 25,142,599 (2006: EUR 10,621,141) of investments in shares of domestic and foreign companies, and EUR 32,863,990 (EUR 14,940,566 in 2006) of investments in mutual funds, of which 52% are equity funds, 42% mixed, 3% bond funds and 3% are funds of funds (in 2006 equity funds accounted for 54% and mixed funds for 46%).

Sava Re maintains or increases the value of its strategic investments in subsidiaries and associates mainly by active management of its subsidiaries and participating in the management of associates. If we assume a 10% decrease in the value of these companies, the value of investments would decrease by EUR 6,900,000 (EUR 4,300,000 in 2006).

Let us assume for mixed mutual funds and funds of funds that one half of the investment value refers to shares and one half to bonds. In this case the amount of EUR 49,600,000 (EUR 22,100,000) is exposed to equity securities risks not related to subsidiaries and associates. The Company mitigates this risk primarily through diversification (in terms of issuer, industry and geographical area), careful monitoring of events in the global financial market, and promptly responding to events affecting global financial market. The Company primarily invests in adequately liquid shares of companies with high market capitalisation.

For the purpose of assessing the sensitivity of investments to the risk of changes in the value of equity securities, not related to subsidiaries and associates, we assume a 10% decrease in the value of equity securities. A decrease of 10% would decrease the value of investments by EUR 4,960,000 (EUR 2,210,000 in 2006). In contrast to bonds, which are not affected linearly by changes in interest rates, other falls in the value of investments in equities and mutual funds can be subject to the linearity principle. In case of a 20% fall the value of investments in equities, not related to subsidiaries and associates, would decrease by EUR 9,920,000 in 2007 and by EUR 4,420,000 in 2006.

Exposure to equity securities risk, not related to subsidiaries and associates, more than doubled in 2007 compared to 2006. When investments in subsidiaries and associates are taken into account, the increase factor was 1.8.

21.3.3. Currency risk

Over the years, Sava Re has been expanding its foreign-sourced business. This has had an effect on the structure of its liabilities by currency. Nonetheless, euro-denominated liabilities still account for more than 93.3% of total liabilities. Liabilities denominated in USD account for 3.7% of total liabilities. Therefore liabilities held in euro or US dollars represent as much as 97% of all liabilities arising out of reinsurance business. Sava Re's investments in the liability fund held in euro and US dollar more than offset the liabilities denominated in these two currencies.

Sava Re ensures that the currencies in which its investments are held are matched to currencies in which liabilities are denominated. In 2007, the Company decreased its currency risk by gradually replacing part of its deposits in domestic banks with foreign debt securities, primarily euro-denominated (in view of the change to the euro on 1 January 2007).

Table 26 shows that Sava Re's currency mismatch totals EUR 2,020,015, representing 1.56% of its gross technical provisions. Given that the surplus of the liability fund over gross technical provisions amounts to EUR 24,976,811, this mismatch could easily be eliminated, even if the euro weakened significantly. Therefore, there is practically no realistic threat of a currency mismatch.

Currency (mis)match as at 31 December 2007 (amounts translated to EUR)

Currency	Liability fund (LF)	Gross technical provisions (GTP)	Mismatch (GTP-LF,0)
AED	277,091	327,669	50,578
BBD	0	29,532	29,532
BGN	0	4,480	4,480
CHF	171,614	108,106	0
CZK	47,750	289,085	241,336
DKK	0	4,996	4,996
EUR	146,498,123	120,867,149	0
GBP	1,086,257	601,924	0
HKD	103,732	469,966	366,234
HRK	139,882	114,135	0
HUF	57,628	91,625	33,997
INR	17,723	27,625	9,902
JPY	900	19	0
KRW	379,742	640,096	260,354
LYD	5,054	4,851	0
MGA	0	11,249	11,249
MKD	0	804	804
MUR	2,235	0	0
PHP	0	1,452	1,452
PLN	13,701	60,511	46,810
RON	5,935	15,167	9,232
SEK	2,317	733,334	731,017
SKK	8,882	63,172	54,290
TRY	90,773	210,194	119,420
UAH	1,651	888	0
USD	5,526,218	4,738,033	0
XCD	23,447	67,780	44,333
Total	**154,460,654**	**129,483,843**	**2.020.015**

As at 31 December 2007, Sava Re held no provision for currency mismatch risks. In 2006, this provision was EUR 38,000. In 2007 this provision was released as it was deemed no longer necessary.

At the end of 2006, Sava Re had EUR 6,700,000 of mismatched investments, including a deficit in Slovenian tolar, and substantial surplus in the euro. In 2007, the currency risk was further reduced, largely due to the transition to the euro as at 1 January 2007.

21.3.4. Concentration risk

Sava Re's investment portfolio is reasonably diversified in accordance with the Insurance Act, implementing regulations and Company internal rules in order to avoid large concentration of a certain type of investment, large concentration of a certain counterparty or industry or other potential forms of concentration. Its assets are placed in investments at more than 230 issuers (deposits, debt securities and equity securities, structured products, mutual funds, etc.), with different duration in domestic and foreign currencies.

The bond portfolio is diversified by issuer. Issuers include Slovenian and foreign government bonds, banks and corporations, as well as Slovenian and foreign issuers. The table below shows the investment structure by market as at 31 December.

Investment structure of bonds by market as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
Market	Amount	Structure	Amount	Structure
Slovenia	61,750,306	54.2%	96,758,350	92.1%
OECD	8,977,222	7.9%	1,127,218	1.1%
EU	42,757,743	37.5%	7,213,383	6.9%
Other	509,864	0.5%	0	0.0%
Total	**113,995,135**	**100.0%**	**105,098,951**	**100.0%**

Equity securities are diversified by issuer, rating and location. The structure of investments in equity securities by location as at 31 December is presented in the table below.

Investment structure in equity securities by location as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
Market	Amount	Structure	Amount	Structure
Slovenia	17,650,811	70.2%	6,134,222	57.8%
OECD	850,911	3.4%	544,139	5.1%
EU	2,423,320	9.6%	1,085,502	10.2%
Other	4,217,557	16.8%	2,857,278	26.9%
Total	**25,142,599**	**100.0%**	**10,621,141**	**100.0%**

Investments in mutual funds are diversified directly, and mainly indirectly due to the nature of equity mutual funds.

Although our concentration risk is deemed low, we are unable to neutralise the (global) systemic risk by diversification only. If, however, we consider local unfavourable trends only, we can conclude from the above table that the exposure to concentration risk decreased in 2007 as a result of a better diversification of the bond portfolio.

21.3.5. Asset/liability mismatch risk

The structure of the investments within the liability fund complies with the Insurance Act, and under the decision by the Insurance Supervision Agency, Sava Re is not obliged to comply with the statutory provision on localisation of the liability fund, intended to cover the liabilities of foreign inwards reinsurance business. As shown in the table below, as at 31 December 2007, the Company reports surplus of the liability fund over gross technical provisions in the amount of EUR 24,976,811.

Gross technical provisions (GTP) compared to investments, cash and receivables of the liability fund as at 31 December 2007

(EUR, except percentages)	Investments (liability fund)	As % of GTP	GTP	Liability fund surplus
Deposits and CDs	15,283,554	11.8%		
Government bonds	32,466,729	25.1%		
Business bonds	37,188,028	28.7%		
Structured products	1,844,239	1.4%		
Shares	3,969,069	3.1%		
Bond mutual funds	0	0.0%		
Other mutual funds	15,888,834	12.3%		
Loans	0	0.0%		
Buildings and land	0	0.0%		
Other	15,000	0.0%		
Strategic shares	0	0.0%		
Receivables and cash	47,805,202	36.9%		
Total	**154,460,654**	**119.3%**	**129,483,843**	**24,976,811**

The table above shows the investment structure, in compliance also with other (specific) restrictions under the Insurance Act.

As at 31 December 2007, the value of the liability fund exceeded gross technical provisions by 19.29%.

Asset/liability matching in terms of duration is at an appropriate level as the average duration of assets is 2.95 years, while the average duration of the majority of liabilities (gross claims provision) is 2.70 years. In this case the average duration of assets even slightly exceeds the average duration of liabilities, which means that the Company is not exposed to reinvestment risk. Due to the large surplus of the liability fund over technical provisions, it is not difficult to find a portion of liability fund which is at least equal to the liabilities and has the same average duration. Table below shows the maturities in respect of investments in bonds in EUR as at 31 December.

Bond maturities as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
Maturity	Amount	Structure	Amount	Structure
0–1 years	11,064,565	9.7%	19,279,797	18.3%
1–5 years	61,059,412	53.6%	32,431,718	30.9%
Over 5 years	41,871,158	36.7%	53,387,436	50.8%
Total	**113,995,135**	**100.0%**	**105,098,951**	**100.0%**

21.4. LIQUIDITY RISK

In order to manage the liquidity risk ,Sava Re regularly calculated the weekly liquidity ratio, which was never less than 1. Throughout 2007 the Company did not have any liquidity problems. One of the ways in which the Company has mitigated the liquidity risk is through investing a large proportion of its funds in highly liquid marketable securities which can be converted to cash at any time. In order to further mitigate the liquidity risk, in 2007 Sava Re signed two loan facilities amounting to EUR 9,000,000 and a call deposit contract, which enables the Company to draw and return liquidity up to a maximum of EUR 400,000 on a daily basis.

Exposure to liquidity risk can be measured by comparing the maximum liability arising as a result of a single extraordinary net claim to the liquidity capacity of the Sava Re. The maximum liability relating to an individual claim is substantially lower than the amount of Sava Re's available liquid funds. In the event of a large single (gross) claim or many small claims arising from a natural disaster, the claims handling period would be substantially longer and Sava Re would have sufficient time to liquidate equity or debt securities to meet any sudden liquidity requirement. Therefore, we consider the liquidity risk to be minimal in both 2007 and 2006.

21.5. CREDIT RISK

Sava Re may be exposed to credit risk in case of a default by issuers of securities and by retrocessionaires.

In accordance with the Insurance Act, implementing regulations and internal regulatory requirements, the Company is allowed to invest cash surpluses only in deposits with banks with high credit rating, debt securities issued exclusively by issuers with an adequate rating, and adequately liquid equity securities of companies with sufficient market capitalisation.

In order to asses the credit risk, the structure of investments by rating is important. The table below shows investments in bonds in EUR as at 31 December.

Investments in bonds according to rating as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
As rated by Moody's/S&P's	Amount	Structure	Amount	Structure
Aaa/AAA	9,319,736	8.2%	1,973,527	1.9%
Aa/AA	47,963,940	42.1%	72,034,951	68.5%
A/A	30,221,451	26.5%	15,023,104	14.3%
Baa/BBB	6,893,069	6.1%	3,414,734	3.3%
Less than Baa/BBB	509,864	0.5%	0	0.0%
Not rated	19,087,075	16.7%	12,652,635	12.0%
Total	**113,995,135**	**100.0%**	**105,098,951**	**100.0%**

More than 82% of investments in bonds refer to securities with a rating that is higher or equal to that of Sava Re. Investments in bonds with such a rating account for more than 33% of the Sava Re investment portfolio.

Total receivables due from reinsurers as at 31 December 2007 amount to EUR 27,603,943 (EUR 25,815,680 in 2006), of which EUR 21,473,196 (EUR 16,927,142 in 2006) refer to the retroceded part of gross technical provisions (EUR 3,117,433 to unearned premiums, EUR 18,332,186 to the claims provision, and EUR 23,577 to other technical provisions), and EUR 6,130,747 (EUR 8,888,538 in 2006) to receivables due from reinsurers for claim payments.

In 2007 total exposure to credit risk relating to retrocessionaires accounted for 7.7% of assets, while in 2006 it accounted for 8.8%. Retrocession programmes are mostly placed with established reinsurers with an adequate rating (at least A- according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). Given the large diversification (Herfindahl index is 0.049 for retroceded part of technical provisions, and 0.066 for receivables due from reinsurers for claim payments), this risk is deemed to be low, and in comparison with 2006 in 2007 it decreased in relative terms.

21.6. OPERATIONAL RISK

Operational risk includes human capital risk, management control risk, system risk, process risk, legal risk. According to our assessment, Sava Re is mostly exposed to risks arising from business disruptions and/or inadequate application of required procedures and internal controls. Management considers that an efficient and effective system of internal controls is of key importance to mitigate the operational risk. This risk is generally associated with other risks (e.g. underwriting, market, etc.), as operational risk increases also other risks. For instance, negligent underwriting can considerably increase underwriting risk.

For the purpose of operational risk management, the Company has put in place adequate IT-supported procedures and controls in the most important areas of its operation. In addition, this risk is managed through the internal audit function, staff training.

Operational risk also comprises political risks. We consider the exposure of Sava Re to political risk to be medium. However, due to the increasing desire of former Yugoslav countries to become members of the EU, we consider that the exposure to this risk, associated mainly with investments in subsidiaries, is decreasing.

We consider that the Group's overall exposure to operational risk decreased in 2007 as compared to 2006.

21.7. IMPLEMENTING SYSTEMATIC RISK MANAGEMENT

Sava Re is implementing risk management on a systematic basis. In 2007, Sava Re prepared a platform for risk management. This entails a classification and identification of risks that it is exposed to. It implemented an IT support which allows to improve the monitoring of investments and part of the underwriting and credit risks. It also introduced other measures for reducing operating risks, especially relating to its IT system.

Sava Re is well aware that the future insurance regulations (Solvency II) will introduce risk based capital calculation. In this regard, in 2007 Sava Re co-operated in a quantitative study QIS3 in which all major risks were evaluated and the Company calculated how much capital would have been required at 31 December 2006 under given assumptions. Through this and other activities, Sava Re contributes in implementing new insurance regulations relating to Solvency II, and as a part of its financial strength rating reviews, Sava Re also assesses the risks to which it is exposed under the Standard and Poor's methodology.

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As from 1 January 2007, insurance companies in Slovenia are legally obliged to make transition to IFRS. Accordingly, the Company prepared its financial statements in line with IFRS for the first time for the business year beginning 1 January 2007. The date of transition to the IFRS reporting is thus 1 January 2006. The adjustments necessary to transit to IFRS as at 1 January 2006 and 31 December 2006 comprise derecognition and reclassification of certain technical provisions, especially the equalization provision, which did not comply with IFRS 4. Thus, the part of the equalization provision relating to credit risk and catastrophes was transferred to other profit reserves (credit risks equalization reserve and catastrophic equalization reserve) and the rest was released to retained earnings.

22.1. OPENING BALANCE SHEET ACCORDING TO IFRS AS AT 1 JANUARY 2006 AND 1 JANUARY 2007

Presented below is the opening balance sheet as at 1 January 2006, the income statement for the year beginning 1 January 2006 and the balance sheet as at 31 December 2006, prepared in accordance with the IFRS.

Opening balance sheet as at 1 January 2006 according to SAS and IFRS and effects of transition to IFRS

(EUR)			SAS	Adjustments	IFRS
			1 January 2006		1 January 2006
		ASSETS	**268,712,693**	**0**	**268,712,693**
A.		Intangible assets	67,442	0	67,442
B.		Property and equipment	1,839,407	0	1,839,407
C.		Non-current assets held for sale	0	0	0
D.		Deferred tax assets	0	0	0
E.		Investment property	4,595,592	0	4,595,592
F.		Investments in associates	28,069,054	0	28,069,054
G.		Financial investments	170,331,787	0	170,331,787
H.		Assets from investment contracts	0	0	0
I.		Reinsurers' share of technical provisions	26,677,803	0	26,677,803
J.		Inventories	0	0	0
K.		Receivables	28,692,337	0	28,692,337
	1.	Receivables arising out of primary insurance business	0	0	0
	2.	Receivables arising out of co-insurance and reinsurance business	26,077,745	0	26,077,745
	3.	Other receivables	2,614,592	0	2,614,592
L.		Other assets	8,230,909	0	8,230,909
M.		Tax receivables	0	0	0
N.		Cash and cash equivalents	208,361	0	208,361
		EQUITY AND LIABILITIES	**268,712,693**	**0**	**268,712,693**
A.		Equity	75,295,529	33,043,438	108,338,967
	1.	Called-up capital	32,809,710	0	32,809,710
	2.	Share premium	106,162	0	106,162
	3.	Profit reserves	34,522,717	5,044,836	39,567,553
	4.	Revaluation surplus	2,953,727	0	2,953,727
	5.	Retained earnings	2,319,548	29,350,683	31,670,231
	6.	Net profit for the period	2,583,664	–1,352,080	1,231,584
B.		Subordinated liabilities	0	0	0
C.		Technical provisions	161,743,960	–41,406,657	120,337,303
	1.	Unearned premiums	29,793,300	0	29,793,300
	2.	Mathematical provision	0	0	0
	3.	Provision for outstanding claims	89,580,258	0	89,580,258
	4.	Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	0
	5.	Other technical provisions	42,370,403	–41,406,657	963,746

D.		Other provisions	195,431	0	195,431
E.		Liabilities related to non-current assets held for sale	0	0	0
F.		Deffered tax liabilities	769,798	8,363,218	9,133,017
G.		Financial liabilities	318	0	318
	1.	Liabilities from investment contracts	0	0	0
	2.	Other financial liabilities	318	0	318
H.		Other liabilities	30,707,657	0	30,707,657
	1.	Liabilities from primary insurance business	0	0	0
	2.	Liabilities from co-insurance and reinsurance business	28,558,351	0	28,558,351
	3.	Diverse liabilities	2,149,306	0	2,149,306
I.		Current income tax liabilities	0	0	0
		OFF BALANCE SHEET LIABILITIES	**4,980,961**	**0**	**4,980,961**

The effect of the transition to IFRS is disclosed within the items equity, technical provisions and deferred tax liabilities. In previous years, the Company formed equalization provisions in accordance with the provisions of the IA, and, additionally, provisions for nuclear risks, earthquake and credit risks. Under IFRS, the Company is no longer allowed to establish such provisions. Therefore, on 1 January 2006, the Company made an adjustment in the financial statements to release the equalization provision and provision for nuclear risk to retained earnings. The provisions for credit risks and the earthquake provision were transferred from provisions to profit reserves, forming credit risk reserves and catastrophe risk reserves. As provisions were released to retained earnings, which were expenses deductible for tax purposes upon their formation, the Company recognised deferred tax liabilities. In accordance with the provisions of the Income Tax Act, this tax will be payable in three consecutive annual instalments.

The effect of transition to IFRS on technical provisions as at 1 January 2006 (EUR)

Other technical provisions as at 1 January 2006 under SAS	**42,370,403**
Cancellation of the equalization provision	–26,953,711
Cancellation of the provision for nuclear risks	–9,408,111
Transfer of the earthquake provision to other profit reserves	–144,066
Transfer of the provision for credit risks to other profit reserves	–4,900,770
Other technical provisions as at 1 January 2006 under IFRS	**963,745**

The effect of transition to IFRS on profit reserves as at 1 January 2006 (EUR)

Profit reserves as at 1 January 2006 under SAS	**34,522,717**
Transfer of the earthquake provision to other profit reserves	144,066
Transfer of the provision for credit risks to other profit reserves	4,900,770
Profit reserves as at 1 January 2006 under IFRS	**39,567,553**

The effect of transition to IFRS on retained earnings as at 1 January 2006 (EUR)

Retained earnings as at 1 January 2006 under SAS	**2,319,548**
Cancellation of the provision for credit risks	777,134
Cancellation of the equalization provision	21,459,620
Cancellation of the provision for nuclear risks	7,113,929
Retained earnings as at 1 January 2006 under IFRS	**31,670,231**

The effect of transition to IFRS on net profit as at 1 January 2006 (EUR)

Net profit as at 1 January 2006 under SAS	**2,583,664**
Effect of change in the provision for credit risks	–777,134
Effect of change in the equalization provision	–705,262
Effect of change in the provision for nuclear risks	130,316
Net profit as at 1 January 2006 under IFRS	**1,231,584**

The effect of transition to IFRS on deferred tax liabilities as at 1 January 2006 (EUR)

Deferred tax liabilities as at 1 January 2006 under SAS	**769,798**
Cancellation of the equalization provision	6,199,353
Cancellation of the provision for nuclear risks	2,163,865
Deferred tax liabilities as at 1 January 2006 under IFRS	**9,133,017**

Balance sheet as at 31 December 2006 under SAS and IFRS, and the effect of transition to IFRS in the period 1 January to 31 December 2006

(EUR)			SAS 31 December 2006	Adjustments	IFRS 31 December 2006
		ASSETS	**293,419,902**	**0**	**293,419,902**
A.		Intangible assets	75,066	0	75,066
B.		Property and equipment	1,891,151	0	1,891,151
C.		Non-current assets held for sale	3,811,863	0	3,811,863
D.		Deferred tax assets	169,169	0	169,169
E.		Investment property	738,811	0	738,811
F.		Investments in associates	44,710,952	0	44,710,952
G.		Financial investments	174,303,623	0	174,303,623
H.		Assets from investment contracts	0	0	0
I.		Reinsurers' share of technical provisions	16,927,142	0	16,927,142
J.		Inventories	0	0	0
K.		Receivables	34,545,645	0	34,545,645
	1.	Receivables arising out of primary insurance business	0	0	0
	2.	Receivables arising out of co-insurance and reinsurance business	32,330,785	0	32,330,785
	3.	Other receivables	2,214,860	0	2,214,860
L.		Other assets	9,000,542	0	9,000,542
M.		Tax receivables	0	0	0
N.		Cash and cash equivalents	7,245,938	0	7,245,938
		EQUITY AND LIABILITIES	**293,419,902**	**0**	**293,419,902**
A.		Equity	86,560,610	31,363,399	117,924,009
	1.	Called-up capital	32,809,710	0	32,809,710
	2.	Share premium	106,162	0	106,162
	3.	Profit reserves	40,179,368	4,524,830	44,704,197
	4.	Revaluation surplus	2,957,098	0	2,957,098
	5.	Retained earnings	4,852,902	28,518,610	33,371,512
	6.	Net profit for the period	5,655,371	–1,680,041	3,975,330
B.		Subordinated liabilities	11,614,395	0	11,614,395
C.		Technical provisions	156,809,928	–39,380,114	117,429,814
	1.	Unearned premiums	33,040,080	0	33,040,080
	2.	Mathematical provision	0	0	0
	3.	Provision for outstanding claims	83,177,693	206,216	83,383,909
	4.	Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	0
	5.	Other technical provisions	40,592,155	–39,586,330	1,005,825
D.		Other provisions	191,801	0	191,801
E.		Liabilities related to non-current assets held for sale	0	0	0
F.		Deffered tax liabilities	881,921	8,016,715	8,898,636
G.		Financial liabilities	0	0	0
	1.	Liabilities from investment contracts	0	0	0
	2.	Other financial liabilities	0	0	0
H.		Other liabilities	36,200,271	0	36,200,271
	1.	Liabilities from primary insurance business	0	0	0
	2.	Liabilities from co-insurance and reinsurance business	28,342,213	0	28,342,213
	3.	Diverse liabilities	7,858,058	0	7,858,058
I.		Current income tax liabilities	1,160,975	0	1,160,975

The effect of transition to IFRS on technical provisions as at 31 December 2006 (EUR)

Other technical provisions as at 31 December 2006 under SAS	40,592,155
Cancellation of the equalization provision	–25,581,623
Cancellation of the provision for nuclear risks	–9,479,877
Transfer of the earthquake provision to other profit reserves	–401,193
Transfer of the provision for credit risks to other profit reserves	–4,123,636
Other technical provisions as at 31 December 2006 under IFRS	**1,005,825**

The effect of transition to IFRS on the outstanding claims provision as at 31 December 2006 (EUR)

Outstanding claims provision as per 31 December 2006 under SAS	83,177,693
Additions to the IBNR claims provision	206,216
Outstanding claims provision as at 31 December 2006 under IFRS	**83,383,909**

The effect of transition to IFRS on profit reserves as at 31 December 2006 (EUR)

Profit reserves as at 31 December 2006 under SAS	40,179,368
Transfer of the earthquake provision to other profit reserves	401,193
Transfer of the provision for credit risks to other profit reserves	4,123,636
Profit reserves as at 31 December 2006 under IFRS	**44,704,197**

The effect of transition to IFRS on retained earnings as at 31 December 2006 (EUR)

Retained earnings as at 31 December 2006 under SAS	4,852,902
Cancellation of the equalization provision	20,754,357
Cancellation of the provision for nuclear risks	7,244,245
Cancellation of the provision for credit risks	777,134
Additions to the earthquake provision	–257,127
Retained earnings as at 31 December 2006 under IFRS	**33,371,511**

The effect of transition to IFRS on net profit as at 31 December 2006 (EUR)

Net profit as at 31 December 2006 under SAS	5,655,371
Change in the equalization provision	–1,056,508
Change in the provision for nuclear risks	55,260
Change in the provision for credit risks	–777,134
Change in the earthquake provision	257,127
Additions to the IBNR claims provision	–158,786
Net profit as at 31 December 2006 under IFRS	**3,975,331**

The effect of transition to IFRS on deferred tax liabilities as at 31 December 2006 (EUR)

Deferred tax liabilities as at 31 December 2006 under SAS	881,921
Cancellation of the equalization provision	5,883,773
Cancellation of the provision for nuclear risks	2,180,372
Additions to the IBNR claims provision	–47,430
Deferred tax liabilities as at 31 December 2006 under IFRS	**8,898,636**

Income statement for the period 1 January to 31 December 2006 under SAS and IFRS, and the effect of transition to IFRS in the same period

(EUR)	SAS	Adjustments	IFRS
	1 January–31 December 2006		1 January–31 December 2006
I. Net earned premiums	82,553,053	0	82,553,053
– Gross premiums written	103,903,448	0	103,903,448
– Written premiums ceded to reinsurers and co-insurers	–17,721,988	0	–17,721,988
– Change in unearned premiums	–3,628,407	0	–3,628,407
II. Income from investments in affiliates	103,444	0	103,444
III. Investment income	12,354,310	0	12,354,310
IV. Other technical income, of this	–21,542,929	0	–21,542,929
– Commission income	–21,758,717	0	–21,758,717
V. Other income	1,026,216	0	1,026,216
VI. Net insurance claims and benefits incurred	–54,918,985	–206,216	–55,125,201
– Gross claims and benefits paid	–71,194,242	0	–71,194,242
– Reinsurers' and co-insurers' share of claims and benefits paid	19,241,727	0	19,241,727
– Change in the provision for outstanding claims	–2,966,470	–206,216	–3,172,686
VII. Change in other technical provisions	1,778,248	–1,836,834	–58,586
VIII. Change in liabilities relating to investment contracts	0	0	0
IX. Bonuses and rebates	0	0	0
X. Operating expenses, of this	–4,497,541	0	–4,497,541
– Acquisition costs	0	0	0
XI. Expenses relating to investments in affiliates	0	0	0
XII. Investment expenses	–1,818,156	0	–1,818,156
XIII. Other technical expenses	–130,764	0	–130,764
XIV. Other expenses	–333,619	0	–333,619
XV. Profit before tax	14,573,277	–2,043,050	12,530,227
XVI. Current tax	–3,430,424	0	–3,430,424
XVII. Deferred tax	169,169	363,010	532,179
Profit for the period	11,312,022	–1,680,040	9,631,982

The effect of change in the outstanding claims provision on net profit/loss for the period (EUR)

Change in the outstanding claims provision as at 31 December 2006 under SAS	-2,966,470
Additions to the IBNR claims provision	–206,216
Change in the outstanding claims provision as at 31 December 2006 under IFRS	**–3,172,686**

The effect of change in other technical provisions on net profit/loss for the period (EUR)

Change in other technical provisions as at 31 December 2006 under SAS	1,778,248
Cancellation of the equalization provision	–1,372,088
Cancellation of the provision for credit risks	–777,134
Cancellation of the provision for nuclear risks	55,260
Cancellation of the earthquake provision	257,127
Change in other technical provisions as at 31 December 2006 under SAS	**–58,586**

The effect of change in deferred tax liabilities on net profit/loss for the period (EUR)

Deferred tax liabilities as at 31 December 2006 under SAS	169,169
Recognition of deferred tax liabilities associated with the equalization provision	315,580
Recognition of deferred tax liabilities associated with IBNR outstanding claims provision	47,430
Deferred tax liabilities as at 31 December 2006 under IFRS	**532,179**

23. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In its meeting on 24 January 2008, the Board of Directors of the Slovenian Restitution Fund ("SRF") gave its approval to starting the procedure of selling part of its holdings in Sava Re through an initial Public Offering ("IPO"). In accordance with a resolution adopted by the Sava Re Supervisory Board in December 2007 on approval in principle to a capital increase of up to EUR 80 million, the SRF Board of Directors also approved the capital increase to be effected without its participation. SRF aims to retain 25% plus one share of the Company after capital increase. Accordingly, the Company initiated procedures for an IPO in January 2008.

On 5 and 5 March 2008, the Company sold 17,739 shares in Triglav, realising capital gains of EUR 5.3 million.

On 13 March 2008, the Sava Re Board of Management convened a general meeting of shareholders to be held on 14 April 2008. In accordance with the proposal by the Board of Management, the general meeting is to decide on the change of the Company's articles of association, specifically, on giving authorisation to the Board of Management for a capital increase of up to 50%.

On successful completion of the IPO process, the Company will be liable to report in accordance with the Slovenian Market in Financial Instruments Act. The reporting requirements of public companies are different from those the Company has had to comply with under the CA and the IA. Since the Company prepares its financial statements on the basis of reinsurance accounts that are finalised with a significant delay after the cut-off date, the Company will, in the first five months of 2008, set the basis for the transition to a new system of accounting and reporting reinsurance business based on estimates. This is the only way in which the Company will be able to meet its reporting requirements.

24. NOTES TO THE FINANCIAL STATEMENTS – BALANCE SHEET

The Company makes additional disclosures for balance sheet items in excess of 1% of the balance sheet total.

1) Intangible assets

Movements in cost and accumulated amortization of intangible assets in 2007

(EUR)	Cost		
Item	As at 1 January	Additions	As at 31 December
Intangible assets	161,764	135,979	297,743
Other long-term deffered costs and accured income	0	4,967	4,967
Total	**161,764**	**140,946**	**302,710**

(EUR)	Accumulated amortization			Net book value	Net book value
Item	As at 1 January	Additions	As at 31 December	As at 31 December	As at 1 January
Intangible assets	112,574	27,996	140,570	157,173	49,190
Other long-term deffered costs and accured income	0		0	4,967	0
Total	**112,574**	**27,996**	**140,570**	**162,140**	**49,190**

Intangible assets increased due to acquisition of software supporting investment administration and management.

Movements in cost and accumulated amortization of intangible assets in 2006

(EUR)	Cost		
Item	As at 1 January	Additions	As at 31 December
Intangible assets	136,886	24,878	161,764
Total	**136,886**	**24,878**	**161,764**

(EUR)	Accumulated amortization			Net book value	Net book value
Item	As at 1 January	Additions	As at 31 December	As at 31 December	As at 1 January
Intangible assets	95,320	17,254	112,574	49,190	41,566
Total	**95,320**	**17,254**	**112,574**	**49,190**	**41,566**

2) Property and equipment

Movements in cost and accumulated depreciation of property and equipment in 2007

(EUR)	Cost			
Item	As at 1 January	Additions	Disposals	As at 31 December
Land directly used in insurance activities	103,949	0	0	103,949
Buildings directly used in insurance activities	1,631,566	0	0	1,631,566
Other land and buildings directly used in insurance activities	0	0	0	0
Equipment	1,149,806	169,766	–180,206	1,139,366
Other property, plant and equipment	125,519	0	–43,533	81,986
Total	**3,010,840**	**169,766**	**–223,739**	**2,956,867**

(EUR)	Accumulated depreciation				Net book value	
Item	As at 1 January	Additions	Disposals	As at 31 December	As at 31 December	As at 1 January
Land directly used in insurance activities	0	0	0	0	103,949	103,949
Buildings directly used in insurance activities	217,802	21,209	0	239,011	1,392,555	1,413,764
Other land and buildings directly used in insurance activities	0	0	0	0	0	0
Equipment	850,147	79,329	–150,676	778,800	360,566	299,659
Other property, plant and equipment	51,740	1,414	–21,566	31,588	50,398	73,779
Total	**1,119,689**	**101,952**	**–172,242**	**1,049,399**	**1,907,468**	**1,891,151**

The net carrying amount of property and equipment did not change significantly compared with a year ago, except maybe for equipment and other property and equipment assets, while disposals relate mainly to company cars that were sold during the year.

Movements in cost and accumulated depreciation of property and equipment in 2006 (EUR)

(EUR)	Cost				
Item	As at 1 January	Additions	Disposals	Reclassifications	As at 31 December
Land directly used in insurance activities		0	0	103,949	103,949
Buildings directly used in insurance activities	1,735,515	0	0	–103,949	1,631,566
Other land and buildings directly used in insurance activities	0	0	0	0	0
Equipment	1,064,771	142,052	–57,017	0	1,149,806
Other property, plant and equipment	53,861		–240	71,898	125,519
Total	**2,854,147**	**142,052**	**–57,257**	**71,898**	**3,010,840**

(EUR)	Accumulated depreciation					Net book value	
Item	As at 1 January	Additions	Disposals	Reclassifications	As at 31 December	As at 31 December	As at 1 January
Land directly used in insurance activities	0	0	0	0	0	103,949	0
Buildings directly used in insurance activities	196,592	21,210	0	0	217,802	1,413,764	1,538,923
Other land and buildings directly used in insurance activities	0	0	0	0	00	0	0
Equipment	845,022	62,002	–56,877	0	850,147	299,659	219,749
Other property, plant and equipment	25,952	5,417	0	20,371	51,740	73,779	27,909
Total	**1,067,566**	**88,629**	**–56,877**	**20,371**	**1,119,689**	**1,891,151**	**1,786,581**

3) Defferred tax assets

In 2006 the Company decided to recognise deferred tax assets for value adjustments of receivables which are not deductible for tax purposes and for value adjustments of investments arising in 2005, which are not deductible for tax purposes. Deferred tax assets amounted to EUR 169,169 at 31 December 2006.

Deferred tax assets in 2007

(EUR)	As at 31 December
Long-term financial investments	118,436
Short-term operating receivables	13,368
Total	**131,804**

(EUR)	Offset balance as at 1 January	Recognised in the IS	Offset balance as at 31 December
Long-term financial investments	151,130	–32,694	118,436
Short-term operating receivables	18,039	–4,671	13,368
Total	**169,169**	**–37,365**	**131,804**

In 2007 the Company reduced deferred tax assets by EUR 37,365 on account of derecognition of value adjustments of an account receivable and an investment that were repaid, which were not deductible for tax purposes on recognition. Deferred tax assets thus stood at EUR 131,804 as at year-end.

4. Investment property

Movements in cost and accumulated depreciation of investment property in 2007

(EUR)	Cost	
Item	As at 1 January	As at 31 December
Land	52,695	52,695
Buildings	792,047	792,047
Total	**844,742**	**844,742**

(EUR)	Accumulated depreciation			Net book value	
Item	As at 1 January	Additions	As at 31 December	As at 31 December	As at 1 January
Land	0	0	0	52,695	52,695
Buildings	105,931	10,297	116,228	675,819	686,116
Total	**105,931**	**10,297**	**116,228**	**728,514**	**738,811**

Movements in cost and accumulated depreciation of investment property in 2006

(EUR)	Cost			
Item	As at 1 January	Disposals	Reclassifications	As at 31 December
Land	0	0	52,695	52,695
Buildings	4,882,737	–4,037,995	–52,695	792,047
Total	4,882,737	–4,037,995	0	844,742

(EUR)	Accumulated depreciation				Net book value	
Item	As at 1 January	Additions	Disposals	As at 31 December	As at 31 December	As at 1 January
Land	0	0	0	0	52,695	0
Buildings	234,320	44,919	–173,307	105,931	686,116	4,648,418
Total	**234,320**	**44,919**	**–173,307**	**105,931**	**738,811**	**4,648,418**

Investment property assets comprise offices in the Bežigrajski dvor building at Dunajska 56 in Ljubljana, which the Company has leased out for an indefinite period of time.

In 2006 the Company signed an agreement for the sale of premises at Celovška 165 in Ljubljana, classified as investment property. Consequently, it reclassified the said premises as non-current assets held for sale on 31 December 2006. The sale was realised in the autumn 2007.

The Company earned EUR 127,139 by leasing its investment property in 2007. At the same time, it incurred EUR 40,515 by repairing and maintaining the leased investment property assets that generated income in the accounting period.

5) Investments in shares of Group companies and associates

Investments in shares of Group companies in 2007

(EUR, except percentages)	As at 1 January		Acquisitions		Disposals		Impa-rement (-)	As at 31 December		
	Share (%)	Amount	Share	Amount	Share (-)	Amount (-)		Share (%)	Amount	Voting rights (%)
Zavarovalnica Tilia d.d. Novo mesto	99,61	10,670,551	0,02	1,670,125				99,63	12,340,676	99,63
Sava Osiguranje, a.d.o., Belgrade	99,99	12,313,922		139,699		–30		99,99	12,453,591	99,99
Dukagjini kompania e sigurimeve sh.k.p. Priština	51,00	6,013,311		102,000				51,00	6,115,311	51,00
Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje			66,70	8,499,122				66,70	8,499,122	66,70
Montenegro osiguranje a.d., Podgorica			99,92	15,280,618				99,92	15,280,618	99,92
Total		**28,997,784**		**25,691,564**		**–30**	**0**		**54,689,318**	

Investments in shares of associates in 2007

(EUR, except percentages)	As at 1 January		Acquisitions		Disposals		Impare-ment (-)	As at 31 December		
	Share (%)	Amount	Share	Amount	Share (-)	Amount (-)		Share (%)	Amount	Voting rights (%)
Zavarovalnica Maribor d.d., Maribor	45,79	13,416,845						45,79	13,416,845	45,79
Moja naložba d.d., Maribor	20,00	710,610						20,00	710,610	20,00
Total		**14,127,455**		**0**		**0**	**0**		**14,127,455**	

Investments in debt instruments of Group companies in 2007

(EUR)	Type of debt instrument	As at 31 December
Zavarovalnica Tilia d.d. Novo mesto	Bond ZTI1	1,670,523
Sava Osiguranje, a.d.o., Belgrade	loan	1,500,000
Dukagjini kompania e sigurimeve sh.k.p. Priština	loan	500,000
Total		**3,670,523**

Features of the bond issued by Tilia

a subordinated bond in the amount of EUR 1,670,523 at effective interest rate, with principal repayable on maturity
interest rate – base rate of interest + 4%
interest payment date – 19 January and 19 July
bond maturity date – 19 July 2009

Features of loans granted to Sava Osiguranje

1. loan in the amount of EUR 1,000,000:
principal repayable on maturity
interest rate – 6-month Euribor + 105 basis points (act/360)
interest grace period until 1 June 2009, when the debtor shall pay all interest incurred from the loan draw-down date to 1 June 2009
variable interest rate (reviewed semi-annually) despite the interest grace period
interest payment date – 1 June and 1 December each year after 1 June 2009
loan draw-down date – 21 May 2007
loan maturity date – 1 June 2015

2. loan in the amount of EUR 500,000:
principal repayable on maturity
interest rate – 6-month Euribor + 105 basis points (act/360)
loan draw-down date – 21 May 2007
interest payment date – 1 January and 1 December
loan maturity date – 1 June 2015

Features of a loan granted to Dukagjini

- a loan in the amount of EUR 500,000, with principal repayable on maturity
- Interest rate – 5% p.a. (act/360)
- loan draw-down date – 29 October 2007
- interest payment date – on maturity
- loan maturity date – 29 April 2008
- the debtor has the right to partial or full early repayment by giving a two days notice to the creditor

6) Financial investments

Financial investments in 2007

(EUR)	Held-to-maturity		At fair value through profit or loss					
			Non-derivative					
	Net carrying amount	Fair value	Held for trading	Designated at fair value through P/L	Derivative	Availabe-for-sale	Loans and receivalbes	Total
Long-term financial investments								
Equity and other variable income securities and mutual funds	0	0	0	0	0	67,737,043	0	67,737,043
Debt and other fixed income securities	0	0	0	1,037,160	0	88,080,938	0	89,118,098
Shares in investment funds	0	0	0	0	0	873,760	0	873,760
Other financial investments	0	0	0	0	15,000	340,000	0	355,000
Bank deposits	0	0	0	0	0	0	2,145,334	2,145,334
Short-term financial investments								
Held for trading shares and interests	0	0	3,747,063	0	0	0	0	3,747,063
Held for trading securities or securities with a remaining maturity of less than one year	0	0	0	0	0	30,427,082	0	30,427,082
Bank deposits	0	0	0	0	0	0	15,302,400	15,302,400
Other short-term financial investments	0	0	0	0	0	0	3,720	3,720
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	0	5,900,793	5,900,793
Total	**0**	**0**	**3,747,063**	**1,037,160**	**15,000**	**187,458,823**	**23,352,246**	**215,610,292**

In 2007, the Company did not re-classify its financial investments. The Company has none of its financial assets pledged.

None of the financial instruments was impaired.

Under reinsurance contracts, cedants are entitled to retain, usually for a period of one year, a portion of the reinsurance premium. Receivables so arising amounted to EUR 5,900,793 and were included under loans granted and deposits made.

Financial investments in 2006

(EUR)	Held-to-maturity		At fair value through profit or loss					
			Non-derivative					
	Net carrying amount	Fair value	Held for trading	Designated at fair value through P/L	Derivative	Availablbe-for-sale	Loans and receivables	Total
Long-term financial investments								
Equity and other variable income securities and mutual funds	0	0	0	0	0	23,086,414	0	23,086,414
Debt and other fixed income securities	0	0	0	1,075,400	0	77,661,687	0	78,737,087
Shares in investment funds	0	0	0	0	0	969,090	0	969,090
Other financial investments	0	0	0	0	0	0	0	0
Bank deposits	0	0	0	0	0	0	5,266,371	5,266,371
Short term financial investments								
Held for trading shares and interests	0	0	1,513,095	0	0	0	0	1,513,095
Held for trading securities or securities with a remaining maturity of less than one year	0	0	0	0	0	32,272,233	0	32,272,233
Bank deposits	0	0	0	0	0	0	26,840,501	26,840,501
Other short-term financial investments	0	0	0	0	0	0	0	0
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	0	5,618,832	5,618,832
Total	**0**	**0**	**1,513,095**	**1,075,400**	**0**	**133,989,424**	**37,725,704**	**174,303,623**

Loans and receivables, mainly comprising bank deposits, decreased significantly. Financial assets at fair value through profit or loss, comprising mainly shares traded on a daily basis, increased the most.

Investments in subordinated debt instruments in 2006 and 2007

(EUR)	Symbol	As at 31 December 2007	As at 31 December 2006
Bond Abanka 4th issue	AB04	0	1,209,114
Bond Abanka 6th issue	AB06	437,984	445,873
Bond Banke Domžale 1st issue	BDM1	527,131	486,901
Bond Factor banke 15th issue	FB15	838,215	834,001
Bond NLB 13th issue	NLB13	1,141,303	1,191,788
Bond NLB	NLB Float	4,474,800	4,663,124
Bond Probanka 8th issue	PRB8	2,017,951	2,000,000
Bond Zavarovalnica Tilia 1st issue	ZTI1	1,670,523	1,585,712
Bond Zavarovalnica Triglav 1st issue	ZT01	340,173	336,968
Bond ING Bank	INTNED 5 7/8 02/11	445,683	436,083
Bond Dexia BIL	DEXGRP 5 5/8 03/08	238,643	231,760
Bond Banke Celje 11th issue	BCE11	2,971,507	0
Total		**15,103,914**	**13,421,324**

The share of subordinated instruments in the total financial investments decreased to 5.57% (2006: 6.16%).

7) Reinsurers' share of technical provisions

Reinsurers' share of technical provisions in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
From unearned premiums	3,117,433	2,105,940	148.0
From mathematical provisions	0	0	–
From provisions for claims outstanding	18,332,186	14,821,202	123.7
From provisions for bonuses and rebates	0	0	–
From other technical provisions	23,576	0	–
Total	**21,473,195**	**16,927,142**	**126.9**

The reinsurers' share of unearned premiums increased in line with the growth of premiums for proportional retrocession, which accounted for the bulk of unearned premiums. The increase in the reinsurers' share of the provision for outstanding claims relates to the catastrophe protection of Save Re the priority of which was exceeded due to windstorm Kyrill. The retrocession relief from that cover has not been settled yet. The reinsurers' share of other technical provisions comprise the additional unexpired risk reserve on the level of the retroceded portfolio. The calculation of this provision constitutes also an adequacy test of unearned premiums, as described in section 26.20.

8) Receivables

At 31 December 2007, the total receivables were just 2.7% above those from a year ago. The majority were receivables from reinsurance contracts, invoiced in the fourth quarter of 2007 but falling due only in 2008. Receivables from reinsurers' shares decreased significantly.

Receivables of the Company relating to reinsurance contracts are not specifically secured, neither do they represent a substantial exposure. As at the balance sheet date, the Company did not have long-term receivables.

Receivables in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
Receivables for premiums arising out of reinsurance	26,963,464	23,442,247	115.0
Receivables for shares in claims	6,130,747	8,888,538	69.0
Receivables for commsission	1,929,796	1,575,194	122.5
Receivables arising out of investments	200,483	437,125	45.9
Other receivables	260,355	202,541	128.5
Total	**35,484,845**	**34,545,645**	**102.7**

9) Receivables by maturity (excluding from Group companies)

Receivables in 2007 by maturity

(EUR)	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	16,500,304	2,665,639	1,675,763	20,841,706
Receivables for reinsurers' shares in claims	4,500,004	550,664	1,080,079	6,130,747
Other short-term operating receivables	1,388,435	137,552	403,809	1,929,796
Receivables arising out of investments	185,513	9,461	5,509	200,483
Other receivables	128,176	3,075	86,860	218,111
Total	**22,702,432**	**3,366,391**	**3,252,020**	**29,320,843**

Receivables in 2006 by maturity

(EUR)	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	18,360,821	1,281,902	653,789	20,296,512
Receivables for reinsurers' shares in claims	7,653,445	658,621	576,472	8,888,538
Other short-term operating receivables	1,139,344	212,534	223,316	1,575,194
Receivables arising out of investments	433,197	508	3,420	437,125
Other receivables	55,961	81,328	91,128	228,417
Total	**27,642,768**	**2,234,893**	**1,548,125**	**31,425,786**

10) Movements in provision

Movements in provision in 2007

(EUR)	As at 1 January	Released	Formed	As at 31 December
Receivables for premiums arising out of reinsurance assumed	91,173	1,595	289	89,867
Receivables for reinsurers' shares in claims	63,453	17,696	0	45,757
Other short-term operating receivables	4,253	0	0	4,253
Receivables arising out of investments	88	0	0	88
Total	**158,967**	**19,291**	**289**	**139,965**

In 2007, provisions increased due to restatement at the exchange rate as at 31 December 2007.

Movements in provision in 2006

(EUR)	As at 1 January	Released	Formed	As at 31 December
Receivables for premiums arising out of reinsurance assumed	95,840	4,765	98	91,173
Receivables for reinsurers' shares in claims	227,446	163,993	0	63,453
Other short-term operating receivables	4,253	0	0	4,253
Receivables arising out of investments	88	0	0	88
Total	**327,627**	**168,758**	**98**	**158,967**

11) Other assets

The most important item of other assets is deferred reinsurance commission charged in 2007 but relating to 2008.

Other assets in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
Defered commision from inwards reinsurance in Slovenia and abroad	9,019,489	7,072,884	127.5
Defered commision from outwards reinsurance in Slovenia and abroad	–550,004	–361,133	152.3
Total	**8,469,485**	**6,711,751**	**126.2**

12) Cash and cash equivalents

This item of the balance sheet and the cash flow statement comprises balances in transaction accounts and overnight deposit accounts. As at 31 December 2007, the Company had two overnight deposits of EUR 98 thousand.

13) Equity

In the General Meeting held in August 2007, the amendments to the Articles of Association of Sava Re, whereby the Company changed to the system of no-par value shares, were adopted. At 31 December 2007, the share capital of the Company was divided into 7,862,519 no-par value shares. All shares are ordinary shares, of the same class and are registered. The holders of ordinary shares are entitled to participate in the control of the Company and are entitled to part of the profit (dividend).

At the end of 2007and 2006, the Company had 21 shareholders, the same number as a year ago.

Pursuant to the Resolution of the General Meeting, the Company declared a EUR nil dividend in 2007.

14) Share premium

The share premium was EUR 106,162, resulting from a reversal of the general equity revaluation adjustment in 2006.

15) Profit reserves

Reserves provided for by the Articles of Association total EUR 11,475,547. In 2006 they reached the maximum amount prescribed by the Articles of Association. Legal reserves were EUR 3,510,978. This amount has not changed since 2006.

Reserves provided for by the articles of association are used for:

- covering net losses that cannot be completely covered through retained earnings and other profit reserves (additional protection of capital);
- increasing share capital from Company's internal resources;
- supporting the Company's dividend policy.

As required by IFRS, the Company does not set aside the equalization provision. However, pursuant to the IA, the Company is obliged to set aside provisions for credit risks and provisions for catastrophe losses (earthquake). In order to comply with statutory requirements, the Company discloses this provisions within profit reserves as a credit risk equalization reserve and catastrophe equalization reserve. These are formed by allocation of profit as decided by the Board of Management. The credit risk equalization reserve is calculated in accordance with the IA and applicable executive acts; the earthquake reserve is calculated in accordance with the Rules on technical provisions.

Profit reserves in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
Legal reserves and reserves provided for in the articles of association	14,986,525	14,986,525	100.0
Reserve for treasury shares	1,774	1,774	100.0
Treasury shares (as deduction item)	–1,774	–1,774	100.0
Credit risk equalization reserve	3,669,552	4,123,636	89.0
Catastrophe equalization reserve	1,028,204	401,193	256.3
Other profit reserves	35,701,116	25,192,843	141.7
Total	**55,385,397**	**44,704,197**	**123.89**

16) Treasury shares acquired

In 2007, the Company made no transactions with treasury shares. As at 31 December 2007, it held 210 treasury shares.

17) Revaluation surplus

Revaluation surplus comprises exclusively the effect of fair value revaluation of financial assets available for sale.

Movements in revaluation surplus

(EUR)	2007	2006
As at 1 January	**2,957,098**	**2,953,727**
Increase due to fair value increase	22,436,327	117,485
Transfer of revaluation surplus to operating and financial income on disposal	–12,901,727	–114,114
As at 31 December	**12,491,698**	**2,957,098**

The table shows movements in revaluation surplus, which is an equity component. Based on it, the Company recognised a long-term deferred tax liability.

18) Retained earnings

Retained earnings were affected by the cancellation of the technical provisions. This is explained in greater detail in point 4 dealing with the effect of transition to IFRS.

19) Net earning per share

Net earning per share in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006
Net earnings	18,205,424	9,631,981
No. of shares	7,862,519	7,862,519
Net earnings per share	**2,32**	**1,23**

The weighted average number of shares outstanding in the financial period was 7,862,519.

20) Accumulated profit

The Supervisory Board and the Board of Management of Sava Re may allocate at maximum 50% of the audited net profit to reserves. Within this limit, they already allocated in 2007 EUR 172,927 to the provision for earthquake and catastrophe risks. Allocation of the remaining net profit is to be decided by the same bodies in accordance with a resolution to be adopted by the Supervisory Board when accepting the annual report of the Company.

21) Subordinated liabilities

At the end of 2006 and the beginning of 2007, the Company took out a subordinated loan in the amount of EUR 32 million and drew down 97% of the principal. The duration of the subordinated loan facility is 20 years, with the possibility of termination after 10 months. The principal is due at maturity. The interest rate is 3-month Euribor + 3.35%, with interest payable on a quarterly basis.

Subordinated liabilities as at 31 December 2007

Outstanding debt at effective interest rate as at 31 December 2007	31,136,034
Debt currency	EUR
Maturity date	27 December 2026
Conversion into capital	Not applicable
Conversion into other liabilities	Not applicable

Subordinated liabilities as at 31 December 2006

Outstanding debt at effecitve interes trate as at 31 December 2006	11,614,395
Debt currency	EUR
Maturity date	27 December 2026
Conversion into capital	Not applicable
Conversion into other liabilities	Not applicable

To mitigate the interest rate risk, the Company entered an interest rate swap contract with a currency option. The first contract, entailing Sava Re paying a fixed interest rate of 3.35% and the counterparty paying a variable 3-month Euribor, was entered into on 20 February 2007. Upon termination of the contract in July 2007, the Company realised a gain of EUR 915,000.

In August 2007, the Company signed another 5-year interest rate swap contract with a currency option. Under the terms of this contract, Sava Re undertook to pay a fixed interest rate of 3.65%, and the counterparty a variable 3-month Euribor interest rate. In 2007, the Company paid EUR 2,337,100 interest on the subordinated debt.

22) Gross technical provisions

Development of gross technical provisions in 2007

(EUR)	As at 1 January	Additions	Uses	As at 31 December
Gross unearned premiums	33,040,080	37,577,865	33,040,080	37,577,865
Gross provision for claims	83,383,909	43,802,300	35,967,173	91,219,036
Gross provision for bonuses, rebates and canslations	143,404	195,280	143,404	195,280
Other gross technical provisions	862,421	491,661	862,421	491,661
Total	**117,429,814**	**82,067,106**	**70,013,078**	**129,483,842**

Development of gross technical provisions in 2006 (EUR)

(EUR)	As at 1 January	Additions	Uses	As at 31 December
Gross unearned premiums	29,793,300	33,040,080	29,793,300	33,040,080
Gross provision for claims	89,580,258	36,871,603	43,067,952	83,383,909
Gross provision for bonuses and rebates	126,590	143,404	126,590	143,404
Other gross technical provisions	837,155	862,421	837,155	862,421
Total	**120,337,303**	**70,917,508**	**73,824,997**	**117,429,814**

Development of technical provisions is explained also in the business report under performance overview.

Unearned premiums represent short-term provisions for the unexpired portion of insurance contracts. The amount set aside at the beginning of a year is used during the year, while unearned premiums for insurance contracts concluded during the year are set aside at the end of the year.

The outstanding claims provision represents the provision for incurred but not settled claims. The amount set aside relates in part to claims incurred during the year and in part to adjustments to the estimated claims relating to previous years. Uses relate to claims settled during the year but relating to previous years.

The provision for bonuses, rebates and cancellations relates to the share of the Company in the total provision assumed based on the proportional coverage of Slovenian cedants. The same as unearned premiums, this is a short-term provision by nature that is fully used during the year and set aside at the end of the year for new or renewed contracts concluded during the year.

Other technical provisions as per 1 January comprised provisions for unexpired risks and currency mismatch (EUR 38,330). In accordance with the amendments to the IA (ZZavar-D) adopted in 2007, the provision for currency mismatch is no longer required, for which reason other technical provisions as per 31 December comprised only the provision for unexpired risks. This is set aside as an addition to unearned premiums and has therefore a similar nature: it is used during the year and set aside at the end of the year for the insurance contracts concluded during the year. For details about calculation, see the next section.

23) Liability adequacy test for unearned premiums

Unearned premiums are calculated based on the unexpired portion of the policy term (the pro rata temporis method). Therefore, if the premium is adequate, the unearned premium is also adequate. If the expected combined ratio exceeds 100%, the premium is not adequate and neither is the unearned premium. The Company carried out the liability adequacy test separately for gross unearned premiums and for the retroceded portion of unearned premiums at the insurance class level. Calculation of the expected combined ratio at insurance class level was based on the weighted average of the combined ratios realised in the last three years, which were also trend adjusted. Calculation of the realised combined ratios was based on premiums written, insurance claims and benefits incurred, commission expenses and other operating expenses. The expected combined ratio so calculated exceeded 100%, thus revealing deficiency of the unearned premium. This was recognised as the provision for unexpired risks within other technical provisions, in accordance with the IA. The table below shows how the gross provision for unexpired risks was calculated by insurance classes, both for 2007 and 2006.

Gross provision for unexpired risks in 2006 and 2007

(EUR, except percentages)	2007		2006	
Class of insurance	Expected combined ratio	Provision for unexpired risk	Expected combined ratio	Provision for unexpired risk
01 Personal accident	58.0%	0	78.9%	0
02 Health	–	0	–	0
03 Land motor casco	104.1%	252,078	112.6%	685,750
04 Railway rolling stock	–	0	–	0
05 Aircraft hull	43.2%	0	35.1%	0
06 Marine hull	109.3%	11,077	124.7%	10,866
07 Goods in transit	64.8%	0	64.4%	0
08 Fire and natural forces	93.5%	0	93.6%	0
09 Other damage to property	89.9%	0	102.6%	84,820
10 Motor liability	89.4%	0	89.4%	0
11 Aircraft liability	31.8%	0	114.6%	586
12 Liability for ships	20.2%	0	17.8%	0
13 General liability	133.0%	183,104	60.7%	0
14 Credit	92.8%	0	98.5%	0
15 Suretyship	145.9%	16,192	157.8%	21,545
16 Miscellaneous financial loss	151.9%	29,210	158.3%	19,430
17 Legal expenses	3.6%	0	–0.0%	0
18 Assistance	44.8%	0	110.0%	1,094
19 Life	15.3%	0	70.8%	0
20 Wedding and childbirth insurance	–	0	–	0
21 Unit-linked life	6.5%	0	42.2%	0
22 Tontine	–	0	–	0
23 Capital redemption	–	0	–	0
Total	**92.6%**	**491,661**	**92.6%**	**824,090**

24) IBNR provision

Reinsurance undertakings establish the IBNR provision at two levels. At the first level, they assume a portion – the amount of which depends on the relevant reinsurance contract's provisions – of the IBNR provisions as calculated by cedants. At the second level, they calculate the IBNR provision as part of the liability adequacy test using the triangular method at their own portfolio data. This calculation too is made separately for gross and retroceded data at insurance class level. Using loss development triangles of cumulative payments by underwriting year and cumulative development factors (their weighted average), the ultimate liability for losses is estimated by insurance classes. Such estimated ultimate liability reduced by the already paid claims and the unearned premium available at the underwriting year level represents the estimated outstanding claims provision. If this exceeds the outstanding claims provision already set aside (and calculated based on reinsurance accounts), a reinsurance IBNR provision is set aside. The described process shows that the outstanding claims provision is set aside based on statistical data and using actuary methods, for which reason its calculation is at the same time also the test of its liability adequacy.

The table below shows the sum of IBRN provisions as reported by cedants, and the IBNR provision as calculated using triangles at the reinsurance portfolio level.

Gross autstanding claims provision in 2006 and 2007

(EUR, except percentages)	As at 31 December 2007	As at 31 December 2006
1. Net IBNR	**32,179,988**	**26,222,911**
– gross provision	32,810,075	26,351,681
– reinsurer's share	–630,086	–128,770
2. Net IBNS	**40,706,862**	**42,133,580**
– gross provision	58,408,962	56,826,011
– reinsurer's share	–17,702,100	–14,692,432
Net claims provision (1+2)	72,886,850	68,356,491
Total gross claims provision	91,219,036	83,177,693
Total reinsurer's share	–18,332,186	–14,821,202
IBNR as% of gross claims provison	36.0%	31.7%
IBNR as% of net claims provison	44.2%	38.4%

The gross outstanding claims provision is included under liabilities, while reinsurers' share is included under assets.

25) Other provisions

Other provisions comprise exclusively provisions for long-term employee benefits.

Movements in other provisions in 2007

(EUR)	As at 1 January	Additions	Uses	Releases	As at 31 December
Provision for pensions	168,696	0	10,787	13,469	144,440
Provision for jubilee benefits	23,105	2,210	3,993	0	21,322
Total provisions for employee benefits	**191,801**	**2,210**	**14,780**	**13,469**	**165,762**

Movements in other provisions in 2006

(EUR)	As at 1 January	Additions	Uses	Releases	As at 31 December
Provision for pensions	173,232	16,492	21,028	0	168,696
Provision for jubilee benefits	22,199	2,260	1,354	0	23,105
Total provisions for employee benefits	**195,431**	**18,752**	**22,382**	**0**	**191,801**

26) Deferred tax liabilities

Deferred tax liabilities include deferred tax liabilities relating to the revaluation of available-for-sale financial investments to fair value.

27) Financial liabilities

Financial liabilities comprise Company's short-term financial liabilities to other companies of EUR 2,308.

28) Other liabilities and income tax liabilities

Other liabilities comprise: liabilities relating to premiums from outwards retrocession business, claims from inwards reinsurance business, retained deposits, amounts due to employees, amounts due to customers and other short-term liabilities. They relate to amounts invoiced in the fourth quarter of 2007 but falling due only in 2008.

Other liabilities and income tax liabilities in 2007

(EUR)	Secured	Maturity			
		Over 5 years	Over 1 year	Up to 1 year	Total
Liabilities for reinsurance premiums	0	0	0	12,198,642	12,198,642
Liabilities for shares in reinsurance claims	0	0	0	15,069,251	15,069,251
Other short-term liabilities	0	0	0	9,255,899	9,255,899
Tax liabilities	0	0	5,344,477	4,821,552	10,166,029
Total	**0**	**0**	**5,344,477**	**41,345,344**	**46,689,821**

Other liabilities and income tax liabilities in 2006

(EUR)	Secured	Maturity			
		Over 5 years	Over 1 year	Up to 1 year	Total
Liabilities for reinsurance premiums	0	0	0	7,309,886	7,309,886
Liabilities for shares in reinsurance claims	0	0	0	21,032,327	21,032,327
Other short-term liabilities	0	0	0	7,858,058	7,858,058
Tax liabilities	0	0	0	1,160,975	1,160,975
Total	**0**	**0**	**0**	**37,361,246**	**37,361,246**

The applicable tax legislation allows that any differences in retained earnings due to adaptation of the financial statements required by the law or transition to IFRS be included in the tax statement in three years, whereby in the first year at least in the amount of one-third. As at 1 January 2006, such differences were recognised as deferred tax liabilities, and were transferred to current tax liabilities in 2007 that the Company may settle in three instalments.

29) Off-balance sheet items

Off-balance sheet items amounted to EUR 3,932,868. They comprised potential receivables associated with tax additionally assessed after an inspection of the Tax Administration. The Company paid the said amount but then filed an appeal against the relevant decision, which is still pending. The said amount comprises sales tax on reinsurance services (EUR 1,903 thousand) and additionally assessed income tax for 1998 and 1999 due to value adjustment of an investment (EUR 2,029 thousand).

25. NOTES TO THE FINANCIAL STATEMENTS – INCOME STATEMENT

30) Net earned (re)insurance premiums

Net earned reinsurance premiums in 2007 (EUR)

Class of insurance	Gross premium written	Reinsurer's share	Retention
01 Personal accident	9,420,014	–86,563	9,333,451
02 Health	0	0	0
03 Land vehicles casco	21,094,801	–2,079,102	19,015,699
04 Railway rolling stock	0	0	0
05 Aircraft hull	304,966	–305,455	–489
06 Ships hull	982,763	–150,630	832,133
07 Goods in transit	1,944,201	–352,813	1,591,388
08 Fire and natural forces	24,176,833	–8,271,811	15,905,023
09 Other damage to property	26,238,296	–6,517,062	19,721,234
10 Motor liability	27,453,384	–1,824,466	25,628,918
11 Aircraft liability	403,525	–222,183	181,343
12 Liability for ships	141,777	–25,781	115,996
13 General liability	3,434,782	–876,454	2,558,328
14 Credit	1,547,915	0	1,547,915
15 Suretyship	69,754	–6,692	63,061
16 Miscellaneous financial loss	752,666	–346,274	406,392
17 Legal expenses	6,167	0	6,167
18 Assistance	43,034	–78	42,956
Total non-life	**118,014,879**	**–21,065,364**	**96,949,514**
19 Life	481,634	–260,069	221,565
20 Wedding and childbirth insurance	0	0	0
21 Unit-linked life	43,426	–6,600	36,826
22 Tontine	0	0	0
23 Capital redemption	0	0	0
24 Loss of earnings following accident or illness	0	0	0
Total life	**525,060**	**–266,669**	**258,391**
Total	**118,539,938**	**–21,332,034**	**97,207,905**

Net earned reinsurance premiums in 2006 (EUR)

Class of insurance	Gross premium written	Reinsurer's share	Retention
01 Personal accident	8,705,793	–95,468	8,610,325
02 Health	0	0	0
03 Land vehicles casco	18,456,652	–1,836,684	16,619,968
04 Railway rolling stock	0	0	0
05 Aircraft hull	304,613	–212,891	91,722
06 Ships hull	810,913	–125,488	685,425
07 Goods in transit	1,263,515	–174,844	1,088,671
08 Fire and natural forces	21,335,300	–7,624,858	13,710,442
09 Other damage to property	19,924,246	–4,052,519	15,871,727
10 Motor liability	26,682,158	–1,808,486	24,873,672
11 Aircraft liability	294,887	–125,229	169,658
12 Liability for ships	88,118	–21,850	66,268
13 General liability	3,136,106	–1,071,359	2,064,747
14 Credit	1,625,599	–43	1,625,556
15 Suretyship	63,530	–6,040	57,490
16 Miscellaneous financial loss	666,572	–303,813	362,759
17 Legal expenses	6,731	0	6,731
18 Assistance	62,531	0	62,531
Total non-life	**103,427,264**	**–17,459,572**	**85,967,692**
19 Life	440,665	–262,416	178,249
20 Wedding and childbirth insurance	0	0	0
21 Unit-linked life	35,518	0	35,518
22 Tontine	0	0	0
23 Capital redemption	0	0	0
24 Loss of earnings following accident or illness	0	0	0
Total life	**476,183**	**–262,416**	**213,767**
Total	**103,903,447**	**–17,721,988**	**86,181,459**

The above tables show gross reinsurance premiums written and retroceded reinsurance premiums by insurance classes. The amount of net (re) insurance premiums earned is also determined by the movement in unearned premiums, which decreased it by EUR 3,526,293 in 2007. The Company has been growing: in 2007, its net reinsurance premiums earned increased by 13.5%. Its retroceded reinsurance premiums also increased compared to 2006, by 20.4%.

31) Income from investments in Group companies and associates

In 2007, the Company earned interest on bonds and loans to subsidiaries, as well as dividends from its equity investments in associates.

Income from investments in Group companies and associates in 2006 and 2007

(EUR)	2007	2006
Interest on bonds	115,666	0
Interest on loans	56,427	103,444
Dividends	961,507	0
Total	**1,133,600**	**103,444**

32) Investment income

Investment income in 2006 and 2007

(EUR)	Liability fund 2007	Liability fund 2006	Index
Income from shares and interests	170,926	0	–
Income from land and buildings	0	10,746	–
Interest income	3,879,414	6,278,453	61.8
Financial income from revaluation	316,264	395,238	80.0
Other financial income	0	23,282	–
Value adjustments on investments	0	47,652	–
Gains on disposal of investments	1,431,008	998,226	143.4
Total investment income – liability fund	**5,797,612**	**7,753,597**	**74.8**

	Capital fund 2007	Capital fund 2006	Index
Income from shares and interests	462,291	0	–
Income from land and buildings	98,955	314,561	31.5
Interest income	2,995,628	1,558,010	192.3
Financial income from revaluation	28,189	13,196	213.6
Other financial income	0	86,880	–
Value adjustments on investments	0	679,679	–
Gains on disposal of investments	17,324,218	2,051,831	844.3
Total investment income – capital fund	**20,909,281**	**4,704,157**	**444.5**

Total investment income	**26,706,893**	**12,457,754**	**214.4**

The Company maintains separate records for income from the capital fund and from the liability fund. Compared to 2006, investment income more than doubled in 2007. Gains on disposal of capital fund investments, in particular portfolio investments in shares, saw the highest growth.

33) Other technical income (expenses)

This item includes reinsurance commission expenses. In insurance companies, this item is generally an income item, while in reinsurance companies it is usually an expense item.

Commission expenses in 2006 and 2007 (EUR)

Class of insurance	2007	2006	Index
01 Personal accident	–2,903,933	–2,710,067	107.2
02 Health	0	0	–
03 Land vehicles casco	–4,270,271	–3,690,576	115.7
04 Railway rolling stock	0	0	–
05 Aircraft hull	14,552	–530	–2.745.8
06 Ships hull	–106,240	–115,142	92.3
07 Goods in transit	–287,618	–260,951	110.2
08 Fire and natural forces	–4,267,509	–4,239,525	100.7
09 Other damage to property	–4,673,792	–3,909,437	119.6
10 Motor liability	–6,027,558	–5,851,523	103.0
11 Aircraft liability	–54,955	–52,284	105.1
12 Liability for ships	–24,764	–8,058	307.3
13 General liability	–661,063	–399,113	165.6
14 Credit	–288,036	–350,333	82.2
15 Suretyship	–13,551	–7,574	178.9
16 Miscellaneous financial loss	–106,871	–83,014	128.7
17 Legal expenses	–492	1,112	–44.3
18 Assistance	–12,065	–19,610	61.5
Total non-life	**–23,684,166**	**–21,696,623**	**109.2**
19 Life	–67,576	–57,680	117.2
20 Wedding and childbirth insurance	0	0	–
21 Unit-linked life	–4,919	–4,414	111.4
22 Tontine	0	0	–
23 Capital redemption	0	0	–
24 Loss of earnings following accident or illness	0	0	–
Total life	**–72,495**	**–62,094**	**116.8**
Total	**–23,756,661**	**–21,758,717**	**109.2**

Movements in commission expenses follow those in gross insurance premiums earned – these increased in 2007 and so did commission expenses.

34) Other income

Other income at EUR 30,157 was relatively low in 2007, while in 2006 it was relatively high, when it included reimbursement of unduly charged late payment interest by the Tax Administration (more than 1 million EUR).

35) Net insurance claims and benefits incurred

Net insurance claims and benefits incurred in 2007 (EUR)

Class of insurance	Gross claims	Gross subrogation recoveries	Reinsurers' share (-)	Reinsurers' share of subrogation recoveries (-)	Net claims
01 Personal accident	3,877,362	0	–34,880	0	3,842,482
02 Health	0	0	0	0	0
03 Land vehicles casco	15,363,581	–376,251	–456,690	–10,928	14,519,712
04 Railway rolling stock	0	0	0	0	0
05 Aircraft hull	133,457	–131	–103,772	0	29,554
06 Ships hull	643,604	0	–115,507	0	528,096
07 Goods in transit	488,313	0	–2	0	488,311
08 Fire and natural forces	17,575,779	–47,702	–7,539,162	0	9,988,915
09 Other damage to property	13,240,216	–1,878	–2,039,738	0	11,198,600
10 Motor liability	16,483,178	–974,446	–479,774	0	15,028,958
11 Aircraft liability	65,556	–29	–17,133	0	48,394
12 Liability for ships	7,472	–15	–3	0	7,455
13 General liability	2,197,756	–293	–121,369	0	2,076,095
14 Credit	1,274,062	–752,607	4,803	0	526,259
15 Suretyship	119,767	–13,145	0	0	106,623
16 Miscellaneous financial loss	854,595	–2,038	–577,533	0	275,024
17 Legal expenses	81	0	0	0	81
18 Assistance	25,149	0	0	0	25,149
Total non-life	**72,349,929**	**–2,168,533**	**–11,480,759**	**–10,928**	**58,689,709**
19 Life	176,055	0	–105,531	0	70,524
20 Wedding and childbirth insurance	0	0	0	0	0
21 Unit-linked life	1,483	0	0	0	1,483
22 Tontine	0	0	0	0	0
23 Capital redemption	0	0	0	0	0
24 Loss of earnings following accident or illness	0	0	0	0	0
Total life	**177,538**	**0**	**–105,531**	**0**	**72,007**
Total	**72,527,467**	**–2,168,533**	**–11,586,291**	**–10,928**	**58,761,715**

The table shows gross claims paid net of gross subrogation recoveries and reinsurers' share (including reinsurers' share of subrogation recoveries). The amount of net claims incurred in also determined by the movement in the outstanding claims provision, which increased it by EUR 4,324,142. The table below shows comparable data for 2006.

Net insurance claims and benefits incurred in 2006 (EUR)

Class of insurance	Gross claims	Gross subrogation recoveries	Reinsurers' share (-)	Reinsurers' share of subrogation recoveries (-)	Net claims
01 Personal accident	4,322,901	–112	–102,233	0	4,220,556
02 Health	0	0	0	0	0
03 Land vehicles casco	13,670,490	–329,786	–1,882,872	28,920	11,486,752
04 Railway rolling stock	0	0	0	0	0
05 Aircraft hull	29,805	0	–4,659	0	25,146
06 Ships hull	637,654	0	–122,133	0	515,521
07 Goods in transit	406,309	–506	–375	0	405,428
08 Fire and natural forces	13,948,548	–40,318	–5,016,777	44,201	8,935,654
09 Other damage to property	10,774,697	–8,680	–2,797,497	6,967	7,975,487
10 Motor liability	16,420,166	–710,534	–577,213	0	15,132,419
11 Aircraft liability	80,495	0	–19,455	0	61,040
12 Liability for ships	9,907	0	–1,516	0	8,391
13 General liability	2,365,281	–667	–109,574	0	2,255,040
14 Credit	1,413,910	–766,826	–15,429	0	631,655
15 Suretyship	37,285	–5,469	–85	0	31,731
16 Miscellaneous financial loss	8,732,833	–126	–8,562,365	0	170,342
17 Legal expenses	0	0	0	0	0
18 Assistance	27,736	0	–309	0	27,427
Total non-life	**72,878,017**	**–1,863,025**	**–19,212,492**	**80,088**	**51,882,588**
19 Life	179,249	0	–109,323	0	69,926
20 Wedding and childbirth insurance	0	0	0	0	0
21 Unit-linked life	0	0	0	0	0
22 Tontine	0	0	0	0	0
23 Capital redemption	0	0	0	0	0
24 Loss of earnings following accident or illness	0	0	0	0	0
Total life	**179,249**	**0**	**–109,323**	**0**	**69,926**
Total	**73,057,266**	**–1,863,025**	**–19,321,815**	**80,088**	**51,952,514**

In 2007, gross claims and benefits paid were almost the same as in 2006. The reinsurers' share decreased significantly, by as much as 40%, but this was compensated by the increase in the outstanding claims provision, which was 36%.

36) Change in other technical provisions

The change in other technical provisions was EUR 342,460 in 2007 and relates to the change in the provision for bonuses, rebates and cancellations, and in the provision for unexpired risks.

37) Operating expenses (excluding reinsurance commissions)

The Company classifies operating expenses by nature. Compared to 2006, these, excluding reinsurance commission expenses, increased by 16.6%.

Operating expenses in 2006 and 2007

(EUR)	2007	2006	Index
1. Acquisition costs (commissions)	0	0	–
2. Change in deferred acquisition costs	0	0	–
3. Depreciation of operating assets	128,652	100,344	128.2
4. Labour costs	4,028,366	3,411,938	118.1
– salaries and wages	2,660,394	2,239,892	118.8
– social and pension insurance costs	510,134	418,941	121.8
– other labour costs	857,838	753,105	113.9
5. Costs of services by natural persons not performing business, incl. of contributions	98,925	56,370	175.5
6. Other operating costs	987,023	928,889	106.3
– entertainment, advertising, exhibition costs	119,666	82,633	144.8
– material and energy costs	165,284	133,887	123.5
– maintenance costs	11,634	13,025	89.3
– reimbursement of work-related costs	157,177	108,220	145.2
– professional services costs	179,922	180,212	99.8
– taxes, levies and charges independent of profit or loss, except for insurance	78,176	40,935	191.0
– transport and communication costs	54,421	52,486	103.7
– insurance premium costs	34,358	31,923	107.6
– bank fees	36,423	40,139	90.7
– rentals and leases	2,585	0	–
– training costs	21,381	31,088	68.8
– other service costs	125,996	214,341	58.8
Total operating expenses	**5,242,966**	**4,497,541**	**116.6**

Operating expenses represented 4.4% of the gross premium written (2006: 4.3%).

38. Remuneration paid to the members of Board of Management, Supervisory Board and employees with individual employment contracts

Remuneration paid to the members of Board of Management, Supervisory Board and employees with individual employment contracts in 2006 and 2007

(EUR)	2007	2006
Management board members	810,417	622,834
Supervisory boards/bodies of subsidiaries	58,527	123,477
Employees with individual contracts	1,283,300	884,339
Total	**2,152,244**	**1,630,650**

39) Average number of employees by degree of education

Average number of employees by degree of education in 2006 and 2007

Degree of education	AS at 31 December 2007	AS at 31 December 2006
Primary and lower secondary (I-IV)	1	1
Secondary (V)	15	15
Higher (VI)	5	4
University (VII)	26	23
Post-graduate (VIII)	8	6
Total	**55**	**49**

40) Movements in short-term provisions

Movements in short-term provisions in 2007 (EUR)

Item	As at 1 January	Additions	Uses	As at 31 December
Short-term deferred costs:	25,000	30,000	37,000	18,000
– Auditing costs	25,000	30,000	37,000	18,000
Other accruals and deferred income:	782,562	1,959,938	1,750,266	992,234
– Liabilities for deposits	782,562	1,959,938	1,750,266	992,234
Total	**807,562**	**1,989,938**	**1,787,266**	**1,010,234**

Movements in short-term provisions in 2006 (EUR)

Item	As at 1 January	Additions	Uses	As at 31 December
Short-term deferred costs:	17,995	25,000	17,995	25,000
– Auditing costs	17,995	25,000	17,995	25,000
Other accruals and deferred income:	1,292,687	3,102,640	3,612,765	782,562
– Liabilities for deposits	1,292,687	3,102,640	3,612,765	782,562
Total	**1,310,682**	**3,127,640**	**3,630,760**	**807,562**

41) Investment expenses

Investment expenses in 2006 and 2007 (EUR)

	Liability fund 2007	Liability fund 2006	Index
Depreciation of investments not necessary for operations	0	0	–
Asset management expenses, interest expenses and other financial expenses	1,248,384	140,226	890.3
Financial expenses from revaluation	43,370	934,593	4.6
Losses on disposal of investments	501,134	172,708	290.2
Total investment expenses of lability fund	**1,792,888**	**1,247,527**	**143.7**

	Capital fund 2007	Capital fund 2006	Index
Depreciation of investments not necessary for operations	39,577	51,619	76.7
Asset management expenses, interest expenses and other financial expenses	2,588,018	448,418	577.1
Financial expenses from revaluation	49,906	66,875	74.6
Losses on disposal of investments	1,362,639	3,717	3,6659.2
Total investment expenses of capital fund	**4,040,140**	**570,629**	**708.0**

Total investment expenses	**5,833,028**	**1,818,156**	**320.8**

The table shows that investment expenses increased significantly compared to 2006. The increase is mainly due to the fact that the Company started paying interest on the subordinated debt in 2007. Such interest is included in the second item, asset management expenses, interest expenses and other financial expenses. The said interest amounted to EUR 2,031,377 in 2007.

42) Other insurance expenses

Other insurance expenses comprise fees payable to the Insurance Supervision Agency and the Slovenian Insurance Association, as well as expenses associated with non-life insurance.

43) Other expenses

Other expenses comprise expenses that cannot be classified as insurance expenses. In 2007, they amounted to EUR 1,258.

44) Profit before tax

Compared to 2006, profit before tax was 87.8% higher. This increase is mainly explainable by net investment income, which was EUR 10,234,267 higher than in 2006.

45) Current tax

Current tax was relatively higher than in 2006 due to the higher profit before tax but also due to the increase in retained earnings after transition to IFRS. The associated tax liability is EUR 8,016,715, of which the Company paid the first instalment (one-third) of EUR 2,672,238 in 2007.

Income tax in 2006 and 2007

(EUR)	2007	2006
Accounting income	**122,023,732**	**98,402,032**
Adjustment - exemption of income due to past non-deductability	–1,402,267	–1,019,742
Recognised income	**120,621,465**	**97,382,290**
Accounting expenses	**98,487,074**	**83,828,756**
Adjustment of expenses	–415,335	–536,200
Increase in expenses due to of payment of non-deductible expenses		285,098
Recognised expenses	**98,071,739**	**83,577,654**
Recognised income less recognised expenses	22,549,726	13,804,636
Increase in tax due to transition to ifrs	12,072,513	0
Increase in tax base	67,572	0
Tax incentives	–54,561	–82,933
Tax base	34,635,250	13,721,703
Tax	7,966,107	3,430,424
Deferred tax	**–2,634,873**	**–532,179**
Income tax	**5,331,234**	**2,898,245**

The effective tax rate (calculated as the ratio between the amount of tax paid and the tax base) was 23% in 2007 (2006: 25%).

46) Deferred tax

In 2007, the Company recovered certain receivables from reinsurance contracts and investments for which it had formed provisions in 2005, non-deductible for tax purposes (and accordingly recognised deferred tax assets). Upon recovery, the Company accordingly reduced the associated deferred tax assets, which decreased its net profit for 2007. Under the Income Tax Act, any differences in retained earnings due to adaptation of the financial statements required by the law may be included in the tax statement in three consecutive years. Sava Re paid one-third or EUR 2,672,238 of the tax associated with the increase in retained earnings, and accordingly reduced deferred tax liabilities.

47) Net profit for the year

In 2007, the Company made a net profit of EUR 18,205,424, up 89% compared to 2007.

26. TRANSACTIONS WITH GROUP COMPANIES

48) Investments in Group companies and amounts due from Group companies

Investments in Group companies and amounts due from Group companies in 2007 (EUR)

Item		Zavarovalnica Tilia d.d. Novo mesto	Sava Osiguranje, a.d.o., Belgrade	Dukagjini kompania e sigurimeve sh.k.p. Priština	Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje	Montenegro osiguranje a.d., Podgorica
Debt securities and loans to Group companies	gross	1,670,523	1,500,000	500,000	0	0
	value adjustments	0	0	0	0	0
	net	1,670,523	1,500,000	500,000	0	0
Receivables for reinsurance premiums	gross	3,787,797	0	173,348	2,135,370	25,243
	value adjustments	0	0	0	0	0
	net	3,787,797	0	173,348	2,135,370	25,243
Other short-term receivables from insurance business	gross	0	2,492	4,444	0	0
	value adjustments	0	0	0	0	0
	net	0	2,492	4,444	0	0
Long-term receivables	gross	0	35,308	0	0	0
	value adjustments	0	0	0	0	0
	net	0	35,308	0	0	0
Total		**5,458,320**	**1,537,800**	**677,792**	**2,135,370**	**25,243**

49) Liabilities to Group companies

Liabilities to Group companies in 2007 (EUR)

Item	Zavarovalnica Tilia d.d. Novo mesto	Sava Osiguranje, a.d.o., Belgrade	Dukagjini kompania e sigurimeve sh.k.p. Priština	Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje	Montenegro osiguranje a.d., Podgorica
Liabilities for reinsurance shares in claims	2,209,725	0	5,782	582,642	0
Other short-term liabilities	1,340,989	0	19,205	710,697	5,213
Total (excluding provisions)	**3,550,714**	**0**	**24,987**	**1,293,339**	**5,213**

50) Liabilities to Group companies by maturity

Liabilities to Group companies by maturity in 2007 (EUR)

Item	Secured liabilities	Maturity			
		Over 5 years	Over 1 year	Up to 1 year	Total
Liabilities for reinsurance shares in claims	0	0	0	2,798,149	2,798,149
- to group companies	0	0	0	2,798,149	2,798,149
Other short-term liabilities	0	0	0	2,076,104	2,076,104
- to group companies	0	0	0	2,076,104	2,076,104

51) Income and expenses from transactions with Group companies

Income and expenses from transactions with Group companies in 2007 (EUR)

Item	Zavarovalnica Tilia d.d. Novo mesto	Dukagjini kompania e sigurimeve sh.k.p. Priština	Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje
Gross premiums written	16,888,072	479,462	2,878,150
Gross claims paid	11,120,808	7,229	664,957
Other operating costs	3,963	0	0
Reinsurance commissions	4,168,322	0	755,856

27. ADDITIONAL INFORMATION TO THE INCOME STATEMENT

Gross profit by line of business for Group companies (EUR)

Maribor	Premiums	Claims	Commission	Gross profit
01 Personal accident	5,669,889	2,056,340	1,461,565	2,151,984
02 Health	0	0	0	0
03 Motor casco	13,618,504	9,392,679	3,351,776	874,050
04 Railway rolling stock hull	0	0	0	0
05 Aircraft hull	301,849	125,360	14,767	161,721
06 Marine hull	77,475	27,429	19,354	30,692
07 Goods in transit	418,444	94,441	73,827	250,175
08 Fire and natural forces	5,328,324	3,845,664	1,136,339	346,321
09 Other damage to property	8,975,305	5,229,277	1,953,882	1,792,146
10 Motor liability	19,672,855	10,875,080	5,035,091	3,762,683
11 Aircraft liability	141,052	36	12,743	128,273
12 Liability for ships	43,355	1,180	10,914	31,262
13 General liability	1,949,266	1,542,430	378,605	28,231
14 Credit	827,557	177,853	215,165	434,539
15 Suretyship	12,740	101,063	3,313	–91,635
16 Miscellaneous financial loss	338,657	62,228	76,951	199,477
17 Legal expenses	6,167	81	1,603	4,483
18 Assistance	10,157	0	3,047	7,110
19 Life	34,561	75,972	0	–41,411
20 Wedding and childbirth insurance	0	0	0	0
21 Unit-linked life	0	0	0	0
22 Tontine	0	0	0	0
23 Capital redemption	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0
Total	**57,426,157**	**33,607,115**	**13,748,943**	**10,070,099**

Tilia	Premiums	Claims	Commission	Gross profit
01 Personal accident	2,212,660	1,044,918	948,624	219,118
02 Health	0	0	0	0
03 Motor casco	3,477,973	2,536,729	709,731	231,513
04 Railway rolling stock hull	0	0	0	0
05 Aircraft hull	1,185	0	162	1,023
06 Marine hull	2,532	0	346	2,187
07 Goods in transit	101,743	49,025	23,251	29,467
08 Fire and natural forces	2,244,410	2,414,169	635,794	–805,554
09 Other damage to property	1,733,599	659,085	569,597	504,918
10 Motor liability	5,812,156	3,103,958	889,672	1,818,525
11 Aircraft liability	5,767	0	740	5,026
12 Liability for ships	5,967	0	1,609	4,358
13 General liability	651,423	327,161	260,832	63,430
14 Credit	486,278	322,031	96,373	67,874
15 Suretyship	51,643	5,559	8,161	37,923
16 Miscellaneous financial loss	66,606	658,174	20,211	–611,780
17 Legal expenses	0	0	0	0
18 Assistance	1,281	0	326	955
19 Life	3,313	0	308	3,005
20 Wedding and childbirth insurance	0	0	0	0
21 Unit-linked life	29,538	0	2,583	0
22 Tontine	0	0	0	0
23 Capital redemption	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0
Total	**16,888,072**	**11,120,808**	**4,168,322**	**1,571,988**

Dukagjini	Premiums	Claims	Commission	Gross profit
01 Personal accident	21,370	516	4,274	16,580
02 Health	0	0	0	0
03 Motor casco	65,901	6,713	13,180	46,008
04 Railway rolling stock hull	0	0	0	0
05 Aircraft hull	0	0	0	0
06 Marine hull	0	0	0	0
07 Goods in transit	0	0	0	0
08 Fire and natural forces	253,761	0	44,909	208,852
09 Other damage to property	89,982	0	17,979	72,003
10 Motor liability	43,530	0	0	43,530
11 Aircraft liability	0	0	0	0
12 Liability for ships	0	0	0	0
13 General liability	0	0	0	0
14 Credit	0	0	0	0
15 Suretyship	4,918	0	492	4,426
16 Miscellaneous financial loss	0	0	0	0
17 Legal expenses	0	0	0	0
18 Assistance	0	0	0	0
19 Life	0	0	0	0
20 Wedding and childbirth insurance	0	0	0	0
21 Unit-linked life	0	0	0	0
22 Tontine	0	0	0	0
23 Capital redemption	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0
Total	**479,462**	**7,229**	**80,833**	**391,400**

Montenegro	Premiums	Claims	Commission	Gross profit
01 Personal accident	0	0	0	0
02 Health	0	0	0	0
03 Motor casco	20,625	0	0	20,625
04 Railway rolling stock hull	0	0	0	0
05 Aircraft hull	0	0	0	0
06 Marine hull	0	0	0	0
07 Goods in transit	0	0	0	0
08 Fire and natural forces	10,189	0	2,242	7,948
09 Other damage to property	15,054	0	2,971	12,083
10 Motor liability	189,000	0	0	189,000
11 Aircraft liability	0	0	0	0
12 Liability for ships	0	0	0	0
13 General liability	0	0	0	0
14 Credit	0	0	0	0
15 Suretyship	0	0	0	0
16 Miscellaneous financial loss	0	0	0	0
17 Legal expenses	0	0	0	0
18 Assistance	0	0	0	0
19 Life	0	0	0	0
20 Wedding and childbirth insurance	0	0	0	0
21 Unit-linked life	0	0	0	0
22 Tontine	0	0	0	0
23 Capital redemption	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0
Total	**234,868**	**0**	**5,213**	**229,655**

Sava Tabak	Premiums	Claims	Commission	Gross profit
01 Personal accident	0	0	0	0
02 Health	0	0	0	0
03 Motor casco	0	0	0	0
04 Railway rolling stock hull	0	0	0	0
05 Aircraft hull	0	0	0	0
06 Marine hull	0	0	0	0
07 Goods in transit	0	0	0	0
08 Fire and natural forces	598,031	22,307	190,000	385,724
09 Other damage to property	2,149,768	642,650	585,856	921,262
10 Motor liability	123,870	0	0	123,870
11 Aircraft liability	0	0	0	0
12 Liability for ships	0	0	0	0
13 General liability	6,481	0	0	6,481
14 Credit	0	0	0	0
15 Suretyship	0	0	0	0
16 Miscellaneous financial loss	0	0	0	0
17 Legal expenses	0	0	0	0
18 Assistance	0	0	0	0
19 Life	0	0	0	0
20 Wedding and childbirth insurance	0	0	0	0
21 Unit-linked life	0	0	0	0
22 Tontine	0	0	0	0
23 Capital redemption	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0
Total	**2,878,150**	**664,957**	**775,856**	**1,437,337**

Net profit from reinsurance business

(EUR)	Net reinsurance premiums	Net reinsurance claims	Net profit 2007	Net profit 2006
01 Personal accident	9,333,451	3,842,482	5,490,968	4,389,770
02 Health	0	0	0	0
03 Motor casco	19,015,699	14,519,712	4,495,987	5,133,217
04 Railway rolling stock hull	0	0	0	0
05 Aircraft hull	–489	29,554	–30,042	66,576
06 Marine hull	832,133	528,096	304,037	169,904
07 Goods in transit	1,591,388	488,311	1,103,077	683,243
08 Fire and natural forces	15,905,024	9,988,915	5,916,108	4,730,585
09 Other damage to property	19,721,234	11,198,600	8,522,633	7,933,475
10 Motor liability	25,628,918	15,028,958	10,599,959	9,748,221
11 Aircraft liability	181,343	48,394	132,949	108,618
12 Liability for ships	115,996	7,455	108,541	57,876
13 General liability	2,558,328	2,076,095	482,233	–190,292
14 Credit	1,547,915	526,259	1,021,656	993,900
15 Suretyship	63,061	106,623	–43,561	25,759
16 Miscellaneous financial loss	406,392	275,024	131,368	192,417
17 Legal expenses	6,167	81	6,086	6,731
18 Assistance	42,956	25,149	17,807	35,104
19 Life	221,565	70,524	151,041	108,323
20 Wedding and childbirth insurance	0	0	0	0
21 Unit-linked life	36,826	1,483	35,343	35,518
22 Tontine	0	0	0	0
23 Capital redemption	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0
Total	**97,207,906**	**58,761,715**	**38,446,191**	**34,228,944**

Net profit from reinsurance business including commission

(EUR)	Net reinsurance premiums	Net reinsurance claims	Net reinsurance commission	Net profit 2007	Net profit 2006
01 Personal accident	9,333,451	3,842,482	3,063,825	2,427,143	1,639,209
02 Health	0	0	0	0	0
03 Motor casco	19,015,699	14,519,712	4,554,444	–58,457	1,231,406
04 Railway rolling stock hull	0	0	0	0	0
05 Aircraft hull	–489	29,554	–14,096	–15,946	65,572
06 Marine hull	832,133	528,096	121,595	182,442	52,352
07 Goods in transit	1,591,388	488,311	335,544	767,533	416,049
08 Fire and natural forces	15,905,024	9,988,915	4,841,239	1,074,869	596,520
09 Other damage to property	19,721,234	11,198,600	5,024,620	3,498,014	3,719,295
10 Motor liability	25,628,918	15,028,958	6,166,704	4,433,255	3,848,752
11 Aircraft liability	181,343	48,394	55,359	77,590	54,959
12 Liability for ships	115,996	7,455	29,838	78,703	46,478
13 General liability	2,558,328	2,076,095	727,604	–245,371	–624,303
14 Credit	1,547,915	526,259	388,024	633,632	580,635
15 Suretyship	63,061	106,623	12,056	–55,617	17,543
16 Miscellaneous financial loss	406,392	275,024	120,019	11,349	114,001
17 Legal expenses	6,167	81	1,603	4,483	4,981
18 Assistance	42,956	25,149	12,284	5,523	15,491
19 Life	221,565	70,524	68,814	82,227	50,349
20 Wedding and childbirth insurance	0	0	0	0	0
21 Unit-linked life	36,826	1,483	4,919	30,424	31,104
22 Tontine	0	0	0	0	0
23 Capital redemption	0	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0	0
Total	**97,207,906**	**58,761,715**	**25,514,397**	**12,931,794**	**11,860,392**

Profit from retrocession business including commission

(EUR)	Retrocession premiums	Retrocession claims	Retrocession commission	Premiums – claims	Premiums – claims – commission 2007	Premiums – claims – commission 2006
	1	2	3	1 – 2	1 – 2 – 3	
01 Personal accident	86,563	34,880	1,534	51,684	50,149	–8,052
02 Health	0	0	0	0	0	0
03 Motor casco	2,079,102	456,690	101,318	1,622,412	1,521,094	–11,935
04 Railway rolling stock hull	0	0	0	0	0	0
05 Aircraft hull	305,455	103,772	35,146	201,683	166,537	186,324
06 Marine hull	150,630	115,507	7,255	35,123	27,868	–5,800
07 Goods in transit	352,813	2	26,991	352,811	325,821	161,993
08 Fire and natural forces	8,271,810	7,539,162	1,650,543	732,648	–917,896	1,411,790
09 Other damage to property	6,517,062	2,039,738	1,206,360	4,477,324	3,270,964	658,202
10 Motor liability	1,824,466	479,774	32,036	1,344,692	1,312,655	1,162,306
11 Aircraft liability	222,183	17,133	42,153	205,049	162,896	73,009
12 Liability for ships	25,781	3	1,731	25,779	24,048	18,397
13 General liability	876,454	121,369	67,835	755,085	687,250	833,512
14 Credit	0	–4,803	0	4,803	4,803	–15,395
15 Suretyship	6,692	0	0	6,692	6,692	5,955
16 Miscellaneous financial loss	346,274	577,533	79,594	–231,259	–310,853	–8,326,822
17 Legal expenses	0	0	0	0	0	0
18 Assistance	78	0	0	78	78	–309
19 Life	260,069	105,531	70,680	154,538	83,858	82,793
20 Wedding and childbirth insurance	0	0	0	0	0	0
21 Unit-linked life	6,600	0	0	6,600	6,600	0
22 Tontine	0	0	0	0	0	0
23 Capital redemption	0	0	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0	0	0
Total	**21,332,033**	**11,586,291**	**3,323,175**	**9,745,742**	**6,422,567**	**–3,774,033**

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

FINANCIAL STATEMENTS OF SAVA RE GROUP WITH NOTES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

(EUR)			Notes	31 December 2007	31 December 2006	Index
		ASSETS		**478,960,480**	**379,646,918**	**126.2**
A.		Intangible assets	1)	25,393,041	10,276,511	242.1
B.		Property and equipment	2)	20,943,727	9,143,995	229.0
C.		Non-current assets held for sale	3)	1,422,509	3,811,863	37.3
D.		Deferred tax assets	4)	342,453	400,207	85.6
E.		Investment property	5)	1,320,833	3,099,913	42.6
F.		Investments in associates	6)	31,004,948	29,339,567	105.7
G.		Financial investments	7)	299,929,526	236,261,930	126.9
		– held to maturity		2,016,636	1,507,521	133.8
		– available for sale		213,229,310	163,099,342	130.7
		– at fair value through profit or loss		15,449,472	9,488,181	162.8
		– loans and receivables		69,234,108	62,166,886	111.4
H.		Assets from investment contracts		0	0	–
I.		Reinsurers' share of technical provisions	8)	22,421,167	17,015,046	131.8
J.		Inventories		128,684	103,008	124.9
K.		Receivables	9)	57,630,105	44,434,390	129.7
	1.	Receivables arising out of primary insurance business		20,117,564	9,936,982	202.5
	2.	Receivables arising out of co-insurance and reinsurance business		27,663,707	29,463,016	93.9
	3.	Other receivables		9,848,834	5,034,391	195.6
L.		Other assets	10)	13,740,448	14,083,076	97.6
M.		Tax receivables		101,386	0	–
N.		Cash and cash equivalents	11)	4,581,653	11,677,412	39.2
		LIABILITIES AND EQUITY		**478,960,480**	**379,646,918**	**126.2**
A.		Equity	12)	168,551,461	136,495,986	123.5
	1.	Called-up capital		32,809,710	32,809,710	100.0
	2.	Share premium		106,162	106,162	100.0
	3.	Revenue reserves		55,914,286	45,228,433	123.6
	4.	Revaluation surplus		16,011,444	6,690,972	239.3
	5.	Retained earnings		39,413,115	43,316,055	91.0
	6.	Net profit for the period		20,041,044	7,282,816	275.2
	7.	Foreign currency translation adjustment		–371,822	0	–
		Minority interest in equity		4,627,522	1,061,838	435.8
B.		Subordinated liabilities	13)	31,136,034	11,614,395	268.1
C.		Technical provisions	14)	224,108,822	184,116,180	121.7
	1.	Unearned premiums		66,259,147	52,774,864	125.6
	2.	Mathematical provision		9,294,535	8,021,728	115.9
	3.	Provision for outstanding claims		135,741,158	114,861,903	118.2
	4.	Technical provision for the benefit of life insurance policyholders who bear the investment risk		11,112,839	6,585,843	168.7
	5.	Other technical provisions		1,701,143	1,871,842	90.9
D.		Other provisions	15)	628,707	535,851	117.3
E.		Liabilities related to non-current assets held for sale		0	0	–
F.		Deferred tax liabilities	16)	4,068,866	9,338,035	43.6
G.		Financial liabilities		37,211	0	–
	1.	Liabilities from investment contracts		0	0	–
	2.	Other financial liabilities		37,211	0	–
H.		Other liabilities	17)	40,044,752	36,274,760	110.4
	1.	Liabilities from primary insurance business		1,995,277	385,314	517.8
	2.	Liabilities from co-insurance and reinsurance business		25,163,430	24,431,620	103.0
	3.	Diverse liabilities		12,886,045	11,457,826	112.5
I.		Current income tax liabilities	17)	10,384,627	1,271,711	816.6

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(EUR)		Notes	1 January– 31 December 2007	1 January– 31 December 2006	Index
I.	Net earned premiums	18)	157,735,900	118,617,819	133.0
	– Gross premiums written		188,637,037	140,460,856	134.3
	– Written premiums ceded to reinsurers and co-insurers		–23,564,493	–17,896,363	131.7
	– Change in unearned premiums		–7,336,644	–3,946,674	185.9
II.	Income from investments in affiliates	19)	1,655,883	2,056,470	80.5
III.	Investment income	20)	31,896,219	16,044,588	198.8
IV.	Other technical income, of this	21)	–17,599,310	–17,703,989	99.4
	– commission income		–18,594,854	–18,477,501	100.6
V.	Other income	22)	2,470,099	1,026,216	240.7
VI.	Net insurance claims and benefits incurred	23)	–97,852,916	–77,442,187	126.4
	– Gross claims and benefits paid		–99,422,356	–89,578,407	111.0
	– Reinsurers' and co-insurers' share of claims and benefits paid		12,239,304	19,218,989	63.7
	– Change in the provision for outstanding claims		–10,669,864	–7,082,769	150.6
VII.	Change in other technical provisions	24)	–4,363,895	–2,656,302	164.3
VIII.	Change in liabilities relating to investment contracts		0	0	–
IX.	Bonuses and rebates		–1,307,780	–23,716	5,514.3
X.	Operating expenses, of this	25)	–34,779,373	–20,050,498	173.5
	– acquisition costs		–8,300,207	–3,343,355	248.3
XI.	Expenses relating to investments in associates		0	0	–
XII.	Investment expenses	26)	–6,405,090	–2,049,242	312.6
XIII.	Other technical expenses		–2,927,236	–1,653,325	177.1
XIV.	Other expenses		–1,330,421	–336,262	395.7
XV.	Profit before tax		27,192,080	15,829,572	171.8
XVI.	Current tax	27)	–8,961,318	–3,647,291	245.7
XVII.	Deferred tax		2,614,492	763,217	342.6
XVIII.	Profit for the period		20,845,254	12,945,498	161.0
	Profit for the period attributable to equity holders of the company		**20,218,468**	**12,940,555**	**156.2**
	Profit for the period attributable to minority interest		**626,786**	**4,943**	**12,680.3**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(EUR)			2007	2006
A. Cash flows from operating activities				
a.)	**Items of the income statement**		**19,746,066**	**13,773,447**
	1.	Net premiums written	163,084,553	122,564,493
	2.	Investment income	15,594,733	2,562,369
	3.	Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	3,989,513	1,732,077
	4.	Net claims and benefits paid	–91,953,122	–70,359,417
	5.	Expenses arising out of liabilities relating to insurance contracts	–1,790,659	0
	6.	Net operating expenses excl. depreciation and change in deferred acquisition costs	–48,704,415	–37,970,231
	7.	Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	–11,061,716	–1,108,588
	8.	Tax on profit and other taxes not included in operating expenses	–9,412,821	–3,647,256
b.)	**Changes in net operating assets (and in accruals/deferrals and deferred tax receivables/ liabilities) of operating items of the balance sheet**		**16,688,039**	**–539,529**
	1.	Change in operating receivables	–4,063,596	–8,697,896
	2.	Change in short-term deferred costs and accrued income	588,448	275,476
	3.	Change in deferred tax receivables	57,929	–400,207
	4.	Change in assets held for sale	0	0
	5.	Change in inventories	–92,382	–13,691
	6.	Change in operating liabilities	11,414,367	7,857,272
	7.	Change in accrued costs, deferred income and provisions	3,155,113	276,996
	8.	Change in deferred tax liabilities	5,628,160	162,521
c.)	**Net cash from/used in operating activities (a + b)**		**36,434,105**	**13,233,918**
B. Cash flows from investing activities				
a.)	**Cash receipts from investing activities**		**190,361,740**	**237,180,307**
	1.	Interest received from investing activities	9,096,608	8,793,100
	2.	Cash receipts from participation in the profit of others	1,680,085	154,080
	3.	Proceeds from sale of intangible assets	0	7,236
	4.	Proceeds from sale of property and equipment	195,570	586,772
	5.	Proceeds from sale of investment property	6,906,521	0
	6.	Proceeds from sale of investments in affiliated companies	16,293	0
	7.	Proceeds from sale of financial investments	172,466,663	227,639,119
b.)	**Cash disbursements in investing activities**		**–259,426,867**	**–251,455,079**
	1.	Purchase of intangible assets	–477,853	–146,403
	2.	Purchase of property and equipment	–10,279,914	–570,112
	3.	Purchase of investment property	0	19,286,965
	4.	Purchase of financial investments in affiliated companies	–25,486,582	–204,124,031
	5.	Purchase of financial investments	–223,182,518	–65,901,498
c.)	**Net cash from/used in investing activities (a + b)**		**–69,065,127**	**–14,274,772**
C. Cash flows from financing activities				
a.)	**Cash receipts from financing activities**		**23,381,330**	**12,574,168**
	1.	Proceeds from paid-in capital	1,934,373	959,773
	2.	Proceeds from long-term borrowing	20,946,957	11,614,395
	3.	Proceeds from short-term borrowing	500,000	0
b.)	**Cash disbursements in financing activities**		**2,153,937**	**–164,936**
	1.	Interest paid	2,216,469	–114,626
	2.	Redemption of equity	0	0
	3.	Repayment of long-term financial liabilities	–62,532	0
	4.	Repayment of short-term financial liabilities	0	0
	5.	Dividends and other profit participations paid	0	–50,310
c.)	**Net cash from/used in financing activities (a + b)**		**25,535,267**	**12,409,232**
Č. Cash and cash equivalents as at 31 December			**4,581,653**	**11,677,408**
x.)	**Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)**		**–7,095,755**	**11,368,378**
Cash and cash equivalents as at 1 January			**11,677,408**	**309,029**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(EUR)	Called-up capital		Share premium	Revenue reserves	Re-valuation surplus	Retained earnings	Net profit or loss for the period	Foreign currency transla-tion ad-justment	Total equity of the Group	Minority interest in equity	Total
	Share capital	Uncalled capital									
Balance at 1 January 2007		**0**	**106,162**		**6,690,972**		**7,282,816**	**0**		**1,061,838**	
Change in accounting policy	0	0	0	0	0	–677,328	0	0	–677,328	0	–677,328
Balance at 1 January 2007 after change	32,809,710	0	106,162	45,228,433	6,690,972	42,638,727	7,282,816	0		1,061,838	
Movements to equity											
Net profit or loss for the period	0	0	0	0	0	0	20,218,468	0	20,218,468	626,786	20,845,254
Equity revaluation adjustment	0	0	0	0	24,192,819	0	0	0	24,192,819	0	24,192,819
Increase in equity due to acquisition of subsidiaries	0	0	0	0	0	0	0	0	0	2,938,898	2,938,898
Movements within equity											
Allocation of net profit as a component of equity by decision of the management and the supervisory board	0	0	0	0	0	7,282,660	–7,282,660	0	0	0	0
Allocation of net profit to additional reserves by resolution of the annual general meeting of shareholders	0	0	0	10,508,273	0		0	0	0	0	0
Other reallocation of components of equity	0	0	0	177,580	0	0	–177,580	0		0	0
Movements from equity											
Transfer of revaluation surplus to operating or financial income	0	0	0	0		0	0	0		0	
Foreign exchange losses	0	0	0	0	0	0	0	–371,822	–371,822	0	–371,822
Balance at 31 December 2007		**0**	**106,162**					**–371,822**		**4,627,522**	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(EUR)	Called-up capital		Share premium	Revenue reserves	Re-valuation surplus	Retained earnings	Net profit or loss for the period	Foreign currency transla-tion ad-justment	Total eq-uity of the Group	Minority interest in equity	Total
	Share capital	Uncalled capital									
Balance at 1 January 2006	**32,818,530**	**0**	**106,191**	**40,101,383**	**5,928,604**	**37,439,188**	**5,238,977**	**0**	**121,632,873**	**43,238**	**121,676,111**
Change in accounting policy	0	0	0	0	0	176,896	0	0	176,896	0	176,896
Balance at 1 January 2007 after change	32,818,530	0	106,191	40,101,383	5,928,604	37,616,084	5,238,977	0	121,809,769	43,238	121,853,007
Movements to equity											
Net profit or loss for the period	0	0	0	0	0	0	12,935,303	0	12,935,303	4,943	12,940,246
Equity revaluation adjustment	0	0	0	0	1,356,771	0	0	0	1,356,771	3,070	1,359,841
Foreign exchange gains	0	0	0	0	0	0	0	0	0	2,462	2,462
Increase in equity due to acquisition of subsidiaries	0	0	0	0	0	0	0	0	0	1,010,015	1,010,015
Movements within equity											
Allocation of net profit as a component of equity by decision of the management and the supervisory board	0	0	0	0	0	5,238,977	–5,238,977	0	0	0	0
Allocation of net profit to additional reserves by resolution of the annual general meeting of shareholders	0	0	0	5,656,651	0	0	–5,656,651	0	0	0	0
Other reallocation of components of equity	0	0	0	–524,171	0	520,007	4,164	0	0	0	0
Movements from equity											
Dividends	0	0	0	0	0	–50,310	0	0	–50,310	0	–50,310
Transfer of revaluation surplus to operating or financial income	0	0	0	0	–593,521	0	0	0	–593,521	–1,890	–595,411
Foreign exchange losses	–8,820	0	–29	–5,430	–882	–8,703	0	0	–23,864	0	–23,864
Balance at 31 December 2006	**32,809,710**	**0**	**106,162**	**45,228,433**	**6,690,972**	**43,316,055**	**7,282,816**	**0**	**135,434,148**	**1,061,838**	**136,495,986**

28. REPORTING BY SEGMENT

28.1. ACCOUNTS BY SEGMENT

Balance sheet as at 31 December 2007

(EUR)			Reinsurance	Primary insurance		Consolidation	Total
			Non-life	Non-life	Life		
		ASSETS	**356,701,026**	**145,582,920**	**25,487,731**	**–48,811,197**	**478,960,480**
A.		Intangible assets	162,140	1,470,083	103,009	23,657,809	25,393,041
B.		Property and equipment	1,907,468	17,248,763	1,787,496	0	20,943,727
C.		Non-current assets held for sale	0	1,422,509	0	0	1,422,509
D.		Deferred tax assets	131,804	207,637	3,012	0	342,453
E.		Investment property	728,514	592,319	0	0	1,320,833
F.		Investments in associates	72,487,296	2,084,664	0	–43,567,012	31,004,948
G.		Financial investments	215,610,292	61,974,344	22,344,890	0	299,929,526
		– held to maturity	0	2,016,636	0	0	2,016,636
		– available for sale	187,458,823	17,080,760	8,689,727	0	213,229,310
		– at fair value through profit or loss	4,799,223	71,397	10,578,852	0	15,449,472
		– loans and receivables	23,352,246	42,805,551	3,076,311	0	69,234,108
H.		Assets from investment contracts	0	0	0	0	0
I.		Reinsurers' share of technical provisions	21,473,195	18,539,115	1,507	–17,592,650	22,421,167
J.		Inventories	0	115,182	13,502	0	128,684
K.		Receivables	35,484,845	31,862,190	486,016	–10,202,946	57,630,105
	1.	Receivables arising out of primary insurance business	0	19,697,827	419,737	0	20,117,564
	2.	Receivables arising out of co-insurance and reinsurance business	33,094,211	4,727,307	2,891	–10,160,702	27,663,707
	3.	Other receivables	2,390,634	7,437,056	63,388	–42,244	9,848,834
L.		Other assets	8,576,418	5,531,164	739,264	–1,106,398	13,740,448
M.		Tax receivables	0	101,386	0	0	101,386
N.		Cash and cash equivalents	139,054	4,433,564	9,035	0	4,581,653
		LIABILITIES AND EQUITY	**356,701,026**	**145,582,920**	**25,487,731**	**–48,811,197**	**478,960,480**
A.		Equity	145,637,434	35,232,354	3,920,353	–16,238,680	168,551,461
	1.	Called-up capital	32,809,710	32,366,296	5,842,096	–38,208,392	32,809,710
	2.	Share premium	106,162	28,495	30	–28,525	106,162
	3.	Revenue reserves	55,385,397	4,123,693	0	–3,594,804	55,914,286
	4.	Revaluation surplus	12,491,698	3,231,696	52,821	235,229	16,011,444
	5.	Retained earnings	26,811,969	–6,423,880	–1,707,903	20,732,929	39,413,115
	6.	Net profit for the period	18,032,498	2,287,284	–266,691	–12,047	20,041,044
	7.	Foreign currency translation adjustment	0	–381,230	0	9,408	–371,822
		Minority interest in equity	0	0	0	4,627,522	4,627,522
B.		Subordinated liabilities	31,136,034	0	0	0	31,136,034
C.		Technical provisions	129,483,842	92,619,464	20,704,564	–18,699,048	224,108,822
	1.	Unearned premiums	37,577,865	35,570,504	210,593	–7,099,815	66,259,147
	2.	Mathematical provision	0	0	9,294,535	0	9,294,535
	3.	Provision for outstanding claims	91,219,036	55,890,015	86,597	–11,454,490	135,741,158
	4.	Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	11,112,839	0	11,112,839
	5.	Other technical provisions	686,941	1,158,945	0	–144,743	1,701,143
D.		Other provisions	165,762	396,909	66,036	0	628,707
E.		Liabilities related to non-current assets held for sale	0	0	0	0	0
F.		Deferred tax liabilities	3,585,825	467,133	15,908	0	4,068,866
G.		Financial liabilities	2,308	3,619,139	0	–3,584,236	37,211
	1.	Liabilities from investment contracts	0	0	0	0	0
	2.	Other financial liabilities	2,308	3,619,139	0	–3,584,236	37,211
H.		Other liabilities	36,523,792	13,004,577	780,870	–10,264,487	40,044,752
	1.	Liabilities from primary insurance business	0	1,943,804	51,473	0	1,995,277
	2.	Liabilities from co-insurance and reinsurance business	27,267,893	6,026,085	32,851	–8,163,399	25,163,430
	3.	Diverse liabilities	9,255,899	5,034,688	696,546	–2,101,088	12,886,045
I.		Current income tax liabilities	10,166,029	243,344	0	–24,746	10,384,627
		OFF BALANCE SHEET LIABILITIES	**3,932,868**	**13,223,409**	**0**	**0**	**17,156,277**

Income statement for the year ended 31 December 2007

(EUR)		Reinsurance	Primary insurance		Consolida-tion	Total
		Non-life	Non-life	Life		
I.	Net earned premiums	93,681,613	54,807,502	9,205,737	41,048	157,735,900
	– Gross premiums written	118,539,939	80,834,886	9,507,896	–20,245,684	188,637,037
	– Written premiums ceded to reinsurers and co-insurers	–21,332,033	–22,486,341	–32,851	20,286,732	–23,564,493
	– Change in unearned premiums	–3,526,293	–3,541,043	–269,308	0	–7,336,644
II.	Income from investments in affiliates	1,133,600	11,904	0	510,379	1,655,883
III.	Investment income	26,706,893	3,694,041	1,495,285	0	31,896,219
IV.	Other technical income, of this	–23,627,652	6,002,060	21,084	5,198	–17,599,310
	– commission income	–23,756,661	5,156,609	–2,891	8,089	–18,594,854
V.	Other income	30,157	2,439,942	0	0	2,470,099
VI.	Net insurance claims and benefits incurred	–63,085,858	–33,005,278	–1,770,939	9,159	–97,852,916
	– Gross claims and benefits paid	–70,358,934	–39,017,407	–1,839,009	11,792,994	–99,422,356
	– Reinsurers' and co-insurers' share of claims and benefits paid	11,597,218	12,425,921	0	–11,783,835	12,239,304
	– Change in the provision for outstanding claims	–4,324,142	–6,413,792	68,070	0	–10,669,864
VII.	Change in other technical provisions	342,460	143,265	–4,849,620	0	–4,363,895
VIII.	Change in liabilities relating to investment contracts	0	0	0	0	0
IX.	Bonuses and rebates	0	–1,307,780	0	0	–1,307,780
X.	Operating expenses, of this	–5,242,966	–25,658,922	–3,878,557	1,072	–34,779,373
	– acquisition costs	0	–6,828,010	–1,472,197	0	–8,300,207
XI.	Expenses relating to investments in associates	0	–115,616	0	115,616	0
XII.	Investment expenses	–5,833,028	–194,477	–377,585	0	–6,405,090
XIII.	Other technical expenses	–567,303	–2,247,465	–112,468	0	–2,927,236
XIV.	Other expenses	–1,258	–1,272,151	0	–57,012	–1,330,421
XV.	Profit before tax	23,536,658	3,297,025	–267,063	625,460	27,192,080
XVI.	Current tax	–7,966,107	–995,211	0	0	–8,961,318
XVII.	Deferred tax	2,634,873	–20,751	370	0	2,614,492
XVIII.	Profit for the period	18,205,424	2,281,063	–266,693	625,460	20,845,254
	Profit for the period attributable to equity holders of the company	**17,658,014**	**2,212,475**	**–258,674**	**606,653**	**20,218,468**
	Profit for the period attributable to minority interest	**547,410**	**68,588**	**–8,019**	**18,807**	**626,786**

Balance sheet as at 31 December 2006

(EUR)			Reinsurance	Reinsurance		Consolidation	Total
			Non-life	Non-life	Life		
		ASSETS	**293,419,902**	**98,610,574**	**19,028,840**	**–31,412,398**	**379,646,918**
A.		Intangible assets	49,190	187,846	0	10,039,475	10,276,511
B.		Property and equipment	1,891,151	6,877,183	375,661	0	9,143,995
C.		Non-current assets held for sale	3,811,863	0	0	0	3,811,863
D.		Deferred tax assets	169,169	228,396	2,642	0	400,207
E.		Investment property	738,811	2,262,285	98,817	0	3,099,913
F.		Investments in Group companies and in associates	44,710,952	175,981	0	–15,547,366	29,339,567
G.		Financial investments	174,303,623	44,998,920	16,959,387	0	236,261,930
		– held to maturity	0	1,507,521	0	0	1,507,521
		– available for sale	133,989,424	22,035,780	7,074,138	0	163,099,342
		– at fair value through profit or loss	2,588,495	0	6,899,686	0	9,488,181
		– loans and receivables	37,725,704	21,455,619	2,985,563	0	62,166,886
H.		Assets from investment contracts	0	0	0	0	0
I.		Reinsurers' share of technical provisions	16,927,142	17,491,871	1,320	–17,405,287	17,015,046
J.		Inventories	0	56,994	46,014	0	103,008
K.		Receivables	34,571,521	16,552,863	494,684	–7,184,678	44,434,390
	1.	Receivables arising out of primary insurance business	0	9,518,794	418,188	0	9,936,982
	2.	Receivables arising out of co-insurance and reinsurance business	32,330,785	4,314,511	2,399	–7,184,679	29,463,016
	3.	Other receivables	2,240,736	2,719,558	74,097	0	5,034,391
L.		Other assets	9,000,542	5,363,126	1,033,950	–1,314,542	14,083,076
M.		Tax receivables	0	0	0	0	0
N.		Cash and cash equivalents	7,245,938	4,415,109	16,365	0	11,677,412
		LIABILITIES AND EQUITY	**293,419,902**	**98,610,574**	**19,028,840**	**–31,412,398**	**379,646,918**
A.		Equity	117,924,009	19,154,256	3,339,900	–3,922,179	136,495,986
	1.	Called-up capital	32,809,710	24,838,759	4,172,926	–29,011,685	32,809,710
	2.	Share premium	106,162	28,495	0	–28,495	106,162
	3.	Revenue reserves	44,704,197	549,770	0	–25,534	45,228,433
	4.	Revaluation surplus	2,957,098	2,344,931	224,796	1,164,147	6,690,972
	5.	Retained earnings	33,371,512	–9,615,994	–771,565	20,332,102	43,316,055
	6.	Net profit for the period	3,975,330	1,008,295	–286,257	2,585,448	7,282,816
	7.	Foreign currency translation adjustment	0	0	0	0	0
		Minority interest in equity	0	0	0	1,061,838	1,061,838
B.		Subordinated liabilities	11,614,395	0	0	0	11,614,395
C.		Technical provisions	117,429,814	70,402,553	15,003,641	–18,719,828	184,116,180
	1.	Unearned premiums	33,040,080	25,458,014	221,985	–5,945,215	52,774,864
	2.	Mathematical provision	0	0	8,021,728	0	8,021,728
	3.	Provision for outstanding claims	83,383,909	43,970,464	174,085	–12,666,555	114,861,903
	4.	Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	6,585,843	0	6,585,843
	5.	Other technical provisions	1,005,825	974,075	0	–108,058	1,871,842
D.		Other provisions	191,801	292,213	51,837	0	535,851
E.		Liabilities related to non-current assets held for sale	0	0	0	0	0
F.		Deferred tax liabilities	8,898,637	370,878	68,520	0	9,338,035
G.		Financial liabilities	0	1,631,823	0	–1,631,823	0
	1.	Liabilities from investment contracts	0	0	0	0	0
	2.	Other financial liabilities	0	1,631,823	0	–1,631,823	0
H.		Other liabilities	36,200,271	6,648,115	564,942	–7,138,568	36,274,760
	1.	Liabilities from primary insurance business	0	361,680	23,634	0	385,314
	2.	Liabilities from co-insurance and reinsurance business	28,342,213	3,245,984	28,102	–7,184,679	24,431,620
	3.	Diverse liabilities	7,858,058	3,040,451	513,206	46,111	11,457,826
I.		Current income tax liabilities	1,160,975	110,736	0	0	1,271,711
		OFF BALANCE SHEET LIABILITIES	**3,965,716**	**13,207,515**	**0**	**0**	**17,173,231**

Income statement for the year ended 31 December 2006

(EUR)		Reinsurance	Primary insurance		Consolidation	Total
		Non-life	Non-life	Life		
I.	Net earned premiums	82,553,053	28,214,612	7,850,154	0	118,617,819
	– Gross premiums written	103,903,448	43,700,031	7,864,682	–15,007,305	140,460,856
	– Written premiums ceded to reinsurers and co-insurers	–17,721,988	–15,153,577	–28,103	15,007,305	–17,896,363
	– Change in unearned premiums	–3,628,407	–331,842	13,575	0	–3,946,674
II.	Income from investments in affiliates	103,444	0	0	1,953,026	2,056,470
III.	Investment income	12,354,310	2,498,655	1,191,623	0	16,044,588
IV.	Other technical income, of this	–21,542,929	3,788,891	50,049		–17,703,989
	– commission income	–21,758,717	3,278,817	2,399	0	–18,477,501
V.	Other income	1,026,216	0	0	0	1,026,216
VI.	Net insurance claims and benefits incurred	–55,125,201	–19,593,682	–2,723,304	0	–77,442,187
	– Gross claims and benefits paid	–71,194,242	–25,889,141	–2,875,544	10,380,520	–89,578,407
	– Reinsurers' and co-insurers' share of claims and benefits paid	19,241,727	10,357,782	0	–10,380,520	19,218,989
	– Change in the provision for outstanding claims	–3,172,686	–4,062,323	152,240	0	–7,082,769
VII.	Change in other technical provisions	–58,587	136,208	–2,733,923	0	–2,656,302
VIII.	Change in liabilities relating to investment contracts	0	0	0	0	0
IX.	Bonuses and rebates	0	–23,716	0	0	–23,716
X.	Operating expenses, of this	–4,497,541	–11,770,820	–3,779,738	–2,399	–20,050,498
	– acquisition costs	0	–1,209,066	–2,134,289	0	–3,343,355
XI.	Expenses relating to investments in associates	0	–103,444	0	103,444	0
XII.	Investment expenses	–1,818,156	–169,326	–61,760	0	–2,049,242
XIII.	Other technical expenses	–130,764	–1,476,664	–45,897	0	–1,653,325
XIV.	Other expenses	–333,619	0	0	–2,643	–336,262
XV.	Profit before tax	12,530,226	1,500,714	–252,796	2,051,428	15,829,572
XVI.	Current tax	–3,430,424	–183,162	–33,705	0	–3,647,291
XVII.	Deferred tax	532,179	228,396	2,642	0	763,217
XVIII.	Profit for the period	9,631,981	1,545,948	–283,859	2,051,428	12,945,498
	Profit for the period attributable to equity holders of the company	**9,628,303**	**1,545,358**	**–283,751**	**2,050,645**	**12,940,555**
	Profit for the period attributable to minority interest	**3,678**	**590**	**–108**	**783**	**4,943**

28.2. SEGMENT REPORTING BY GEOGRAPHICAL AREA

Consolidated gross premiums written (by market) in 2007

(EUR, except percentages)	Sava Re	Tilia	Other subsidiaries	Total consolidated	As % of GPW
Slovenia	63,308,082	58,108,415	0	121,416,497	64.4%
Ex Yu	9,291,090	0	32,234,367	41,525,457	22.0%
EU	22,247,321	0	0	22,247,321	11.8%
Other	3,447,761	0	0	3,447,761	1.8%
Total	**98,294,254**	**58,108,415**	**32,234,367**	**188,637,036**	**100.0%**

Consolidated gross premiums written (by market) in 2006

(EUR, except percentages)	Sava Re	Tilia	Other subsidiaries	Total consolidated	As % of GPW
Slovenia	57,649,862	51,564,713	0	109,214,575	77.8%
Ex Yu	2,473,744	0	0	2,473,744	1.8%
EU	19,323,960	0	0	19,323,960	13.8%
Other	9,448,578	0	0	9,448,578	6.7%
Total	**88,896,144**	**51,564,713**	**0.00**	**140,460,857**	**100.0%**

Non-life gross premiums written by markets of former Yugoslavia in 2006 and 2007

(EUR)	2007	2006
Slovenia	48,600,519	43,700,031
Kosovo	7,794,922	0
Serbia	10,158,323	0
Macedonia	14,281,122	0
Total	**80,834,886**	**43,700,031**

A segment is a distinguishable component of the Group that is engaged in providing products and services (business segment) or products and services within a particular economic area (geographical segment), and is subject to risks and returns that are different from those of other segments. The Group's financial information is reported for both business segments and geographical segments. Group segment reporting is based on business segments. Business segments of the Group are based on the management of the Group and its internal reporting structure

Segment results, assets and liabilities comprise items that are directly attributable to a segment and items that can be allocated, on a reasonable basis, to a segment. Unallocated items mainly comprise investments (other than investment property) and related income, granted and raised loans and related costs, and corporate tax assets and liabilities.

Segment investments in long-term assets comprise costs incurred in the current financial year relating to the acquisition of property and equipment and intangible assets other than goodwill.

28.3. GENERAL

Pozavarovalnica Sava d.d. ("Sava Re" or "the Company") was established under Foundations of the Life and Non-life Insurance System Act and was entered in the company register at the Basic Court of Ljubljana, Ljubljana Unit on December 28, 1990. The legal predecessor of the Company, the Pozavarovalna skupnost Sava, was established in 1977.

Sava Re carries out reinsurance business both in the domestic and in the international market. According to the Standard Classification of Activities of the Statistical Office of the Republic of Slovenia, the standard code of its activities is subclass 65.200. According to the Slovenian Companies Act ("CA"), the Company is classified as a large company.

The financial statements of the Company have been prepared in accordance with the Insurance Companies Act ("ICA"), executive acts and notes issued by the Slovenian Insurance Supervision Agency ("ISA") and the International Financial Reporting Standards ("IFRS").

The registered office of the Group is Pozavarovalnica Sava d.d., Ljubljana, Dunajska 56, Ljubljana.

In 2007 the average number of employees was 964 and in the year 2006 it was 675.

The corporate governance bodies of the Group comprise the Shareholders' Assembly, the Supervisory Board and the Board of Management.

The majority shareholder is the Slovenska odškodninska družba (Slovenian Restitution Fund), with a shareholding of 99.87%.

28.4. GROUP COMPANIES

The Company is the parent company of an insurance group.

In addition to the parent, the Group comprises the following companies:
Zavarovalnica Tilia, d.d., Novo mesto, Slovenia – subsidiary
Sava Osiguranje a.d.o., Belgrade, Serbia – subsidiary
Dukagjini kompania e sigurimeve sh.k.p., Priština, Kosovo – subsidiary
Akcionarsko društvo za osiguruvanje Sava Tabak a.d.o., Skopje, Macedonia – subsidiary
Montenegro osiguranje a.d., Podgorica, Montenegro – subsidiary
Bro-Dil a.d. Skopje – subsidiary
Zavarovalnica Maribor d.d., Maribor, Slovenia – associated company
Moja naložba, d.d., Maribor, Slovenia – associated company

In 2007, the Group acquired the companies Tabak Osiguruvanje, Skopje, and Montenegro Osiguranje, Podgorica.

In accordance with IAS 27, the consolidated financial statements include Sava Re (the parent) and all the entities in which Sava Re owns more than half of the voting rights (subsidiaries). All subsidiaries are deemed material.

Sava Tabak a.d.o.

On January 5, 2007, the Group acquired a 54.64% shareholding in Tabak Osiguruvanje a.d.o., Skopje, Macedonia ("Tabak"), for a price of EUR 6,715,302. On May 2 and 11, 2007, Sava Re increased its shareholding in Tabak Osiguruvanje to 66.67% for a purchase price of EUR 1,602,284. Total consideration for Tabak Osiguruvanje amounted to EUR 8,499,122. This includes the initial purchase price (on January 5, 2007) and additional costs attributable to the acquisition such as consultants' fees. Tabak Osiguruvanje (which has been renamed as Sava Tabak) is a non life insurer, holding approximately 15.1% of the market share of the Macedonian insurance market (as of 2006 Tabak held 15.8% market share). Prior to the acquisition, Tabak was a customer of Sava Re. In 2007, Tabak accounted for 2.4% of the unconsolidated reinsurance gross premium written. As the majority shareholding in Tabak was acquired in January 2007, Tabak's total income and expenses for the year ended December 31, 2007 are included in the Group's consolidated income statement. In 2007, Tabak's net profit amounted to EUR 439,037. Tabak was consolidated for the first time from January 1, 2007. On this date Tabak's identifiable assets and liabilities comprised: intangible assets of EUR 1,169,462, investments of EUR 6,394,751 gross technical provisions of EUR 6,874,926 and other liabilities of EUR 2,497,234. The goodwill arising on the consolidation of Tabak amounts to EUR 3,030,375. This goodwill is based on additional market opportunities.

Montenegro osiguranje a.d.

On November 28th, 2007, the Group acquired a 99.92% shareholding in Montenegro osiguranje a.d., Podgorica, Montenegro ("Montenegro") for a price of EUR 15,280,618. The consideration includes all acquisition expenses and other charges, such as fees for consulting services. Montenegro is a non life insurer, holding approximately 23% of the market share of the Montenegrin insurance market. Montenegro's income and expenses for the year ended December 31 2007 have not been recognized in the consolidated income statement. The Directors consider Montenegro's revenue and expenses relating to December 2007 to be immaterial to the results of the Group and have therefore excluded them from the consolidated financial statements. Montenegro was consolidated for the first time from December 31,2007. On this date Montenegro's identifiable assets and liabilities comprised: intangible assets of EUR 125,458, investments of EUR 8,600,253 gross technical provisions of EUR 7,093,613 and other liabilities of EUR 440,155. The goodwill arising on the consolidation of Montenegro amounts to EUR 10,563,693 This goodwill is based on additional market opportunities.

Sava Osiguranje a.d.o.

In October 2006, the Group acquired 98.92% shareholding in Sava Osiguranje a.d.o., Belgrade, Serbia ("Sava Osiguranje") for a price of EUR 12,313,923. The consideration includes expenses and other charges directly attributable to the acquistion such as fees for consulting services. The Directors considered Sava Osiguranje's revenue and expenses relating to the two month period ended December 31, 2006 to be immaterial to the results of the Group and therefore excluded them from the 2006 consolidated financial statements. Sava Osiguranje was consolidated for the first time from December 31, 2006. On this date Sava Osiguranje's identifiable assets and liabilities comprised: intangible assets of EUR 30,015, investments of EUR 7,032,182, gross technical provisions of EUR 5,671,265, and other liabilities of EUR 309,885. The goodwill arising on the consolidation of Sava Osiguranje amounts to EUR 5,047,588. This goodwill is based on additional market opportunities. In January 2007 the Group acquired additional 1.07% shareholding in Sava Osiguranje for a consideration of EUR 139,669.

Dukagjini kompania e sigurimeve sh.k.p.

In October 2006, the Group acquired 51.00% shareholding in Dukagjini kompania e sigurimeve sh.k.p.,Priština, Kosovo ("Dukagjini") for a price of EUR 6,013,311. The consideration includes expenses and other charges directly attributable to the acquisition such as fees for consulting services. The Directors considered Dukagjini's revenue and expenses relating to the two month period ended December 31, 2006 to be immaterial to the results of the Group and therefore excluded them from the 2006 consolidated financial statements.

Dukagjini was consolidated for the first time from December 31, 2006. On this date Sava Osiguranje's identifiable assets and liabilities comprised: investments of EUR 6,063,787 ,gross technical provisions of EUR 5,786,963 and other liabilities of EUR 485,010. The goodwill arising on the consolidation of Dukagjini amounts to EUR 4,991,887. This goodwill is based on additional market opportunities.

28.5. CONSOLIDATION PRINCIPLES

The balance sheet date of Sava Re's subsidiaries is 31 December. Acquisitions are accounted for by applying the purchase method. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained. To determine the net assets of the acquiree's at the time of first consolidation, the assets and liabilities of the subsidiaries are measured at fair value. The excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired, is capitalised as goodwill. Cost of a business combination comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated in full.

Associates

Pursuant to IAS 28, where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate.

When the Group holds between 20% and 50% of the entity's voting rights, this entity is deemed to be an associate. The investments in associates are accounted for using the equity method.

28.6. FUNCTIONAL AND PRESENTATION CURRENCY

All items of the financial statements are presented in euros. The euro is the currency of the primary economic environment in which Sava Re operates (functional currency) as well as the currency in which Sava Re presents its financial statements (presentation currency).

28.7. INTRODUCTION OF THE EURO AND FOREIGN CURRENCIES

On January 1, 2007, Slovenia adopted the euro as its functional currency. On this date, the Group's assets, liabilities and equity were translated, in compliance with the IAS 21, into euro at the exchange rate of 239,64 SIT/EUR.

With regards to 2006 comparatives, the Group's assets, liabilities and equity as at December 31, 2005 were translated to EUR using the exchange rate of 239.5756 SIT/EUR. Exchange differences arising on translating the opening net assets at opening rate (January 1, 2006) and the closing net assets at final rate (December 31, 2005) are recognized directly in equity. The financial statements are presented in euros (EUR) rounded without decimals. As a result of rounding off, insignificant differences to the sums presented in the tables may arise.

Assets and liabilities as of December 31, 2007 held in a foreign currency have been translated into euros using the central rate of the European Central Bank ("ECB") as at December 31, 2007. During 2007 assets and liabilities in foreign currencies were translated into Euros using the exchange rate as per the ECB prevailing on the date in which they arise. Exchange differences arising on (i) settlement of transactions and (ii) the translation of unsettled monetary assets and liabilities, are recognized immediately in the consolidated income statement. Translation differences on non-monetary items such as equity securities carried at fair value through profit or loss, are recognized in the income statement, while translation differences on non-monetary items, such as equity securities classified as available for sale, are recognised in equity.

29. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of the financial statements are set out below.

29.1. STATEMENT OF COMPLIANCE

Sava Re prepared both company and consolidated financial statements for the year ended December 31, 2007. The Company has adopted the International Financial Reporting Standards ("IFRS"), for the first time, for the year ended December 31, 2007. The consolidated financial statements include disclosures of Sava Re ,as parent company, and for all the group companies in which the Group holds, directly or indirectly, more than half of the voting rights. All subsidiaries except for Montenegro Osiguranje have been fully consolidated in the year ended December 31, 2007. Montenegro Osiguranje was first consolidated on December 31, 2007.

The financial statements of the Group have been prepared in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and the interpretations of the the International Financial Reporting Interpretations Committee's (IFRIC), as adopted by the EU ("adopted IFRSs"). The financial statements were compiled in compliance with Slovenian law (Companies Act (ZGD-1), the Insurance Companies Act and its legislative acts). The Company's stakeholders can obtain relevant information on the financial position and results of the Sava Re Group by reading the financial statements of Sava Re together with the consolidated financial statements.

In selecting and applying accounting policies, as well as in preparing financial statements, the Board of Management aims at providing understandable, relevant, reliable and comparable accounting information.

The Group records business events as of when they occur rather than when they are paid. The financial statements have been prepared on a going concern basis. As fluctuations in prices and the euro exchange rates are inevitable in modern economies, the financial statements have been prepared in line with the assumption of true and fair disclosure under non- hyper inflationary conditions.

In the notes to the financial statements, the Group presents all required disclosures. If events that would otherwise require disclosure did not occur, the Group would not disclose such event in the notes to the financial statements.

The Board of Directors of the Group approved these financial statements on March 31, 2008.

29.2. MATERIALITY

Material amounts in the balance sheet are amounts that, on the balance sheet date, exceed 1% of total assets as at December 31, 2007(EUR 4,789,605). Material amounts in the income statement are those that as at December 31, 2007 exceed 0.5% of all assets (EUR 2,394,803).

29.3. COMPARATIVE DATA

The Group ensures comparability of current period figures by restating comparative figures. All financial statements are prepared to allow comparability of figures for the financial years 2006 and 2007.

To restate all notes to the financial statements for the year ended December 31, 2006 would require significant changes in the applications which provide financial accounting data. This process would be significantly lengthy and non cost-effective.

29.4. CASH FLOW STATEMENT

Cash flows from operating activities are calculated by using the indirect method; cash flows from financing activities and investing activities are calculated by using the direct method. The cash flow statement is prepared by using the indirect method based on data from the balance sheet as at January 1, 2007 and December 31, 2007 and the income statement for the year 2007 and on additional data required to make adjustments to receipts and expenditures and provide a more detailed breakdown of material items.

29.5. STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the movements in individual components of equity in the financial period. Pursuant to the Resolution of the Insurance Supervision Agency, technical reserves are included in other revenue reserves i.e. the credit risk equalization reserve and catastrophe equalization reserve.

29.6. INTANGIBLE ASSETS

All business combinations are accounted for by applying the purchase method in accordance with IFRS 3. At the acquisition date the Company recognizes goodwill at its cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

For the purposes of impairment testing, goodwill arising on consolidation is, from the acquisition date, allocated to each of the Company's cash-generating units which expect to derive benefit from the business combination. In accordance with IFRS 36, goodwill is tested for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the carrying amount of the unit exceeds its recoverable amount, the Company recognizes an impairment loss.

Intangible assets are stated at cost plus any expenses directly attributable to preparing the asset for its intended use, less accumulated amortisation and any impairment losses. Amortisation is individually calculated on a straight-line basis. Amortisation of intangible assets is calculated from the date that the asset is available for use.

Intangible assets include computer software and licenses pertaining to computer software. All intangible assets have finite useful lives. The useful life is assumed to be 5 years.

29.7. PROPERTY AND EQUIPMENT

Property and equipment is initially recognized at cost plus direct expenses. Subsequently, these assets are held at cost less accumulated depreciation and any impairment. Each year the Group assesses whether there are indications that assets may be impaired. If such indication exists, the Group assesses the recoverable amount. The recoverable amount is the higher of value in use and net selling price. If the value in use exceeds the carrying value, the asset is not impaired.

Depreciation is calculated from the date that the asset is available for use. Depreciation is individually calculated on a straight-line basis. Depreciation rates are designed to write off the cost of the asset over its useful life.

Depreciation rates for property and equipment

Depreciation group	Rate
Land	0%
Buildings	1.3 to 1.8%
Transportation	15.5%
Computer equipment	33.0%
Office and other furniture	10 to 12.5%
Other equipment	6.7 to 20%

Gains and losses on disposal of property and equipment are determined on the basis of the difference between the sales proceeds and the carrying amount and affect operating profit in the income statement. Maintenance and repairs are charged to the income statement in the financial period in which they are incurred. Investments which improve the economic benefits of the asset are included in the carrying amount of property and equipment.

29.8. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale comprise assets which will be recovered through a sale transaction rather than through continuing use. A non-current assets is classified as held for sale when the sale is highly probable and is available for immediate sale in its present condition. The Group must be committed to the sale, which must be effected within one year. Such assets are measured at the lower of the asset's carrying amount and fair value less costs to sell.

29.9. TAXES

Pursuant to the Income Tax Act, taxable profits are taxed at the applicable rate of 23%.

Deferred income tax is provided for all temporary differences arising between the tax base and the carrying amounts of assets and liabilities . The principal temporary differences arises from the valuation of financial instruments available-for-sale, where deferred tax is recognized in equity and subsequently charged to the income statement together with any gain or loss pertaining to the instrument.

In 2007, deferred tax assets were accounted for at the rate of 22% (pursuant to amendments to the Income Tax Act, deferred tax assets will be accounted for at the rate of 21% in 2008 and 20% in 2009).

29.10. INVESTMENT PROPERTY

Investment property is property or equipment that the Group does not use directly to carry out of its basic activities but holds to earn rental income. The Group uses the cost model and the straight-line depreciation method. The depreciation rate for investment property is 1.3% to 5%. All leases where the Group acts as lessor are operating leases. Payments received and rental income are recognized in the income statement on a straight-line basis over the period of the lease.

The Group lets out property that it currently does not need for carrying out its business activities. Generally, lease contracts are made for an indefinite period, the property cannot be sublet and contracts can be cancelled without incurring penalties.

29.11. INVESTMENTS IN THE EQUITY OF SUBSIDIARY AND ASSOCIATED COMPANIES

Investments in the equity of subsidiary and associated companies are accounted for in the company financial statements under the cost method. Subsidiaries are companies in which Sava Re holds more than 50% of all voting rights. Associates are companies in which Sava Re holds between 20 and 50% of voting rights. In accordance with the cost method, any profits in the form of dividends are recorded in the income statement.

29.12. FINANCIAL INVESTMENTS

30.12.1. Classification

The Group classifies its financial assets in the following groups:

Financial instruments at fair value through profit or loss

This group consists of two sub-groups, as follows:
- financial instruments held for trading, and
- financial instruments designated at fair value through profit or loss.

Financial instruments held for trading comprise instruments that the Group acquires exclusively for the purposes of trading. These are managed by banks and stock brokers, in accordance with the asset management contracts signed with Group. Derivatives are always classified as held for trading unless such derivative financial is used, successfully, for hedging. The gain arising on the revaluation of derivative instruments is not recognized in the income statement but accounted for within the revaluation reserve.

Loans granted and receivables

Loans and receivables comprise loans and bank deposits with fixed or determinable payments that are not quoted in an active market.

Financial assets held-to-maturity

Financial assets held-to-maturity are assets with fixed or determinable payments and fixed maturity that the Group can, and intend to, hold to maturity. Due to the nature of the Group's basic activities, the Group is planning to hold assets of this type only to a minor extent.

Available-for-sale financial assets

Available-for-sale financial assets comprise assets intended to be held for an indefinite period. These assets may be sold to address the need for liquidity arising, for example, from obligations to settle claims, or to respond to changes in interest rates, foreign exchange rates or prices.

30.12.2. Recognition, measurement and derecognition

Financial assets other than financial instruments carried at fair value through profit or loss are initially recognized at their fair value plus transaction costs.

Purchases and sales of financial instruments, financial assets and loans and receivables are recognized on the date on which the Group commits to purchase or sell the asset.. Financial instruments at fair value through profit or loss and financial assets available for sale are measured at their fair value.

Gains and losses arising from revaluation of investments available-for-sale held at fair value are recognized in equity and are transferred to the income statement on disposal or when they are impaired. However, gains and losses on financial instruments at fair value through profit or loss are recognized directly in the income statement. The same applies to the gains and losses arising on derivative instruments which are used for hedging but do not qualify for hedge accounting. Loans and receivables and financial assets held-to-maturity are measured at amortised cost.

Financial assets are de- recognized when the Group's contractual rights to cash inflows from the asset expire.

30.12.3. Fair value measurement principles

The fair value of financial instruments is based on their quoted market price as at the balance sheet date. If a quoted market price is not available, the fair value of the instrument is established using discounted cash flow models.

30.12.4. Impairment of financial assets

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events occurring after the initial recognition of the asset which have an impact on future cash flows that can be reliably estimated. The Group assesses the objective evidence of any impairment for all financial assets.

Impairment of investments

The Group continuously reviews its investment portfolio and is capable of responding promptly to changes in market conditions which may impair the value of individual investments. The fair values of financial instruments that are not quoted in an active market are determined by using discounted cash flow models. These form part of the IT support implemented by the Group in 2007. The Group does not increase its exposure by acquiring low-rated securities. In the event of a material drop in the fair value of any individual financial instrument, the Group considers all available facts that may impact circumstances and may make the drop a permanent one.

Impairment of (re)insurance receivables

With regard to its basic activities, i.e. reinsurance business, the parent transacts business exclusively with legal entities. Before entering into a business relationship with any new customer, especially if foreign, the Group carefully scrutinises the customer's financial rating status or enters business with new customers upon recommendations by trusted business partners. The Group individually assesses receivables in terms of their recoverability or impairment. Provisions are made on the basis on the likelihood of recovering debts taking into account the payment history of ceding companies and retrocessionaires.

Nevertheless, the parent, at least annually, reviews receivables on an individual basis. Throughout its business activities, the parent has had no material write-offs of trade receivables.

Group companies transacting direct insurance review the recoverability of receivables on a case by case basis and based on objective criteria. Receivables due from policyholders and recourse debtors are broken down by age. In December 2006, a new decision - the Decision on the measurement of bookkeeping items and preparing financial statements - came into effect. The Decision provides that receivables due from policyholders should be grouped on the basis of the estimated solvency of the policyholders or groups of insured.

29.13. INVENTORIES

Inventories are initially measured at cost. Raw materials are measured using the average cost method. No revaluation of inventories is carried out.

29.14. RECEIVABLES

Receivables relating to reinsurance contracts are secured. Provisions for receivables are made based on the promptness in settling the debt. With regards to major customers, provisions are recognized based on a case by case analysis, taking into consideration individual payment history and available data on the financial position of such customers.

29.15. OTHER ASSETS

Other assets comprise capitalised short-term deferred costs (expenses) and accrued income. Short-term deferred costs (expenses) comprise payments to trading partners in relation to unearned commission. Short-term accrued income comprises accrued interest income from investments.

29.16. CASH AND CASH EQUIVALENTS

In the balance sheet and the income statement, cash and cash equivalents comprise amounts on current accounts and overnight deposit accounts.

29.17. EQUITY

As at the balance sheet date, total equity of the Group comprised:

- Called-up capital,
- Share premium,
- Revenue reserves,
- Revaluation surplus,
- Retained earnings,
- Net profit for the period,
- Foreign currency translation adjustment.

Share capital

The share capital comprises 7,862,519 no-par value shares. Shares are registered in the Central Securities Clearing Corporation (KDD) under the designation POSR. As at December 31, 2007, the Group held 210 treasury shares, which represents deductible item in equity according to IFRS One of the shareholders of the Group is an associated company (Zavarovalnica Maribor holding 525 shares).

29.18. SUBORDINATED LIABILITIES

The subordinated debt is a subordinated liability of Sava Re and was issued to meet capital adequacy requirements as set by Standard and Poor's.

29.19. TECHNICAL PROVISIONS

Technical provisions disclosed in the balance sheet represent gross amounts. The share of gross technical provisions ceded by the Group is shown in the balance sheet under item "Reinsurers' share of technical provisions". The ceded share is calculated on the basis of individual reinsurance agreements and on the basis of actuarial calculations for reinsured portfolios - see relevant notes to the balance sheet. Technical provisions for each company in the Group are signed off by the respective appointed actuary. The main principles for calculation of the technical provisions are described below.

Unearned premiums are premiums written in relation to risk periods after the balance sheet date. Unearned premiums relating to primary insurance, are calculated pro rata on the relevant insurance policy. In respect of reinsurance, the data necessary to apply this method may not be available. The unearned premiums relating to reinsurance are therefore calculated using nominal percentages based on reinsurance accounts. The accounts relate to the period coverage in which the premium is recognized.

The mathematical provision for life insurance contracts represents the actuarial value of obligations arising from policyholders' guaranteed entitlements. In most cases, it is calculated using the prospective net method (ie difference between present value of future benefits and future net premiums, with the same actuarial assumptions used for the premium calculation). The guaranteed interest rate is between 2.75% and 4%. In relation to the assumption of mortality , the official Slovenian population tables 1993–1995 are mostly used. For with-profit policies, the profit is determined each year and is assigned to policyholders as a reversionary bonus. The same assumptions are used for both the original policy and the provision for this bonus. The bonus provision is therefore an integral part of the mathematical provision.

The provision for outstanding claims is made in relation to incurred but not settled claims arising from primary insurance contracts and reinsurance contracts. This provision is calculated on the basis of (i) case estimates in respect of known reported claims, and (ii) actuarial projections methods (mainly on the basis of run-off triangles) in respect of incurred but not reported claims. Future payment obligations are generally not discounted, with the exception of the relatively small amount relating to annuities. This may be agreed for liability insurance for which provisions are calculated as net present value of future payments

The technical provision for the benefit of life insurance policyholders who bear the investment risk (unit-linked life insurance provision) is equal to the value of fund units of all policies. The market value of units as at December 31, 2007 is used for each underlying fund.

Other technical provisions include additional provisions for unexpired risk and provisions for premium refunds. The additional provision for unexpired risks is a result of the liability adequacy test for unearned premium described in the relevant section of the notes to the balance sheet. Provisions for premium refunds relate to non-life insurance, where in case of cancellation a proportional part of gross premium must be refunded. This provision is made for expenses which have been already incurred.

The liability adequacy test is regularly performed for unearned premiums in accordance with IFRS 4. The resulting deficiency is recognized within other technical provisions. The method of calculation is based on expected combined ratios on a line of business. If the expected combined ratio exceeds 100%, the unearned premium is not adequate and the part of combined ratio exceeding 100% is multiplied by the unearned premium to obtain the expected deficiency – see also the relevant section in the notes to the balance sheet. The mathematical provision is also regularly tested for adequacy by comparing the main initial actuarial assumptions used for the calculation of the provision, such as guaranteed interest rate, mortality tables and expenses, to the expected future values. Similar testing is performed for the technical provision for the benefit of life insurance policyholders who bear the investment risk.

29.20. OTHER PROVISIONS

Employee benefits

Employee benefits include severance indemnity, jubilee benefits and other benefits. Provisions for these benefits have been calculated by the certified actuaries of Sava Re and Zavarovalnica Tilia ("Tilia").

The provisions are calculated based on the employees' personal data: date of birth, date of commencement of employment, early retirement; salary. In addition, for each Group company, the amount of severance indemnity and jubilee benefits required by local law or other applicable regulations is taken into account.

The calculation of these provisions takes into account potential additional tax obligations arising from the payment of employee benefits.

The probability of an employee staying with the Group takes into account both the probability of death and the probability of termination of the employment contract.

The provision for employee benefits constitutes the net present value of liabilities of the Group based on assumptions listed above, calculated as the ratio between the historical period of employment with the Group and the total projected period of employment in the Group (projected unit credit method). The rates assumed for projected growth in future salaries, severance indemnity and jubilee benefits are based on the projected growth of the Group and the projected growth of the markets in which the Group operates.

The table below shows the assumptions used by each Group company.

Provisions as per IAS 19	Sava Re	Tilia	Sava Osiguranje	Sava Tabak	Montenegro	Dukagjini
Currency	EUR	EUR	CSD	MKD	EUR	EUR
Termination benefit	twice the amount of the last salary*	three times the amount of the last salary*	three times the amount of the last salary*	twice the amount of the average salary in the country	six times the amount of the last salary	N.A.
Jubilee benefits – 10 years (currency)	580	460	N.A.	15,330	N.A.	N.A.
Jubilee benefits – 20 years (currency)	870	689	N.A.	30,660	N.A.	N.A.
Jubilee benefits – 30 years (currency)	1,160	919	N.A.	45.990	N.A.	N.A.
Discount rate	4.5%	4.6%	9.0%	5.0%	4.5%	N.A.
Growth in termination benefit	6.6%	5.0%	8.0%	10.0%	6.0%	N.A.
Growth in jubilee benefit	3.5%	3.5%	N.A.	10.0%	N.A.	N.A.
Fluctuation up to age 35	3.1%	8.0%	5.0%	5.0%	5.0%	N.A.
Fluctuation between age 35 and 45	3.3%	5.5%	5.0%	4.0%	4.0%	N.A.
Fluctuation after age 45	0.9%	2.2%	5.0%	3.0%	3.0%	N.A.

*or average salary in the country, if greater

29.21. OTHER LIABILITIES

Liabilities are initially recognized at the amounts stated in their original documents and are derecognized when they are settled.

Other liabilities comprise: liabilities relating to claims, premiums from outwards retrocession business, and claims from inwards reinsurance business, retained deposits, amounts due to employees, amounts due to customers and other short-term liabilities.

29.22. EARNED PREMIUMS

Earned premiums are accounted for on an accrual basis. The Group separately discloses gross (re)insurance premiums, co-insurance and retrocession premiums and unearned premiums. These items constitute net earned premiums in the income statement. Premium income is measured based on confirmed reinsurance account statements.

29.23. INVESTMENT INCOME AND EXPENSES

The Group records investment income and expenses relating to investments supporting the liability fund (ie investments covering technical provisions) separately from income and expenses relating to the capital fund. Interest income is recognized using the effective interest rate. Revaluation income and expenses arise from the revaluation to fair value of financial assets held at fair value through profit or loss and financial assets available for sale.

29.24. INSURANCE CLAIMS AND BENEFITS INCURRED

Insurance claims and benefits incurred are accounted for on an accrual basis. Net claims and benefits incurred comprise gross claims and benefits paid net of subrogation recoveries and reinsurance claims and benefits (i.e. amounts invoiced to retrocessionnaires). The amount of insurance claims and benefits is decreased or increased according to the change in the provision for outstanding claims. These items constitute net insurance claims and benefits incurred in the income statement.

29.25. LIABILITIES RELATING TO INVESTMENT CONTRACTS

The Group provides non-life and life insurance, as well as reinsurance; all contracts signed are classified as insurance contracts.

Every insurance products meets the insurance risk transfer criterion set out in IFRS 4, except for certain annuities relating to life business. However, the contracts relating to these annuities are primarily entered into along with other insurance products.

The transfer of insurance risk is the basic purpose also of all reinsurance contracts. Proportional reinsurance contracts are associated with the same risk as the underlying insurance policies, i.e.: insurance contracts. Non-proportional reinsurance contracts provide for significant additional payments in case of a reinsurance loss event. Non-proportional reinsurance contracts are also classified as insurance contracts.

The Group has therefore no liabilities from investment contracts.

29.26. OPERATING EXPENSES

The Group classifies expenses by nature. Expenses are posted to sub-accounts tailored to the requirements of the Group.

30. CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS WHICH IMPACT THE FINANCIAL RESULTS

Change in accounting policy relating to the mathematical provision

In 2007 the method of calculating annuities written between 1997 and 2000 was changed. According to these insurance contract agreements an interest rate of 6%, or 8% is set for single premiums. However, the mathematical provision used to be calculated using the retrospective method. In 2007, the Group, pursuant to the Rules on Technical Provisions, changed the method of calculating the mathematical provision. According to the new method, the provision is calculated using the prospective method with an interest rate of 4%. The adequacy of the selected method was confirmed by the LAT test, which takes into consideration the interest rate structure of AAA bonds of the EURO system as at December 31, 2006 and December 31, 2007. The annuity increase is in line with the annual allocation of the reversionary bonus.

The effect of the calculation of the mathematical provision using the new prospective method with a changed interest rate cannot be allocated to prior years, as this would require data on the annuity amount relating exclusively to the reversionary bonus at the year end. This data has not been stored in Sava Re's IT system. The current IT system maintains data only on the total allocation from all allocated reversionary bonuses over the years.

Due to the use of a different method, the mathematical provision for old annuities increased. Owing to the reasons mentioned previously, the change in method had the retrospective effect of decreasing the retained earnings for life business by EUR 650,082.

Correction of errors made in previous years

During the review of our data entry procedures, it was found that, in 2007 acquisition costs for unit-linked life insurance business were incorrectly recorded by one insurance agency. Specifically, greater than actual acquisition costs were recorded in the period between 2004 and June 2007. This error was corrected in June 2007, in accordance with IAS 8. As a result, the income statement for unit-linked life business for the period from January to June 2007 shows the actual commission expenses incurred in the year.

As a result, a discrepancy was found between annual commission expenses actually incurred and commission expenses recorded in the accounting records and stated in the financial statements. The comparatives have been restated to adjust for the error. . In 2006 the acquisition costs exceeded actual costs by EUR 477,709, EUR 549,778 and EUR 79,645 in 2006,2005 and 2004 respectively. As a result, in these financial years the net profit for the year was understated.

31. NEW STANDARDS, AMENDMENTS TO PUBLISHED STANDARDS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE FROM 1 JANUARY 2008

Many new standards, supplements thereto and interpretations for the year ended December 31, 2007 have not yet become effective and were therefore not taken into account in compiling the consolidated financial statements:

- IFRS 8 – Operating Segments.
  This standard introduces the concept of "management approach" to segmental reporting. IFRS 8, effective for accounting periods beginning on or after January 1, 2009, sets out the disclosures about segments on the basis of internal reports. These internal reports will be reviewed, on a regular basis, by the Group Board of Directors, in order to assess individual segment performances and allocate funds accordingly. Currently, the Group presents segment information by business and geographical segment.

- Revised IAS 23 – Borrowing Costs.
  Borrowing costs should not be recognised as an expense in the period in which they are incurred. The revised IAS 23 requires that borrowing costs that are directly attributable to the acquisition, construction or production of an asset under construction be capitalised as part of the cost of that asset. This standard will become effective for accounting periods beginning on or after January 1, 2009. This will constitute a change in the Group's accounting policies. The revised IAS 23 should be applied to borrowing costs relating to assets that are recognized on or after the date on which the revised standard becomes effective.

- IFRIC 11 and IFRS 2 – Group and Treasury Share Transactions
  According to IFRS 2, share-based payment arrangements in which an entity receives goods or services as consideration for its own equity instruments of the entity should be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments were obtained. IFRIC 11 will be effective for accounting periods beginning on or after January 1, 2008. The interpretation will have to be applied retrospectively. IFRIC 11 is not expected to have an impact on the consolidated financial statements.

- IFRIC 12 – Service Concession Agreements
  This interpretation provides guidance in relation to certain issues relating to disclosing and evaluating public service concessions. IFRIC 12 will become effective from January 1, 2008. The interpretation is not expected to have an impact on the consolidated financial statements.

- IFRIC 13 – Customer Loyalty Programmes
  This interpretation deals with the accounting of customer loyalty programmes. Customer loyalty programmes are used by entities to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards such as free or discounted goods or services. IFRIC 13, effective for accounting periods beginning on or after January 1, 2009, is not expected to impact the consolidated financial statements.

- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
  This interpretation clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be deemed to be available. It also provides guidance on the impact of minimum funding requirements (MFR) on such assets as well as clarifying when an MFR may give rise to a liability. IFRIC 14, effective for accounting periods beginning on or after January 1, 2008, is not expected to affect the consolidated financial statements.

32. RISK MANAGEMENT

32.1. SOLVENCY RISK

Sava Re and its subsidiaries must comply with the local regulatory requirements (including capital adequacy requirements) on a stand-alone basis. All subsidiaries meet capital adequacy requirements as set by their local regulations (ie the minimum capital requirement, calculated in accordance with local regulatory requirement approximate to that set out in Slovenian or EU regulations).

Sava Re has a significant capital surplus (ie surplus of available solvency margin over the required solvency margin). This amounted to EUR 43,492,062 at December 31, 2007 and EUR 49,642,261 at December 31, 2006. Consequently, the sum of available solvency margins of the Group is significantly higher than the sum of required solvency margins of its members. As Sava Re's investments in subsidiaries represent deductible items in the calculation of the Company's available solvency margin, there is no duplication in the sum of available solvency margins. Sava Re's capital surplus in 2007 is lower than 2006. This is due to the increase of the deduction items, i.e. the investments in subsidiaries.

The Group solvency risk is therefore deemed to be negligible. The solvency risk facing a Group company on a stand-alone basis is higher than the solvency risk facing the Group. However, the risk is still deemed negligible, particularly if we take into account the possibility of reallocating Sava Re's capital surplus to the other Group companies.

32.2. UNDERWRITING RISK

Sava Re's subsidiaries write only traditional non-life insurance, except for Tilia, which also writes life business. The primary purpose of both classes of insurance is the underwriting of policyholders' risks. The risks ceded to Sava Re by its subsidiaries and other ceding companies are partly retroceded. Therefore, all Group's (re)insurance contracts fall within the IFRS 4 classification of insurance contracts. As the Group has no liabilities from investment contracts, the risks relating to insurance contracts are disclosed in detail below in accordance with IFRS 4.

Underwriting risks mainly comprise underwriting process risk (insurance and reinsurance), pricing risk, claim risk, retention risk and reserving risk. Some other underwriting risks, e.g. product design risk, economic environment risk and policyholder behaviour risk could potentially be relevant for individual insurance companies and/or insurance markets. These risks are not described in detail in this report as we believe that their effect are indirectly comprised within the main underwriting risks

The sections below deal with underwriting risks relating to non-life and life insurance.

32.2.1. Underwriting process risk

The underwriting process risk represents the risk of incurring financial losses caused by an incorrect assessment and approval of risks to be (re)insured. Members of the Group have been mitigating this risk primarily by complying with the established and/or required underwriting procedures, in particular in relation to significant risks. These procedures entail:

- correctly determining "probable maximum loss" (PML) for specific risks;
- complying with internal underwriting policies and instructions as well as with the system of authorisations;
- appropriate pricing and reinsurance policy and
- undertaking actuarial reviews.

Most non-life insurance contracts are renewed annually. This allows insurers to amend the terms and conditions relating to entire classes of business and for major policyholders to take into account deterioration in the claims ratios in a timely manner.

Sava Re's underwriting experts are involved also in underwriting of risks relating to the subsidiaries. Additionally in respect of risks exceeding the limits set out in the reinsurance treaties, Sava Re obtains adequate facultative reinsurance coverage upgrading the basic reinsurance programme.

There was no substantial difference in the underwriting process risk of 2007 and 2006.

32.2.2. Pricing risk

Pricing risk represents the risk that the (re)insurance premiums charged will be inadequate to support future obligations arising from (re)insurance contracts. For most of Sava Re's subsidiaries operating outside Slovenia, premium rates are set at a much higher than those deemed acceptable by actuaries, resulting in a relatively lower loss ratios. Conversely, premium rates charged by Tilia are in line to those of their Slovenian competitors and are deemed to be adequate.

The pricing risk within the Group is mainly monitored by conductingting actuarial analyses of claims ratios, identifying their trends and applying appropriate corrections.

When premium rates are determined for new products, the pricing risk is assessed on the basis of adequately prudent modelling of claims experience, comparisons with foreign practices and monitoring and comparing the actual loss experience with the expected loss experience.

In subsidiaries outside Slovenia, the pricing risk has been rising due to unfair competition. The practice of charging extremely high commissions have led Sava Re subsidiaries to incur high acquisition expenses. The pricing risk has been mitigated through the implementation of additional controls carried out by Sava Re's experts and through the measures put in place to cut operating expenses.

In respect of proportional reinsurance treaties, the reinsurance premium is linked to the insurance premium, which is determined by the ceding companies. Sava Re manages this risk by adequately underwriting the risks to be reinsured. In respect of non-proportional reinsurance treaties, the pricing risk is managed by properly underwriting the risks to be reinsured and by determining adequate reinsurance premiums. This takes into account the state of the reinsurance market and the ceding companies' previous claims experience.

The Group's total pricing risk in both 2007 and 2006 is deemed moderate.

32.2.3. Claims risk

This is the risk that the number of claims is higher than expected, or that the average claim amount is larger than expected.

In relation to Sava Re's subsidiaries, this risk may arise due to incorrect assessments made in the course of underwriting, changes in court practice, new types of losses, increasing public awareness of the rights attached to insurance contracts, new human and animal diseases; and macroeconomic changes.

The claims risk experience of the subsidiaries and other ceding companies is transferred to Sava Re. For Sava Re, this is particularly important in relation to non-proportional reinsurance, especially at higher layers when the actual number of claims exceed Sava Re's estimate. This may occur for example as a result of a catastrophic event or human interference into the environment.

The claims risk is managed through designing appropriate policy conditions and tariffs, appropriate underwriting, controlling risk concentration in a particular location or geographical area and especially adequate reinsurance and retrocession programs.

We consider that there was no material difference in the level claims risk in 2007 as compared 2006.

32.2.4. Net retention risk

This is the risk that high (aggregate) losses net of reinsurance due to catastrophic or concentrated claims experience. This risk may arise if the limits for the maximum net retention per risk are set at a too high level or in the event of "shock losses" where insured property is damaged. Shock losses comprise, for example, losses caused by natural peril events which are generally covered by basic or additional fire insurance or by a policy attached to an underlying fire insurance policy (eg business interruption insurance cover and earthquake policy).

Group subsidiaries manage this risk by way of:

- adequate professional underwriting of the risks to be insured;
- measuring the exposure (by aggregating sums insured) relating to a specific natural peril event (eg earthquake, flood, hail, storm, and such like) by geographical area: and
- appropriately defining the maximum net retention limits and designing appropriate reinsurance programmes.

Sava Re manages its net retention risk similarly to the Group subsidiaries. In addition to the controls described above, Sava Re manages this risk also by establishing appropriate retrocession programmes and adopting a conservative approach in setting the level of technical reserves.

We consider that there was no material difference in the level of net retention risk in 2007 as compared to 2006.

32.2.5. Reserving risk

This is the risk that technical provisions are inadequate. This risk is deemed to be high within certain subsidiaries outside Slovenia, medium in Tilia, and small in Sava Re and at Group level.

All subsidiaries set technical provisions in compliance with their local regulations.

The regulatory requirements in the countries of former Yugoslavia except for Slovenia are still developing and are not yet in line with EU regulations, in particular on an actuarial level.

In addition, non-Slovenian subsidiaries lack actuaries with adequate qualification and experience gained outside their local markets.

The lack of actuarial expertise is spread across the whole industry in the former Yugoslav countries (except for Slovenia) in which the Group operates.

Sava Re has been introducing stricter methods of estimating technical provisions in its subsidiaries, especially in relation to claims provisions, in order to bring the subsidiaries' provisioning policy in line with that of Sava Re. Sava Re's provisioning methods are stricter than (i) the subsidiaries' local regulatory requirements and (ii) methods used by the subsidiaries prior to the acquisition .This is a lengthy process, and in the relatively short period following the change in ownership, it has been impossible to overcome all the objective barriers These include the lack (or non-existence) of adequate historic data on claims which are normally needed to provide reliable actuarial calculations and the lack of qualified personnel.

As of 31 December 2006, none of the subsidiaries – except for Tilia – had estimated the claims provision on the basis of recognized actuarial methods (eg methods based on claims paid triangles). In 2007, the chain ladder method was used for the first time for a few classes of business by Sava Tabak and Sava Osiguranje. The majority of subsidiaries do not keep historical data relating to the claims provision (in particular the IBNR provision) by accident year and no split between gross and net amounts is available.

Therefore, it is not possible to disclose data at Group level in relation to claims provisions set aside in previous years. This means that the adequacy test to estimate any past deficit or surplus of the claims provisions relating to Sava Re's foreign subsidiaries cannot be performed. This test can only be carried out for Sava Re and Tilia on a stand alone basis.

As is generally the case for reinsurance companies, Sava Re is not able to use triangles of paid losses based on accident year data for actuarial estimations. This is because ceding companies provide information about claims covered under quota share reinsurance by individual underwriting years. In respect of one-year policies written during any one year, claims may occur either in the year in which the policy is written or in the year after. As a result, ceding companies are not able to produce aggregate data for quota share reinsurance broken down by accident years. Ceding companies would normally be able to produce this information for other type of reinsurance. However, for quota shares, this would involve a significant increase in the administrative work-load of the ceding companies.

In line with industry practice, Sava Re analyses data about claims paid by underwriting years and estimates its future liabilities with respect to individual underwriting years by using appropriate actuarial methods. The estimated liabilities relate to (i) claims that have already been incurred (reported and not reported) the settlement of which is provided for within the claims provision, and (ii) claims that have not yet been incurred, the settlement of which is covered by unearned premiums. The claims provision is derived by deducting the unearned premium from the estimated future liabilities. The unearned premium is calculated separately.

Tables 24 and 25 show the adequacy tests of claims provision. As the available data are broken down by underwriting years (and no accident years), for the purposes of the test, unearned premiums are added on to the claims provision. This test can be applied to past years – the further back in time, the more precise the test method. The test entails comparing the provision originally estimated with the actual liability arising from claims in previous years. Based on the results of the test, and given that the claims provision in 2007 is calculated using the same actuarial method as in previous years, we conclude that the provisions as at December 31, 2007 are adequate.

Sava Re

Outstanding claims provision gross of reinsurance adequacy test

(EUR '000)	As at 31 December					
Claims provision plus unearned premiums, gross of reinsurance	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
As originally estimated	87,831	96,346	104,552	119,374	116,218	128,797
Reestimated as of 1 year later	64,490	66,326	73,051	92,911	91,285	
Reestimated as of 2 years later	69,055	68,524	81,057	91,162		
Reestimated as of 3 years later	69,107	71,942	78,388			
Reestimated as of 4 years later	67,872	66,989				
Reestimated as of 5 years later	63,597					
Cumulative redundancy/ (deficit)	**24,234**	**29,357**	**26,164**	**28,212**	**24,933**	
Cumulative claims paid						
1 year later	25,804	28,348	33,645	43,068	35,967	
2 years later	37,090	37,628	44,771	52,185		
3 years later	42,603	43,169	49,542			
4 years later	45,159	45,549				
5 years later	46,951					

Note: Amounts in Slovenian Tolar have been translated to euro amounts at the rate of EUR 1 = SIT 239.64.

As at the end of 2004, future gross liabilities for all claims incurred in the course of 2004 and for claims which according to the contracts will arise after December 31, 2004, were estimated at EUR 104,552 thousands. This comprise the claims provision (claims already incurred), and unearned premiums (claims to occur after 31 December 2004). In 2005, Sava Re paid a total of EUR 33,645 thousands in respect of claims relating to contracts taken into account in the original calculation of the 2004 provisions. As at December 31, 2005, future liabilities relating to the same contracts were estimated at EUR 39,406 thousands (this amount is not presented in the table). This amount plus the amount of claims paid in 2005 equal the total 2005 estimated liabilities of EUR 73,051 thousands. In the same way, the liabilities as at December 31, 2004 were re-estimated at the end of 2006 and 2007.

Given that the cumulative amount of claims paid in 2005, 2006 and 2007 was EUR 49,542 thousands, the 2007 estimate relating to liabilities estimated at the end of 2004 amounts to: EUR 78,388 thousands – 49,542 thousands = EUR 23,846 thousands (this amount is not presented in the table). This estimate will almost certainly differs from the final and currently unknown value of remaining liabilities. However, the difference in absolute terms is very likely to be smaller than that the error in the estimate of December 31, 2004. Over the years, the difference reduces as the number of claims remaining open until all claims are settled decreases . This may take ten years or longer for certain classes of insurance.

Outstanding claims provision net of reinsurance adequacy test

(EUR '000)	As at 31 December					
Claims provision plus unearned premiums, net of reinsurance	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
As originally estimated	74,662	82,821	85,012	92,696	99,291	107,347
Reestimated as of 1 year later	51,343	50,684	54,333	69,202	70,092	
Reestimated as of 2 years later	51,664	53,192	62,519	66,400		
Reestimated as of 3 years later	52,407	56,789	58,982			
Reestimated as of 4 years later	51,509	51,280				
Reestimated as of 5 years later	46,917					
Cumulative redundancy / (deficit)	**27,744**	**31,541**	**26,031**	**26,295**	**29,199**	
Cumulative claims paid						
1 year later	21,324	23,438	24,576	29,514	28,637	
2 years later	29,653	30,623	33,470	37,890		
3 years later	33,418	35,576	37,749			
4 years later	35,590	37,575				
5 years later	37,107					

Note: Amounts in Slovenian Tolar have been translated to euro amounts at the rate of EUR 1 = SIT 239.64.

Sava Re's cumulative redundancy relating to the years from 2002 to 2006 represents 37%, 38%, 31%, 28% and 29% of the liabilities as originally estimated . This over-provisioning is the result of (i) prudent estimation methods used and (ii) the effect of the unearned premiums. Specifically, if the loss ratio is less than 100%, the unearned premiums have the effect of overstating the cumulative redundancy. The provision re-estimated as of one year later is significantly lower than the liability as originally estimated. However, it does not significantly differ from the provision re-estimated two or more years later. This is due to the effect of the provision for unearned premiums relating to one-year insurance contract the bulk of which is released in the following year.

Subsidiaries

Generally, insurance companies (including Tilia) analyse data by accident year, which differs from the analysis of data by underwriting year. However, due to the lack of relevant data relating the foreign subsidiaries for the period pre-acquisition, we are not able to prepare aggregate data by accident years for all the subsidiaries within the Group. This lack of data as well as the inadequacy of the claims provision of the foreign subsidiaries prior to entering the Group are beyond Sava Re's control.

After entering the Sava Re Group, the foreign subsidiaries have started to implement a stricter provisioning policy in line with that of Sava Re. Therefore any conclusion on the adequacy of the foreign subsidiaries' provision as at December 31,2007 based on historical differences between estimated and actual liabilities would not be appropriate.

Tilia

Tables below show the adequacy test of the gross claims provision relating to Tilia.

Outstanding claims provision gross of reinsurance adequacy test

(EUR '000)	As at 31 December					
Claims provision, gross of reinsurance	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
As originally estimated	21,350	24,840	28,085	32,698	39,263	39,108
Reestimated as of 1 year later	23,154	26,594	30,995	33,239	37,553	
Reestimated as of 2 years later	24,031	27,721	30,184	31,812		
Reestimated as of 3 years later	24,827	27,072	28,934			
Reestimated as of 4 years later	24,540	26,645				
Reestimated as of 5 years later	24,278					
Cumulative redundancy / (deficit)	**–2,928**	**–1,805**	**–849**	**886**	**1,709**	
Cumulative claims paid						
1 year later	8,566	10,553	10,909	11,281	14,407	
2 years later	12,624	13,471	14,809	15,496		
3 years later	14,368	15,715	17,085			
4 years later	15,620	17,084				
5 years later	16,429					

Note: Amounts in Slovenian tolars have been translated to euro amounts at the rate of EUR 1 = SIT 239.64.

Outstanding claims provision net of reinsurance adequacy test

(EUR '000)	As at 31 December					
Claims provision, net of reinsurance	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
As originally estimated	15,866	17,321	19,470	22,544	26,454	28,929
Reestimated as of 1 year later	16,759	18,146	22,333	23,198	26,881	
Reestimated as of 2 years later	16,472	18,869	21,328	21,781		
Reestimated as of 3 years later	17,485	18,450	19,869			
Reestimated as of 4 years later	17,045	17,758				
Reestimated as of 5 years later	16,579					
Cumulative redundancy / (deficit)	**–712**	**–437**	**–399**	**763**	**–428**	
Cumulative claims paid						
1 year later	6,187	6,211	7,414	6,352	9,617	
2 years later	8,063	8,239	8,972	9,409		
3 years later	9,392	8,794	10,718			
4 years later	9,208	9,954				
5 years later	9,950					

Note: Amounts in Slovenian tolars have been translated to euro amounts at the rate of EUR 1 = SIT 239.64.

In respect of the share of Tilia's claims provision which is ceded to the reinsurance company, both Tilia and Sava Re analyse and present the financial data by underwriting years only. Therefore, the reinsurers' share of the claims provision and claims paid by accident year , was estimated on the basis of data for underwriting years (ie accident year data equals the linear combination of the data by underwriting year x and x-1). This estimation method was used to prepare the table 27. As this is only a rough-approximation method, table 27 is less informative than table 26.

Unearned premiums are established by Group members on a pro rata basis for each policy on a stand alone basis. In addition to setting aside unearned premium reserves, Sava Re and Tilia establish provisions for unexpired risks in respect of classes of insurance where the sum of the claims ratio and the expense ratio exceeds 100%. The other subsidiaries do not set aside provisions for unexpired risks as this is not required under the local regulation. In addition, given their relatively low claims ratios, these provisions are not necessary.

According to our assessment, the reserving risk at Group level is managed by maintaining, on an aggregated basis, a claims provision surplus (i.e. the sum of any surpluses and deficits of the claims provision of each Group members is positive). No Group member discounts the claims provision.

Tables under this chapter also show the adequacy assessment of technical provisions (or claims provisions) for the year end of 2006 relating to Sava Re and Tilia. The main diagonal comprising estimates as at December 31, 2007 should be disregarded and the cumulative redundancy re-calculated. However, the comparison between existing and re-calculated data, would be less meaningful than a simple comparison between the estimates on the main diagonal and the estimates above it.

In respect of Sava Re, the cumulative redundancy is stable; in respect of Tilia there is a noticeable steady trend towards a strengthening of the gross claims provision, whilst no definite trend is noted in relation to the redundancies and/or deficits in the net claims provision (the test relating to the net claims provision is less reliable than the test relating to the gross claims provision). In respect of the other subsidiaries, due to the more stringent methods for calculating the claims provision introduced by Sava Re the reserving risk at the end of 2007 is relatively lower compared to the reserving risk at the end of 2006 (this is also the case for the reserving risk at consolidated level) .

32.2.6. Retrocession programme

Appropriate reinsurance programmes are fundamental for managing the underwriting risk to which Sava Re's subsidiaries are exposed. These are designed so as to reduce the exposure to potential large losses and/or the effect of a large unexpected increase in the number of claims. According to our assessment, reinsurance programmes (including proportional and non-proportional reinsurance) relating to the majority of subsidiaries, are adequate to the risks these companies are exposed to. In our opinion, maximum net retentions in Sava Tabak were set at a too high level in the past. The subsidiaries have started to gradually reduce these levels since entering the Sava Re Group.

Adequate retrocession programmes of Sava Re are fundamental for managing the underwriting risks at Group level. The programmes are designed to reduce potentially large risk exposures. Sava Re uses reciprocal treaties to diversify risk. Sava Re's net retained insurance portfolio (relating to both Slovenian and foreign ceding companies) is further covered for potentially large losses through prudently selected non-proportional reinsurance programmes.

We consider that that the reinsurance programmes of the Group have not changed substantially from 2006 to 2007.

32.2.7. Estimated exposure to underwriting risks in non-life insurance

An increase in underwriting risk would essentially result in an increase in net claims. Due to adequate reinsurance and, in particular adequate retrocession programmes, the Group is not exposed to the risk of a sharp increase in net claims, even in the event of losses arising from catastrophes.

A more realistic risk scenario to which the Group is exposed is the deterioration of the net combined ratio as a result of an increase in claims or expenses along with a decrease in premiums. If the net combined ratio (95.9% in 2007 and 97.8% in 2006) increased/decreased by one percentage point, the Groups' net profit before tax would decrease/increase by EUR 1,577,359 in 2007 and EUR 1,186,178 in 2006. The impact of the movement in the net combined ratio in 2007 is greater than in 2006 is due to increased premiums.

Sava Re's maximum net retentions and its retrocession programmes are of key importance for mitigating the risk of large losses, such as catastrophe losses. Maximum net retentions for the majority of non-life classes of business amount to EUR 1 million. These are increased to EUR 2 million for fire, natural disasters and other damage to property. In respect of life insurance, maximum net retentions are much lower.

In principle, this enables Sava Re to cap any net claim arising out of any single loss event to a maximum of EUR 2 million. In the event of a catastrophe, such as flood, hail, storm or even earthquake, the maximum net claim payable by the Group is limited by the priority of the non-proportional reinsurance programme (protection of the net retention), which amounts to EUR 1 million and EUR 3 million for Slovenia and other countries respectively. These amounts represent the maximum net claim for a single catastrophe event based on reasonable actuarial expectations.

An additional maximum net claim of EUR 3 million would deteriorate the Group's combined ratio (95.9% in 2007) by 1.9%, which is deemed acceptable. In 2006, the priority for the CAT cover for international business was EUR 2 million This means that one additional maximum net claim corresponding to the amount of the priority would deteriorate the 2006 net combined ratio (97.8%) by 1.7%. In both years, the increased net combined ratio would still be below 100%.

The risk that the underwriting risk may seriously undermine the Group's financial stability is deemed, according to our assessment, low in both 2007 and 2006.

32.2.8. Underwriting risk in life insurance

Tilia is the only company within the Group which writes life insurance (different types of life insurance covering death risk, pure endowment, annuity insurance and unit-linked insurance). The vast majority of life insurance policies are denominated euro.

Mathematical provisions for the majority of life policies are calculated on the basis of the net method, applying the same parameters as those used in the premium calculation[3] except for old annuity insurance policies written up to the year 2000. The interest rate used for the calculation of the mathematical provision relating to these policies is lower than that used in the premium calculations..

The guaranteed interest rate for life insurance ranges between 2.75% and 4% per annum. Tilia uses the Slovenian mortality rate tables for the period from 1993 to1995 to calculate the mortality rate to apply to its life insurance products with the exception of annuity insurance products with an agreed premium payment period. In relation to these policies Tilia uses the German annuity tables for 1987.

Mathematical provisions for the benefit of policyholders who bear the investment risk are represent the total value of the assets of the insurance policies written. The value of assets attributable to a policy is calculated as the sum of asset values linked to each fund. The asset value per unit of each fund as at December 31, 2007 is used in the calculation.

Tilia carries out a liability adequacy test life-insurance mathematical provisions on annual basis. This test was performed also before the introduction of IFRS. The test entails an assessment of the adequacy of the key parameters used in the calculation of the provision, in particular the adequacy of: the interest rate, mortality rate tables and costs.

In addition, input data and assumptions used in the calculation of the provision are monitored against the actual experience on an annual basis. Tilia also evaluated the adequacy of the parameters used for different homogeneous product types. If all parameters used are deemed adequate, mathematical provisions are also deemed adequate. In case certain parameters for a particular product result to be inadequate and its impact on the calculation of the provision cannot be determined, Tilia calculates mathematical provisions for this product in greater detail using the future cash flows method. This would provide a more accurate estimate of future liabilities. In respect of unit-linked insurance, Tilia has only assessed the adequacy of costs and the mortality rate tables used as the interest rate risk is borne by the policy-holders.

On an annual basis Tilia compares the forecast mortality rate embedded in its products with the actual mortality rates relating to its insurance portfolio. The actual rates are lower than those used in the provision calculations. Tilia has no portfolio experience for annuity insurance because no annuity payments have yet been made in relation to its annuity policies. Given the relatively small number of annuity policies, the risk of the estimated mortality rate being lower than actual is deemed to be insignificant.

The number of forecast deaths for the entire portfolio in the period from 2000 to 2007 is 395, whilst the number of actual deaths was 161. This means that the mortality rates used in the provision calculation would, based on reasonable actuarial expectations, be higher than actual rates even in the case of a significant increase in the actual mortality rates (eg more than several tens percentage points), caused, for example, by unforeseen events such as catastrophe or pandemics.

Tilia reviewed the adequacy of mathematical provisions for annuity insurance and for pure endowment by considering movements in future cash flows. Assuming a 4% interest rate, 60% mortality under the Slovenian mortality 1993–1995 tables in respect of pure endowment and 60% mortality under the German tables 1987 for annuity insurance, and taking into account the current expenses, the results of the adequacy test indicate that the provisions are adequate.

Tilia reviews the adequacy of interest rates used in the calculation of mathematical provisions for specific products by comparing these to the average annual yield of AAA corporate bonds in the Euro area. In 2007, the average yield of the liability fund was 5.98%. This is higher than the interest rates used in the provision calculation. If the average annual yield rate declined by 1 percentage points, the investment income on the liability fund would decrease by EUR 95,000 and the average yield would still exceed the interest rate used in the calculation of mathematical provisions.

Tilia also compares actual costs with income relating to a specific product. In the past costs exceeded income due to the relatively small and new insurance portfolio, and, in particular, the high level of level of acquisition and fixed costs typical of life insurance business. Once the portfolio reaches a critical mass and/or when the portfolio gets older the product income will equal the costs. We expect this also to be the case of Tilia. If all costs, excluding acquisition costs amortised over a longer period, increased by 10%, Tilia's profit for 2007, and therefore the Group consolidated profit, would decrease by EUR 92,000.

We consider that the exposure to underwriting risk in life insurance did not change significantly from 2006 to 2007.

3 For the purposes of the premium calculation acquisition costs were added to the net premium.

32.3.MARKET RISK

The investment policy of insurance and reinsurance companies must be in compliance with local legal requirements. These are set to ensure safety, profitability and liquidity of the investments as well as risk diversification. Each Group company focuses their investment policy to ensure: liquidity of the investments; appropriate allocation of investments in the liability fund to the technical provisions; and matching of the currency of the investment to that of the respective technical provision.

The Group companies are exposed to market risk in relation to their financial activities in particular: interest rate risk, equity securities risk, foreign exchange risk, investment concentration risk and the risk of financial assets not being appropriately matched to technical provisions.

Total investments of the Group amounted to EUR 315,775,715 as at December 31, 2007 and EUR 256,182,892 as at December 31, 2006. The investments are further analysed the table below.

Investment structure as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
	Amount	Structure	Amount	Structure
Bond portfolio	134,865,229	42.7%	123,094,384	48.1%
Deposits and money market instruments	63,174,685	20.0%	56,835,679	22.2%
Equity securities	29,076,501	9.2%	12,106,676	4.7%
Investments in affiliates	31,004,948	9.8%	29,339,567	11.4%
Mutual funds	41,268,152	13.1%	22,325,703	8.7%
Real estate	1,320,834	0.4%	3,099,913	1.2%
Other	15,065,366	4.8%	9,380,969	3.7%
Total	**315,775,715**	**100.0%**	**256,182,892**	**100.0%**

Deposits with ceding companies of EUR 5,900,793 as of December 31, 2007 (EUR 5,618,832 as of December 31, 2006) and investments for the benefit of life insurance policyholders who bear the investment risk in the amount of EUR 10,578,852 as of December 31, 2007 (EUR 6,899,686 as of December 31, 2006) are not included in the above table. These investments are not exposed to credit risk as they belong to the policyholders.

32.3.1. Interest rate risk

The interest rate risk to which the Group is exposed to represents the risk that changes in the interest rate may impair the value of the Group's investments. In addition, in respect of life insurance business, the Group is also exposed to the risk of an increase in liabilities (mathematical provision) if the interest rate declines.

Sava Re and Tilia's investments in fixed income securities account for 99.8% of the Group's fixed income portfolio. Fluctuations in interest rates may affect the value of the Group's financial assets (eg bonds) and returns of certain investments (eg bank deposits). The Group mitigates the interest rate risk primarily by hedging.

Sava Re's bond portfolio comprise those investments which are more exposed to interest rate risk. As of December 31, 2007, fixed rate bonds accounted for 69.68% of the total bond portfolio as compared to 90.75% as of December 31, 2006. The remainder of Sava Re's bond portfolio consists of variable rate bonds.

Tilia is the only company within the Group which writes life insurance business.Therefore, Tilia is also exposed, to the risk of increase in liabilities (mathematical provisions) if the interest rates decline. At the same time, a decline in interest rates would increase the value of bonds comprised in the liability fund. These two effects would offset each other if the duration and amount of liabilities and investments are matched. However this would not be possible for Tilia, as there are no bonds with a duration matching that of a typical life insurance policy (up to 40 years) available in the market. In managing the interest rate risk the Group also aims at reducing the difference between the average duration of liabilities and investments.

Sava Re and Tilia's bond portfolios account for more than 99% of the total Group's bond portfolio. The sensitivity of these investments to changes in interest rates can be assessed by changing the bond yield curve for all maturities by one or two percentage points

The average duration of the Group bond portfolio as at December 31, 2007 is 3.69 years. Our sensitivity analysis shows that an increase in the bond yield curve of 2 percentage points would have the effect of decreasing the value of investments in bonds by EUR 9,500,000 (representing a 7% decrease of the value of total Group bond portfolio). If the same sensitivity is also applied to investments in bond mutual funds, mixed mutual funds (with a weight of 0.5) and funds of funds mutual funds (with a weight of 0.5), the value of investments would further decrease by EUR 800,000.

A comparative sensitivity analysis on financial investments for 2006 was not carried out due to lack of data relating to the bond portfolio. Nevertheless, we consider that in 2007, the level of interest rate risk decreased despite a larger interest rate risk exposure.

In addition to hedging the interest rate risk of the investment portfolio, Sava Re also actively hedged its financial liabilities, specifically its subordinated variable interest rate debt. In 2007, Sava Re entered an interest-rate swap contract to hedge the subordinated debt.

Owing to favourable market conditions, Sava Re sold the interest swap agreement in August realising a gain of EUR 915,000. Sava Re entered another interest rate swap agreement later in the year to hedge the subordinated debt.

32.3.2. Equity securities risk

The Group holds EUR 29,100,000 of investments in shares of domestic and foreign companies, and EUR 41,300,000 of investments in mutual funds, of which 53% are stock funds, 38% mixed, 6% bond funds and 3% are funds of funds. Therefore, total amount of EUR 59,500,000 is invested in equity securities. In respect of mixed mutual funds and funds of funds, a weight of 0.5 was assumed (the remaining 0.5 has taken into account in the interest rate risk). The Group mitigates this risk primarily through:

diversification (in terms of issuer, industry and geographical area);

careful monitoring of events in the global financial market and

promptly responding to events affecting global financial market.

The Group primarily invests in adequately liquid shares of companies with high market capitalisation, Currently, this investment policy is not applicable to Sava Re's subsidiaries in the area of former Yugoslavia as, under their local regulatory requirements, their equity investments are restricted to the local financial markets which are not fully developed.

For the purpose of assessing the sensitivity of investments to the risk of changes in the value of equity securities, we assume a 10% decrease in the value of equity securities. A decrease of 10% would decrease the value of investments by EUR 5,950,000 in 2007 (EUR 2,850,000 in 2006). In contrast to bonds, which are not affected linearly by changes in interest rates, other falls in the value of investments in equities and mutual funds can be subject to the linearity principle. If the decrease was of 20%, the value of these investments would decrease by EUR 11,900,000 in 2007 (compared to EUR 5,700,000 in 2006).

Exposure to equity securities risk doubled in 2007 compared to 2006.

32.3.3. Currency risk

Over the years, Sava Re has been expanding its foreign-sourced business. This has had an effect on the structure of its liabilities by currency. Nonetheless, euro-denominated liabilities still account for more than 93.3% of total liabilities. Liabilities denominated in USD account for 3.7% of total liabilities. Therefore liabilities held in Euros or USD represent as much as 97% of all liabilities arising out of reinsurance business. Sava Re's investments in the liability fund held in Euros and USD more than offset the liabilities denominated in these two currencies.

Sava Re ensures that the currencies in which its investments are held are matched to currencies in which liabilities are denominated. In 2007, the Company decreased its currency risk by gradually replacing part of its deposits in domestic banks with foreign debt securities, primarily euro-denominated .

Liabilities and investments in the subsidiaries in Serbia and Macedonia are denominated in the local currencies, whilst those in Slovenia, Montenegro and Kosovo are euro-denominated. As a result, Sava Re is the group company which is most exposed to currency risk.

Table 28 shows that Sava Re's currency mismatch totals EUR 2,000,000, representing 1.56% of its gross technical provisions. Given that the surplus of the liability fund over gross technical provisions amounts to nearly EUR 25,000,000, this mismatch could easily be eliminated, even in the event that the Euro weakened significantly.

Currency (mis)match as at 31 December 2007 (amounts translated to EUR)

Currency	Liability fund (LF)	Gross technical provisions (GTP)	Mismatch Max(GTP-LF,0)
AED	277,091	327,669	50,578
BBD	0	29,532	29,532
BGN	0	4,480	4,480
CHF	171,614	108,106	0
CZK	47,750	289,085	241,336
DKK	0	4,996	4,996
EUR	146,498,123	120,867,149	0
GBP	1,086,257	601,924	0
HKD	103,732	469,966	366,234
HRK	139,882	114,135	0
HUF	57,628	91,625	33,997
INR	17,723	27,625	9,902
JPY	900	19	0
KRW	379,742	640,096	260,354
LYD	5,054	4,851	0
MGA	0	11,249	11,249
MKD	0	804	804
MUR	2,235	0	0
PHP	0	1,452	1,452
PLN	13,701	60,511	46,810
RON	5,935	15,167	9,232
SEK	2,317	733,334	731,017
SKK	8,882	63,172	54,290
TRY	90,773	210,194	119,420
UAH	1,651	888	0
USD	5,526,218	4,738,033	0
XCD	23,447	67,780	44,333
Total	**154,460,654**	**129,483,843**	**2,020,015**

As at December 31, 2007, the Sava Re held no provision for currency mismatch risks. In 2006, this provision was EUR 38,000. In 2007 this provision was released as it was deemed no longer necessary.

At the end of 2006, Sava Re had EUR 6,700,000 mismatched investments, including a deficit in Slovenian Tolar. In 2007, the currency risk was further reduced, largely due to the transition to Euro as at January 1, 2007.

32.3.4. Concentration risk

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

The Group's bond portfolio is diversified by issuer. Issuers include: Slovenian and foreign government bonds, banks and corporations, as well as Slovenian and foreign issuers. The table below shows the investment structure by market as at December 31.

Investment structure of bonds by market as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
	Amount	Structure	Amount	Structure
Slovenia	82,320,399	61.0%	114,753,794	93.2%
OECD	8,977,220	6.7%	1,127,220	0.9%
EU	42,757,740	31.7%	7,213,370	5.9%
Other	809,870	0.6%	0	0.0%
Total	**134,865,229**	**100.0%**	**123,094,384**	**100.0%**

The Group's equity securities are diversified by issuer, rating and location. The structure of investments in equity securities by location as at December 31, 2007 is presented in the table below. The table below shows the investment structure by geographical market as at December 31.

Investments in equity securities as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
	Amount	Structure	Amount	Structure
Slovenia	19,400,461	66.7%	7,531,500	62.2%
OECD	850,910	2.9%	544,140	4.5%
EU	2,423,320	8.3%	1,085,500	9.0%
Other	6,401,810	22.0%	2,945,536	24.3%
Total	**29,076,501**	**100.0%**	**12,106,676**	**100.0%**

Also the investments in mutual funds are diversified.

Although our concentration risk is deemed low, we are, unable to neutralise the (global) systemic risk by diversification only. If, however, we consider local unfavourable trends only, we can conclude from the above table that the exposure to concentration risk decreased in 2007 as a result of a better diversification of the bond portfolio.

33.3.5. Asset/liability mismatch risk

The structure of the investments within the liability fund complies with the local regulatory requirements. Sava Re's surplus of its liability fund over its technical provisions amounted to EUR 25,000,000 as at December 31, 2007. The Group, as a whole, also has a large surplus on a consolidated level.

A detailed structure of the duration of liabilities at the Group level is not available for the reasons mentioned above in the section on reserving risk.

Due to the large surplus of the liability fund over technical provisions (largely accounted for by Sava Re and Tilia), we deduce that in respect of non-life insurance there is a portion of the Group's investment portfolio which is at least equal to the liabilities and has the same average duration as the liabilities.

The above conclusion relating to asset/liability matching in terms of duration cannot be applied to the life insurance business carried out by Tilia. This is simply due to the fact that the Slovenian market does not offer adequate long-term debt securities of a sufficient duration to match the technical provisions relating to life insurance. Long term securities account for 79% of Tilia's investment portfolio as at December 31, 2007.

Bonds maturities as at December 31 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
Maturity	Amount	Structure	Amount	Structure
0–1 years	12,305,981	9.1%	19,849,919	16.1%
1–5 years	73,597,386	54.6%	42,021,812	34.1%
Over 5 years	48,961,862	36.3%	61,222,653	49.7%
Total	**134,865,229**	**100.0%**	**123,094,384**	**100.0%**

32.4. LIQUIDITY RISK

The Group had no liquidity problems throughout 2007. One of the ways in which the Group has mitigated the liquidity risk is through investing a large proportion of its funds in highly liquid marketable securities which can be converted to cash at any time. Sudden liquidity needs arising in any subsidiary can be met through obtaining short term bridge loans. In the event of large losses, liquidity is safeguarded through the so called "cash calls" clauses incorporated within the resinsurance treaties contracts between a ceding company and Sava Re or Sava Re and its retrocessionaire. In order to further mitigate the liquidity risk, in 2007 Sava Re signed: two loan facilities amounting to EUR 9,000,000 and a call deposit contract, which enables the Company to draw and return liquidity up to a maximum of EUR 400,000 on a daily basis.

Exposure to liquidity risk can be measured by comparing the maximum liability arising as a result of a single extraordinary net claim to the liquidity capacity of the Group. The maximum liability relating to an individual claim is substantially lower than the amount that the Group's available liquid funds. In the event of a large single gross claim or many small claims arising from a natural disaster, the claims handling period would be substantially longer and the Group would have sufficient time to liquidate equity or debt securities to meet the sudden liquidity needs. Therefore we consider the liquidity risk to be minimal in both 2007 and 2006.

32.5. CREDIT RISK

The Group may be exposed to credit risk in case of a default by issuers of securities and by reinsurers.

In accordance with the local and internal regulatory requirements, Group members are allowed to invest their cash surpluses only in:

- deposits with banks with high credit rating (as measured in accordance with local credit rating standards);
- debt securities issued exclusively by issuers with an adequate rating (if existing within in the local markets); and
- adequately liquid equity securities of companies with sufficient market capitalisation.

In order to asses the credit risk, the structure of investments by rating is important. The table below shows data for bonds, deposits and certificates of deposits as at December 31.

Investments in bonds by rating in as at 31 December 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
As rated by Moodys/S&P	Amount	Structure	Amount	Structure
Aaa/AAA	9,319,736	6.9%	1,973,530	1.6%
Aa/AA	66,234,831	49.1%	88,268,074	71.7%
A/A	32,556,835	24.1%	17,371,044	14.1%
Baa/BBB	7,597,241	5.6%	4,121,702	3.4%
Less than Baa/BBB	509,864	0.4%	0	–
Not rated	18,646,722	13.8%	11,360,034	9.2%
Total	**134,865,229**	**100.0%**	**123,094,384**	**100.0%**

The table shows that in 2007 85% of the fixed income securities portfolio (90% in 2006) – which accounts for 36% of all investments (43% in 2006) – relate to fixed income securities with a rating that is higher or equal to that of Sava Re.

As a rule, insurance companies in the Group have their reinsurance treaties directly with Sava Re, unless their local regulator requires them to sign reinsurance treaties with local reinsurers. Even if this is the case, the subsidiary would still transfer at least part of their risk exposure to Sava Re, therefore reducing the Group's overall credit risk exposure on a consolidated basis .

The Group's total exposure to credit risk relating to reinsurers as at December 31, 2007 amounts to EUR 28,912,968 (EUR 25,919,695 as at December 31, 2006), of which EUR 22,421,167 (EUR 17,015,046 as at December 31, 2006) is accounted for in the reinsurers' share of technical provisions, and EUR 6,491,801 (EUR 8,904,649 as at December 31, 2006) in receivables due from reinsurers for claim payments. Total exposure to reinsurers as at December 31, 2007 is 6% of assets (6.8% as at December 31, 2006).

Retrocession programmes are mostly placed with established reinsurers with an adequate rating (at least A- according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). Given the large diversification and the low probability of default by reinsurers with a rating of BBB+ or higher, this risk is deemed to be low.

32.6. OPERATIONAL RISK

Operational risk includes human capital risk, management control risk, system risk, process risk, legal risk. According to our assessment, the Group is mostly exposed to risks arising from business disruptions and/or inadequate application of required procedures and internal controls. Management considers that an efficient and effective system of internal controls is of key importance to mitigate the operational risk. This risk is generally associated with other risks (eg underwriting, market etc.), as operational risk increases also other risks. For instance, negligent underwriting can considerably increase underwriting risk.

For the purpose of operational risk management, the Group has put in place adequate IT-supported procedures and controls in the most important areas of its operation. In addition, this risk is managed through the internal audit function, staff training.

Operational risk also comprises political risks. We consider the exposure of the Group to political risk to be medium. However, due to the increasing desire of former Yugoslav countries to become members of the EU, we consider that the Group's exposure to this risk is decreasing.

We consider that the Group's overall exposure to operational risk decreased in 2007 as compared to 2006.

32.7. IMPLEMENTING SYSTEMATIC RISK MANAGEMENT

The Group is implementing risk management on a systematic basis. In 2007, the Group prepared a platform for risk management. This entails a classification and identification of risks that the Group is exposed. The Group implemented an IT support which allows to improves the monitoring of investments and part of the underwriting and credit risks The Group also introduced other measures for reducing operating risks, especially relating in relation to its IT system.

The Group is well aware that the future insurance regulations (Solvency II) will introduce risk based capital calculation. In this regard, in 2007 Sava Re and Tilia co-operated in a quantitative study QIS3 in which all major risks were evaluated. The companies calculated how much capital would have been required at December 31, 2006 under given assumptions. Through this and other activities, the Group members located in Slovenia contribute in implementing new insurance regulations relating to Solvency II, while passing on experiences to other Group members.

The management of all subsidiaries were briefed on risk management issues during a Group conference held in the year. Sava Osiguranje has already adopted the relevant Group internal policies in response to local statutory requirements.

As part of its financial strength rating reviews, Sava Re also assesses the risks to which it is exposed under the Standard and Poor's methodology.

33. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As of January 1, 2007, insurance companies in Slovenia are legally obliged to adopt IFRS. The Group prepared its financial statements in line with IFRS for the first time in the financial year commencing on January 1, 2007. The date of transition to the IFRS reporting is therefore January 1, 2006. The adjustments necessary to transit to IFRS as at January 1, 2006 and December 31, 2006 comprise the derecognition and reclassification of certain technical provisions, especially the equalization provision, which did not comply with IFRS 4. Thus, the part of the equalization provision relating to credit risk and catastrophes was transferred to other revenue reserves (credit risks equalization reserve and catastrophic equalization reserve) and the rest was released to retained earnings.

34. OPENING BALANCE SHEET ACCORDING TO IFRS AS AT 1 JANUARY 2006 AND 1 JANUARY 2007

Presented below is the opening balance sheet as at January 1, 2006, the income statement for the year commencing on January 1, 2006 and the balance sheet as at December 31, 2006, prepared in accordance with the IFRS.

The effect of the transition to IFRS is disclosed within the items capital, technical provisions and deferred tax liabilities. In previous years, the Group formed equalization provisions, provision for nuclear risks, earthquake and credit risks in accordance with the provisions of the IA. Under IFRS, the Group is no longer allowed to establish such provisions. Therefore, on January 1, 2006, the Group maded an adjustment in the financial statements to release the equalization provision and provision for nuclear risk to retained earnings. The provisions for credit risks and the earthquake provision were transferred from provisions to revenue reserves (credit risk reserves and catastrophe risk reserves). As provisions were released to retained earnings were deductible expenses for tax purposes a deferred tax liability arose. In accordance with the provisions of the Income Tax Act, this tax will be payable in three consecutive annual instalments.

Opening balance sheet as at 31 January 2006 according to the SAS and IFRS and effects of the transition to IFRS

(EUR)			SAS	Corrections of errors	Adjustments	IFRS
			1 January 2006			1 January 2006
		ASSETS	**326,145,751**	**777,446**	**3,768,182**	**330,691,379**
A.		Intangible assets	265,308	0	0	265,308
B.		Property and equipment	5,339,749	0	0	5,339,749
C.		Non-current assets held for sale	0	0	0	0
D.		Deferred tax assets	0	0	0	0
E.		Investment property	5,444,481	0	0	5,444,481
F.		Investments in Group companies and in associates	24,408,587	0	1,948,446	26,357,033
G.		Financial investments	218,005,327	0	–161,702	217,843,625
H.		Assets from investment contracts	0	0	0	0
I.		Reinsurers' share of technical provisions	26,756,807	0	0	26,756,807
J.		Inventories	78,355	0	2	78,357
K.		Receivables	36,202,778	0	0	36,202,778
L.		Other assets	9,335,249	777,446	1,981,436	12,094,131
M.		Tax receivables	0	0	0	0
N.		Cash and cash equivalents	309,110	0	0	309,110
		LIABILITIES AND EQUITY	**326,145,751**	**–777,446**	**5,323,075**	**330,691,379**
A.		Equity	85,534,249	0	36,141,862	121,676,111
	1.	Called-up capital	32,818,530	0	0	32,818,530
	2.	Share premium	106,191	0	0	106,191
	3.	Revenue reserves	34,532,002	0	5,569,381	40,101,383
	4.	Revaluation surplus	13,374,947	0	–7,446,343	5,928,604
	5.	Retained earnings	2,461,262	0	34,977,926	37,439,188
	6.	Net profit for the period	2,203,563	0	3,035,414	5,238,977
B.		Minority interest	37,754	0	5,484	43,238
C.		Subordinated liabilities	0	0	0	0
	1.	Technical provisions	208,169,041	0	–39,184,250	168,984,791
	2.	Unearned premiums	40,098,412	0	2,710,923	42,809,335
	3.	Mathematical provision	8,454,667	0	6	8,454,673
	4.	Provision for outstanding claims	112,223,098	0	–1	112,223,097
	5.	Technical provision for the benefit of life insurance policyholders who bear the investment risk	3,523,936	0	47,964	3,571,900
D.		Other technical provisions	43,868,929	0	–41,943,143	1,925,786
E.		Other provisions	509,956	0	–1	509,955
F.		Deferred tax liabilities	1,148,852	0	8,365,464	9,514,316
G.		Financial liabilities	318	0	0	318
H.		Other liabilities	29,986,786	–777,446	0	29,209,340
I.		Current income tax liabilities	796,548	0	0	796,548

The effect of transition to IFRS on technical provisions as at 1 January 2006 (EUR)

Technical provisions as at 1 January 2006 under SAS	208,169,041
Reversal of the equalization provision	–26,946,467
Reversal of the provision for nuclear risks	–9,427,827
Transfer of the earthquake provision to other revenue reserves	–417,330
Transfer of the provision for credit risks to other revenue reserves	–5,151,507
Increase in unearned premiums by short-term deferred acquisition costs	2,710,917
Increase in technical provisions for the benefit of life insurance policyholders who bear the investment risk by short-term deferred acquisition costs	47,966
Technical provisions as at 1 January 2006 under IFRS	**168,984,791**

The effect of transition to IFRS on revenue reserves as at 1 January 2006 (EUR)

Revenue reserves as at 1 January 2006 under SAS	34,532,002
Transfer of the earthquake provision to other revenue reserves	417,330
Transfer of the provision for credit risks to other revenue reserves	5,152,051
Revenue reserves as at 1 January 2006 under IFRS	**40,101,383**

The effect of transition to IFRS on retained earnings as at 1 January 2006 (EUR)

Retained earnings as at 1 January 2006 under SAS	2,461,261
Reversal of the equalization provision	20,748,778
Reversal of the provision for nuclear risks	7,242,298
Effects of restatement of investments using the equity method and the effective interest rate	6,986,851
Retained earnings as at 1 January 2006 under IFRS	**37,439,188**

The effect of transition to IFRS on deferred tax liabilities as at 1 January 2006 (EUR)

Deferred tax liabilities as at 1 January 2006 under SAS	1,148,852
Reversal of the equalization provision	6,197,687
Reversal of the provision for nuclear risks	2,163,284
Effect of restatement using the effective interest rate	4,492
Deferred tax liabilities as at 1 January 2006 under IFRS	**9,514,316**

The effect of transition to IFRS on other assets as at 1 January 2006 (EUR)

Other assets as at 1 January 2006 under SAS	9,335,249
Increase by short-term deferred acquisition costs	1,981,436
Effect of disclosure for acquisition costs - correction of error	777,446
Other assets as at 1 January 2006 under IFRS	**12,094,131**

The effect of transition to IFRS on investments in associates as at 1 January 2006 (EUR)

Investments in associates as at 1 January 2006 under SAS	24,408,587
Effects of the equity method	1,948,446
Investments in associates as at 1 January 2006 under IFRS	**26,357,033**

The effect of transition to IFRS on financial investments as at 1 January 2006 (EUR)

Financial investments as at 1 January 2006 under SAS	218,005,327
Restatement using the effecting interest rate	–161,702
Financial investments as at 1 January 2006 under IFRS	**217,843,625**

The effect of transition to IFRS on revaluation surplus as at 1 January 2006 (EUR)

Revaluation surplus as at as at 1 January 2006 under SAS	13,374,947
Effect of the equity method	–7,460,604
Effect of accounting for investments using the effecting interest rate	14,263
Revaluation surplus as at 1 January 2006 under IFRS	**5,928,606**

The effect of transition to IFRS on other liabilities as at 1 January 2006 (EUR)

Other liabilities as at 1 January 2006 under SAS	29,986,786
Effect of disclosure for acquisition costs – correction of error	–777,446
Other liabilities as at 1 January 2006 under IFRS	**29,209,340**

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

Opening balance sheet as at 31 December 2006 according to the SAS and IFRS and effects of the transition to IFRS

(EUR)			SAS	Reclassifications	Corrections of errors	Adjustments	IFRS
		ASSETS	**358,417,750**	**16,966,331**	**0**	**4,262,837**	**379,646,918**
A.		Intangible assets	11,343,328	0	0	–1,066,817	10,276,511
B.		Property and equipment	9,143,992	0	0	3	9,143,995
C.		Non-current assets held for sale	0	3,811,863	0	0	3,811,863
D.		Deferred tax assets	400,206	0	0	1	400,207
E.		Investment property	3,099,915	0	0	–2	3,099,913
F.		Investments in Group companies and in associates	27,232,010	0	0	2,107,557	29,339,567
G.		Financial investments	240,006,131	–3,744,201	0	0	236,261,930
H.		Assets from investment contracts	0	0	0	0	0
I.		Reinsurers' share of technical provisions	0	17,015,046	0	0	17,015,046
		Unearned premiums	0	2,193,472	0	0	2,193,472
		Mathematical provision	0	372	0	0	372
		Provision for outstanding claims	0	14,821,202	0	0	14,821,202
J.		Inventories	103,007	0	0	1	103,008
K.		Receivables	44,300,486	–75,933	0	209,837	44,434,390
L.		Other assets	11,111,262	–40,444	0	3,012,258	14,083,076
M.		Tax receivables	0	0	0	0	0
N.		Cash and cash equivalents	11,677,413	0	0	–1	11,677,412
		LIABILITIES AND EQUITY	**358,417,750**	**16,966,331**	**–1,255,569**	**5,528,664**	**379,646,918**
A.		Equity	102,276,118	0	176,896	34,042,972	136,495,986
	1.	Called-up capital	32,809,710	0	0	0	32,809,710
	2.	Share premium	106,162	0	0	0	106,162
	3.	Revenue reserves	40,179,368	0	0	5,049,065	45,228,433
	4.	Revaluation surplus	16,804,085	0	0	–10,113,113	6,690,972
	5.	Retained earnings	5,962,546	0	176,896	37,176,613	43,316,055
	6.	Net profit for the period	5,655,371	0	0	1,627,445	7,282,816
	7.	Minority interest	758,875	0	0	302,963	1,061,838
B.		Subordinated liabilities	11,614,395	0	0	0	11,614,395
C.		Technical provisions	204,017,409	16,992,932	–176,896	–36,717,265	184,116,180
	1.	Unearned premiums	47,657,345	2,171,358	0	2,946,161	52,774,864
	2.	Mathematical provision	8,021,356	372	0	0	8,021,728
	3.	Provision for outstanding claims	99,834,482	14,821,202	0	206,219	114,861,903
	4.	Technical provision for the benefit of life insurance policyholders who bear the investment risk	6,519,749	0	0	66,094	6,585,843
	5.	Other technical provisions	41,984,476	0	–176,896	–39,935,738	1,871,842
D.		Other provisions	535,851	0	0	0	535,851
E.		Liabilities related to non-current assets held for sale	0	0	0	0	0
F.		Deferred tax liabilities	1,311,062	10,258	0	8,026,973	9,338,035
G.		Financial liabilities	0	0	0	0	0
H.		Other liabilities	37,391,205	–36,859	–1,255,569	175,983	36,274,760
I.		Current income tax liabilities	1,271,711	0	0	0	1,271,711

The effect of transition to IFRS on intangible assets as at 31 December 2006 (EUR)

Intangible assets as at December 31, 2006 under SAS (adjusted to the format)	**11,343,328**
Effect of adjustment of ownership and exchange differences in goodwill	–856,979
Transfer of advances for intangible assets to receivables	–209,837
Intangile assets as at 31 December 2006 under IFRS	**10,276,512**

The effect of transition to IFRS on assets available for sale as at 31 Dcember 2006 (EUR)

Assets available for sale as at 31 December 2006 under SAS (adjusted to the format)	**0**
Transfer from financial investments	3.811.862
Assets available for sale as at 31 December 2006 under IFSR (adjusted to the format)	**3.811.862**

The effect of transition to IFRS on investments in affiliates as at 31 December 2006 (EUR)

Investments in affiliates as at 31 December 2006 under IFRS (adjusted to the format)	**27,232,010**
Effects of using the equity method	2,107,557
Investments in affiliates as at 31 December 2006 under IFRS	**29,339,567**

The effect of transition to IFRS on financial investmentsas as at 31 December 2006 (EUR)

Financial investmentsas at 31 December 2006 under SAS (adjusted to the format)	**240,006,131**
Transfer to assets available for sale	–3,811,862
Transfer to reciavables	67,661
Financial investments as at 31 December 2006 under IFRS (adjusted to the format)	**236,261,930**

The effect of transition to IFRS on reinsurers' share of technical provisionsa as at 31 December 2006 (EUR)

Reinsurers' share of technical provisions at 31 December 2006 under SAS (adjusted to the format)	**17,076,456**
Unearned premium	87,384
Mathematical reserves	372
Outstanding claims reserves	–149,166
Reinsurers' share of technical provisionsat 31 December 2006 under IFRS (adjusted to the format)	**17,015,046**

The effect of transition to IFRS on receivables as at 31 December 2006 (EUR)

Receivables as at 31 December 2006 under SAS (adjusted to the format)	**44,224,553**
Transfer of advances for intangible assets	209,837
Receivables as at 31 December 2006 under IFRS	**44,434,390**

The effect of transition to IFRS on other assets as at 31 December 2006 (EUR)

Other assets as at 31 December 2006 under SAS (adjusted to the format)	**11,070,818**
Short-term deferred acquisition costs	3,012,255
Other assets as at 31 December 2006 under IFRS	**14,083,073**

The effect of transition to IFRS on equity as at 31 December 2006 (EUR)

Equity as at 31 December 2006 under SAS (adjusted to the format)	**102,276,118**
Transfer to provision for credit risks	4,326,854
Transfer to the earthquake provision	722,211
Effect of restatement of investents using the capital method and the effective interest rate	–10,113,113
Increase in minority interest	302,963
Adjustment to revaluation surplus due to use of equity method	1,167,112
Change in deferrment of acquisition costs	254,114
Additions to the IBNR claims provision	206,219
Increase in retained earnings by decrease in mathematical provision - correction of error	176,896
Effect of restatement of investments after use of equity method and the effective interest rate	4,295,483
Transfer of the equalization provision to retained earnings	25,581,623
Reversal of the provision for nuclear risks	7,299,506
Equity as at 31 December 2006 under IFRS	**136,495,986**

The effect of transition to IFRS on technical provisionsa as at 31 December 2006 (EUR)

Technical provisions as at 31 December 2006 under SAS (adjusted to the format)	**221,010,341**
Increase in gross unearned premiums by deferred acquisition costs	2,946,163
Additions to the IBNR claims provision	206,219
Increase in the technical provision for the benefit of life insurance policyholders who bear the investment rist by short-term deferred acquisition costs	66,094
Reversal of the equalization provision	–25,581,623
Reversal of the provision for nuclear risks	–9,305,053
Transfer of the earthquake provision to other revenue reserves	–722,211
Transfer of the provision for credit risks to other revenue reserves	–4,326,854
Decrease in the mathematical provision	–176,896
Technical provisions as at 31 December 2006 under IFRS	**184,116,180**

The effect of transition to IFRS on deferred tax liabilities as at 31 December 2006 (EUR)

Deferred tax liabilities as at 31 December 2006 under SAS (adjusted to the format)	**1,321,320**
Reversal of the equalization provision	5,883,773
Reversal of the provision for nuclear risks	2,180,372
Additions to the IBNR claims provision	–47,430
Deferred tax liabilities as at 31 December 2006 under IFRS	**9,338,035**

The effect of transition to IFRS on Other liabilities as at 31 December 2006 (EUR)

Other liabilities as at 31 December 2006 under SAS (adjusted to the format)	**37,354,346**
Correction of error due to too high acquisition costs recognised	–1,255,569
Adjustment of liabilities upon transition to IFRS	175,983
Other liabilities as at 31 December 2006 under IFRS	**36,274,760**

Income statement for the year ended 31 December 2006 and the effect of transition to IFRS

(EUR)		SAS	Correction of errors	Adjustments	IFRS
		1 January–31 December 2006			1 January–31 December 2006
I.	Net earned premiums	82,553,053	0	82,553,053	118,617,819
	– Gross premiums written	103,903,448	0	103,903,448	140,460,856
	– Written premiums ceded to reinsurers and co-insurers	–17,721,988	0	–17,721,988	–17,896,363
	– Change in unearned premiums	–3,628,407	0	–3,628,407	–3,946,674
II.	Income from investments in affiliates	103,444	0	103,444	2,056,470
III.	Investment income	12,354,310	0	12,354,310	16,044,588
IV.	Other technical income, of this	–21,542,929	0	–21,542,929	–17,703,989
	– Commission income	–21,758,717	0	–21,758,717	–18,477,501
V.	Other income	1,026,216	0	1,026,216	1,026,216
VI.	Net insurance claims and benefits incurred	–54,918,985	–206,216	–55,125,201	–77,442,187
	– Gross claims and benefits paid	–71,194,242	0	–71,194,242	–89,578,407
	– Reinsurers' and co-insurers' share of claims and benefits paid	19,241,727	0	19,241,727	19,218,989
	– Change in the provision for outstanding claims	–2,966,470	–206,216	–3,172,686	–7,082,769
VII.	Change in other technical provisions	1,778,248	–1,836,834	–58,586	–2,656,302
VIII.	Change in liabilities relating to investment contracts	0	0	0	0
IX.	Bonuses and rebates	0	0	0	–23,716
X.	Operating expenses, of this	–4,497,541	0	–4,497,541	–20,050,498
	– Acquisition costs	0	0	0	–3,343,355
XI.	Expenses relating to investments in affiliates	0	0	0	0
XII.	Investment expenses	–1,818,156	0	–1,818,156	–2,049,242
XIII.	Other technical expenses	–130,764	0	–130,764	–1,653,325
XIV.	Other expenses	–333,619	0	–333,619	–336,262
XV.	Profit before tax	14,573,277	–2,043,050	12,530,227	15,829,572
XVI.	Current tax	–3,430,424	0	–3,430,424	–3,647,291
XVII.	Deferred tax	169,169	363,010	532,179	763,217
XVIII.	**Profit for the period**	**11,312,022**	**–1,680,040**	**9,631,982**	**12,945,498**

The effect of change in the net premiums earned on net profit/loss for the period (EUR)

Net premiums earned as at 31 December 2006 under SAS	**118,871,933**
Change in the deferrment of acquisition costs	–254,114
Net premiums earned as at 31 December 2006 under IFRS	**118,617,819**

The effect of change in income from investments in affiliated companies on net profit/loss for the period (EUR)

Income from investments in affiliated companies as at 31 December 2006 under SAS	**0**
Inclusion of net profit of affiliated companies	2,056,470
Income from investments in affiliated companies as at 31 December 2006 under IFRS	**2,056,470**

The effect of change in net claims and benefits incurred on net profit/loss for the period (EUR)

Net claims and benefits incurred as at 31 December 2006 under SAS	**-77,235,969**
Additions to provisions	–206,217
Net claims and benefits incurred as at 31 December 2006 under IFRS	**–77,442,186**

The effect of change in change in other technical provisions on net profit/loss for the period (EUR)

Change in other technical provisions as at 31 December 2006 under SAS	**-820,554**
Reversal of reversal of the equalization provision	–1,835,748
Change in other technical provisions as at 31 December 2006 under IFRS	**–2,656,302**

The effect of change in operating expenses on net profit/loss for the period (EUR)

Operating expenses as at 31 December 2006 under SAS	**-20,782,321**
Overstatement of acquisition costs	477,709
Change in deferral of acquisition costs	254,114
Operating expenses as at 31 December 2006 under IFRS	**–20,050,498**

The effect of change in investment expenses on net profit/loss for the period (EUR)

Investment expenses as at 31 December 2006 under SAS	**-1,668,552**
Reversal of revaluation error	–380,690
Investment expenses as at 31 December 2006 under IFRS	**–2,049,242**

The effect of change in other expenses on net profit/loss for the period (EUR)

Other expenses as at 31 December 2006 under SAS	**-333,620**
Change due to transition to ifrs	–2,642
Other expenses as at 31 December 2006 under IFRS	**–336,262**

35. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On January 24, 2008, the Board of Directors of the Slovenian Restitution Fund ("SRF") gave its approval to starting the procedure of selling part of its holdings in Sava Re through an initial Public Offering ("IPO") and to a capital increase of up to EUR 80 million. The SRF does not intend to participate in the capital increase, but aims to retain 25% +1 share. Accordingly, the Group initiated IPO procedures in January 2008.

On March 3 and 5, 2008 the Group sold 17,739 shares in Zavarovalnica Triglav, realising a capital gain of EUR 5.3 million.

On March 13, 2008, the Group Board of Directors convened a general Shareholders' meeting to be held in April 2008. In this general meeting a decision will be made in relation to the proposed change of the Group articles of association to authorise to a capital increase of up to 50%.

On completion of the IPO process, the Group will report in accordance with the Slovenian Market in Financial Instruments Act. The reporting requirements of public companies are different from those the Group has had to comply under the CA and the IA. The Group prepares its financial statements on the basis of reinsurance accounts that are finalised with a significant delay after the cut-off date. In the first five months of 2008, the Group will set the basis for the transition to a new system of accounting and reporting reinsurance business, based on estimates. This is the only way in which the Group will be able to meet its reporting requirements.

36. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONSOLIDATED BALANCE SHEET

The Group makes additional disclosures for balance sheet items in excess of 1% of the balance sheet total.

1) Intangible assets

Movements in cost and accumulated amortization of intangible assets in 2007

(EUR)	COST							
Item	As at 1 January	Acquisitions	Additions	Disposals	Reclassifications	Impairments	Foreign exchange differences	As at 31 December
Intangible assets	570,841	1,356,717	579,818	–36,568	0	0	–6,726	2,464,082
Goodwill	10,039,475	0	13,618,334	0	0	0	0	23,657,809
Long-term deferred acquisition costs	0	0	0	0	0	0	0	0
Other long-term deferred costs and accrued income	67,174	24,430	16,967	–764	0	0	–67	107,740
Total	**10,677,490**	**1,381,147**	**14,215,119**	**–37,332**	**0**	**0**	**–6,793**	**26,229,631**

(EUR)	Accumulated amortization								Net Book value	
Item	As at 1 January	Acquisitions	Additions	Disposals	Reclassification	Impairments	Foreign exchange differences	As at 31 December	As at 31 December	As at 1 January
Intangible assets	355,603	61,797	398,385	–36,568	0	80	–1,867	777,430	1,686,652	215,238
Goodwill	0	0	0	0	0	0	0	0	23,657,809	10,039,475
Long-term deferred acquisition costs	0	0	0	0	0	0	0	0	0	0
Other long-term deferred costs and accrued income	45,376	0	4,136	–764	10,412	0	0	59,160	48,580	21,798
Total	**400,979**	**61,797**	**402,521**	**–37,332**	**10,412**	**80**	**–1,867**	**836,590**	**25,393,041**	**10,276,511**

Movements in cost and accumulated amortization of intangible assets in 2006

(EUR)	COST							
Item	As at 1 January	Acquisitions	Additions	Disposals	Reclassifications	Impairments	Foreign exchange differences	As at 31 December
Intangible assets	442,519	37,512	139,187	–48,377	0	0	0	570,841
Goodwill	0	0	10,039,475	0	0	0	0	10,039,475
Long-term deferred acquisition costs	0	0	0	0	0	0	0	0
Other long-term deferred costs and accrued revenue	67,174	0	0	0	0	0	0	67,174
Total	**509,693**	**37,512**	**10,178,662**	**–48,377**	**0**	**0**	**0**	**10,677,490**

(EUR)	Accumulated amortization								Net book value	
Item	As at 1 January	Acqui-sitions	Addi-tions	Disposals	Reclassi-fications	Impair-ments	Foreign exchange differ-ences	As at 31 Decem-ber	As at 31 December	As at 1 January
Intangible assets	237,437	7,497	114,700	−4,031	0	0	0	355,603	215,238	205,082
Goodwill	0	0	0	0	0	0	0	0	10,039,475	0
Long-term deferred acquisition costs	0	0	0	0	0	0	0	0	0	0
Other long-term deferred costs and accrued revenue	32,895	0	12,481	0	0	0	0	45,376	21,798	34,279
Total	**270,332**	**7,497**	**127,181**	**−4,031**	**0**	**0**	**0**	**400,979**	**10,276,511**	**239,361**

Intangible assets comprise software and goodwill. As at December 31, 2007, goodwill totalled EUR 23,657,809. This arose on acquisition of Sava Osiguranje, Dukagjini, Sava Tabak and Montenegro Osiguranje. As at December 31, 2006 goodwill amounted to EUR 10,039,457, relating to the acquisition of Sava Osiguranje and Dukagjini. In line with IFRS, no revaluation was carried out.

Intangible assets excluding goodwill have finite useful lives. The amortization rate is 20% and has remained unchanged from 2005.

Goodwill

Development of goodwill

Goodwill relates to the acquisition of:

- Sava Osiguranje Insurance Company, Serbia, and Dukagjini Insurance Company, Kosovo, in 2006, together amounting to EUR 10,039,475;
- the acquisition of a 66.7% share in Sava Tabak Insurance Company, the former Yugoslav Republic of Macedonia, and, at the end of 2007, the acquisition of a 99.92% share in Montenegro Insurance Company, Montenegro, together amounting to EUR 13,618,334.

Development of goodwill in 2007

Carrying amount as at 31 December 2006	**10,039,475**
Sava Osiguranje	5,047,588
Dukagjini	4,991,887
Additions in current year (acquisitions)	**13,618,334**
Sava Tabak	3,030,375
Bro-Dil	24,266
Montenegro	10,563,693
Impairments	**0**
Carrying amount as at 31 December 2007	**23,657,809**

Goodwill impairment test

In preparating the financial statements, the Group tested goodwill for impairment. The impairment test was carried out on goodwill relating to all acquisitions except for the acquisition of Montenegro, which was consolidated for the first time on December 31, 2007. As part of goodwill impairment testing and in accordance with IAS 36, the recoverable amount of any cash-generating unit on the basis of value in use has been calculated for the remaining three acquisitions. The cash flow projections used in these calculations were based on the five year business plan adopted by the Board of Directors covering the period to 2012. An extrapolation of growth rates was used for all subsequent periods. The discount rate used is based on market rates adapted to reflect the specific risks connected with individual insurance companies. The so-obtained recoverable amount of the cash-generating unit was compared to its carrying amount, including goodwill attributed to the unit. In all cases of goodwill impairment tests, the recoverable amount of individual units exceeds the carrying amount including goodwill. Therefore impairment of goodwill as at December 31, 2007 is not required. The Group does not foresee any events which would significantly influence the carrying value of goodwill in the future.

Main assumptions used in the cash flow projections for calculation of value used for goodwill impairment testing

For the purpose of calculating the discounted cash flow, we used a 5-year projection of the Group business operations (Sava Re Group Strategic Plan for the period 2008–2012). We believe that the net profit is a good approximation of net cash flow. Assumptions used:

	Average growth rate for the 2008-2012 period		
	Sava Osiguranje	Dukagjini	Tabak
Premiums earned	23%	16%	15%
Claims incurred	23%	17%	18%
Net operating expenses	12%	15%	17%
Net profit	143%	29%	33%
Growth rate for residual amount	**3.0%**	**3.5%**	**2.5%**

The growth rates of earned premiums reflect the expected growth rates of the insurance markets in which the Group operates. In the markets in which the Group foreign subsidiaries operate, the share of gross insurance premium in gross domestic product is relatively low. As these countries' macroeconomic indicators are expected to converge towards those of Western European countries, we expect that the share of gross premium in GDP will also increase. As the level of technical provisions in the foreign subsidiaries of the Group are brought into line with the reserving policy of the Group, the claims incurred in the first years of this 5-year period are relatively high.

Due to the expected business optimization processes in subsidiary companies, we anticipate that expenses will not increase as much as premiums. Additionally the implementation of internal controls, such as stricter credit control procedures will contribute to the growth of net profit.

The discount rate was calculated as the weighted average cost of capital, using the Capital Asset Pricing Model (CAPM). The applied discount rate was calculated based on risk-free basic interest rate adjusted for the market interest rate, taking into account the capital structure (equity capital, debt capital). We did not take into account the discount factor for small companies because, in accordance with the ICA, insurance companies with regulated business operations are deemed to be large.

The applied discount rate is as follows:

Sava Osiguranje: 12.12%

Dukagjini: 12.34%

Sava Tabak: 11.64%

2) Property and equipment

Movements in cost and accumulated depreciation of property and equipment in 2007

(EUR)	COST								
Item	As at 1 January	Acquisi-tions	Additions	Disposals	Reclassifi-ca-tions	Impairment reversals	Impair-ments	Foreign exchange differences	As at 31 Decem-ber
Land directly used in insurance activities	356,041	0	0	–2,207	0	0	0	0	353,834
Buildings directly used in insurance activities	9,656,227	3,475,477	8,776,554	–47,343	–725,957	0	0	–384,658	20,750,300
Other land and buildings directly used in insurance activities	25,764	0	0	0	–25,764	0	0	0	0
Equipment	5,236,416	1,353,607	958,364	–431,228	–215,740	0	–212,257	–47,016	6,642,146
Other property, plant and equipment	125,519	0	0	–43,533	145,147	0	0	–6,853	220,280
Total	**15,399,967**	**4,829,084**	**9,734,918**	**–524,311**	**–822,314**	**0**	**–212,257**	**–438,527**	**27,966,560**

(EUR)	Accumulated depreciation								Net book value	
Item	As at 1 January	Acquisi- tions	Additions	Disposals	Reclassi- fica- tions	Impair- ment reversals	Foreign exchange differ- ences	As at 31 Dec ember	As at 31 Dec ember	As at 1 January
Land directly used in insurance activities	0	0	0	0	0	0	0	0	353,834	356,041
Buildings directly used in insurance activities	3,052,418	220,706	129,259	–16,133	–113,969	0	–65,638	3,206,643	17,543,657	6,603,809
Other land and buildings directly used in insurance activities	0	0	0	0	0	0	0	0	0	25,764
Equipment	3,151,814	557,705	528,139	–339,362	–62,594	40	–51,140	3,784,602	2,857,544	2,084,602
Other property, plant and equipment	51,740	0	1,414	–21,566	0	0	0	31,588	188,692	73,779
Total	**6,255,972**	**778,411**	**658,812**	**–377,061**	**–176,563**	**40**	**–116,778**	**7,022,833**	**20,943,727**	**9,143,995**

Movements in cost and accumulated depreciation of property and equipment in 2006

(EUR)	COST						
Item	As at 1 January	Acquisitions	Additions	Disposals	Reclassifica- tions	Foreign exchange differences	As at 31 December
Land directly used in insurance activities	294,456	0	19,705	–62,069	103,949	0	356,041
Buildings directly used in insurance activities	5,521,186	4,419,856	11,393	–192,259	–103,949	0	9,656,227
Other land and buildings directly used in insurance activities	25,764	0	0	0	0	0	25,764
Equipment	3,045,080	1,814,726	549,012	–172,402	0	0	5,236,416
Other property, plant and equipment	53,861	0	0	–240	71,898	0	125,519
Total	**8,940,347**	**6,234,582**	**580,110**	**–426,970**	**71,898**	**0**	**15,399,967**

(EUR)	Accumulated depreciation							Net book value	
Item	As at 1 January	Acquisi- tions	Addi- tions	Disposals	Reclassifi- cations	Foreign ex- change differ- ences	As at 31 Decem- ber	As at 31 Decem- ber	As at 1 January
Land directly used in insurance activities	0	0	0	0	0	0	0	356,041	294,456
Buildings directly used in insurance activities	1,685,955	1,483,602	75,120	–192,259	0	0	3,052,418	6,603,809	3,835,231
Other land and buildings directly used in insurance activities	0	0	0	0	0	0	0	25,764	25,764
Equipment	1,890,130	1,052,922	340,424	–131,661	0	–1	3,151,814	2,084,602	1,154,950
Other property, plant and equipment	25,952	0	5,417	0	20,371	0	51,740	73,779	27,909
Total	**3,602,037**	**2,536,524**	**420,961**	**–323,920**	**20,371**	**–1**	**6,255,972**	**9,143,995**	**5,338,310**

In 2007 the largest increase in property directly used in insurance operations related to construction works for a new office building in Belgrade.

The amount of equipment increased by EUR 2,311,971 in 2007 due to: business acquisitions, increase in the number of employees and replacement of worn-out equipment.

Because of the increase in the number of employees in 2005, the Group started using office premises which were previously leased. In 2006 these premises were refurbished, resulting in an increase of equipment and other fixed assets of EUR 549,012.

At January 1, 2006, property and equipment directly used in insurance operations increased by the amount of property transferred from investment properties.

As part of the refurbishment of business premises, equipment almost fully written off and computer equipment fully written off totalling EUR 172,642 were eliminated from the books of the Group.

Investments in property held for either yielding rent or capital growth were classified as investment property. The investment in properties not qualifying as investment property were classified as property and equipment.

3) Non-current assets held for sale

In 2006, disposal of investment property included a transfer of a property to non-current assets held for sale of EUR 4,037,995. This property was sold in 2007.

4) Deferred tax assets

In 2006 the Group recognized deferred tax assets in relation to value adjustments of receivables and investments arising in 2005 which are, not deductible for tax purposes. Deferred tax assets amounted to EUR 400,207 at December 31, 2006.

Deferred tax assets in 2007

(EUR)	As at 31 December
Long-term financial investments	118,436
Short-term operating receivables	224,017
Total	**342,453**

(EUR)	Offset balance as at 1 January	Recognised in the IS	Offset balance as at 31 December
Long-term financial investments	151,130	–32,694	118,436
Short-term operating receivables	249,077	–25,060	224,017
Total	**400,207**	**–57,754**	**342,453**

5) Investment property

Movements in cost and accumulated depreciation of investment property in 2007

(EUR)	COST						
Item	As at 1 January	Aquisitions	Additions	Disposals	Reclassifica-tions	Foreign ex-change differ-ences	As at 31 December
Land	151,512	0	0	–15,464	0	0	136,048
Buildings	3,242,075	0	0	–31,012	–1,699,876	–26,659	1,484,528
Total	**3,393,587**	**0**	**0**	**–46,476**	**–1,699,876**	**–26,659**	**1,620,576**

(EUR)	Accumulated depreciation							Net carrying amount	
Item	As at 1 January	Acquisitions	Additions	Disposals	Reclassifica-tions	Foreign exchange differences	As at 31 Decem-ber	As at 31 Decem-ber	As at 1 January
Land	0	0	0	0	0	0	0	136,048	151,512
Buildings	293,673	0	15,601	–9,531	0	0	299,743	1,184,785	2,948,402
Total	**293,673**	**0**	**15,601**	**–9,531**	**0**	**0**	**299,743**	**1,320,833**	**3,099,914**

Movements in cost and accumulated depreciation of investment property in 2006

(EUR)	COST					
Item	As at 1 January	Aquisitions	Additions	Disposals	Reclassifications	As at 31 December
Land	321,696	0	0	–222,879	52,695	151,512
Buildings	5,606,298	1,914,024	0	–4,225,552	–52,695	3,242,075
Total	**5,927,994**	**1,914,024**	**0**	**–4,448,431**	**0**	**3,393,587**

(EUR)	Accumulated depreciation						Net carrying amount	
Item	As at 1 January	Acquisitions	Additions	Disposals	Reclassifica-tions	As at 31 December	As at 31 December	As at 1 January
Land	0	0	0	0	0	0	151,512	321,696
Buildings	484,979	0	52,694	–244,000	0	293,673	2,948,402	5,121,319
Total	**484,979**	**0**	**52,694**	**–244,000**	**0**	**293,673**	**3,099,914**	**5,443,015**

In 2007 an investment property of EUR 1,699,876 was transferred to non-current assets held for sale.

In 2007 income from investment property totalled EUR 205,114 (EUR 343,801 in 2006). Indirect expenses including repairs and maintenance of investment property amounted to EUR 40,515 in 2007 (EUR 204,438 in 2006).

At the end of 2006, the investment property in Belgrade held at cost in the Group financial statements was fair valued. According to the professional valuation carried out in 2005, the fair value of the investment properties in Slovenia was EUR 2,170,698. The total fair value of investment property is EUR 2,358,200, while the carrying amount is EUR 1,320,833.

6) Investments in associates

Investments in shares of Group companies in 2007

	As at 1 January	Acquisitions	As at 31 December	As at 31 December
	Share (%)	Share	Share	Voting rights (%)
Zavarovalnica Tilia d.d. Novo mesto	99.61	0.02	99.63	99.63
Sava Osiguranje, a.d.o., Belgrade	99.99	–	99.99	99.99
Dukagjini kompania e sigurimeve sh.k.p. Priština, Kosovo	51.00	–	51.00	51.00
Akcionersko društvo za osiguruvanje Sava Tabak, a.d.o., Skopje	–	66.70	66.70	66.70
Bro-Dil, akcionersko društvo, Skopje	–	33.80	33.80	33.80
Montenegro osiguranje a.d., Podgorica	–	99.92	99.92	99.92

In addition to investments in Group companies in Sava Re's financial statemements, investment in controlled companies also includes the investment in the stock broking firm Bro-dil (owned by Sava Tabak) amounting to EUR 38.8k. Sava Re indirectly owns 33.8% in this company. The value of this investment is immaterial (EUR 38.8k).

Investments in shares of associated companies in 2007

(EUR, except percentages)	As at 1 January		Acquisitions		Disposals		As at 31 December		
	Share (%)	Amount	Share (%)	Amount	Share (-)	Amount (-)	Share (%)	Amount	Voting rights (%)
Zavarovalnica Maribor d.d., Maribor	45.79	28,441,402	–	–	–	–	45.79	28,214,138	45.64
Moja naložba d.d., Maribor	25.00	898,165	–	–	–	–	25.00	965,773	25.00
Gold Mak AD Radoviš	–		17.70	1,803,795	–	–	17.70	1,825,037	17.70
Total	**–**	**29,339,567**	**18.00**	**1,803,795**	**–**	**–**		**31,004,948**	**–**

In addition to the investments in associated companies, held by Sava Re and disclosed in the notes to the financial statements, Sava Tabak has an investment in the associated company Goldmak amounting to EUR 1.8 million. Sava Re's indirect holding in this company totals 17.7%.

Data on associates

Zavarovalnica Maribor – basic information

(EUR)	2007	2006
Assets	603,430,260	533,098,230
Liabilities	534,475,549	138,043,607
Income	230,027,206	118,611,659
Profit for the year	3,460,916	4,479,777

Moja naložba – basic information

(EUR)	2007	2006
Assets	69,613,599	49,755,011
Liabilities	139,040	90,823
Income	54,656,514	31,599,943
Profit for the year	258,854	57,871

7) Financial investments

Financial investments in 2007

(EUR)	Held-to-maturity	At fair value through profit or loss			Available for sale	Loans and receivables	Total
		Non-derivative					
	Net carrying amount	Held for trading	Designated at fair value through P/L	Derivative			
Long-term financial investments							
Equity and other variable income securities and mutual funds	433,296	0	0	0	69,496,015	0	69,929,311
Debt and other fixed income securities	300,000	0	1,037,160	0	89,096,589	0	90,433,749
Shares in investment funds	–	0	0	0	873,760	0	873,760
Other financial investments	63,338	0	0	15,000	539,080	0	617,418
Bank deposits	0	0	0	0	0	12,072,939	12,072,939
Short-term financial investments							
Held for trading shares and interests	0	3,747,063	0	0	1,565,653	0	5,312,716
Held for trading securities or securities with a remaining maturity of less than one year	0	0	0	0	51,658,213	0	51,658,213
Bank deposits	0	0	0	0	0	51,260,376	51,260,376
Other short-term financial investments	1,220,002	71,398	0	0	0	0	1,291,400
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	5,900,793	5,900,793
Investments for the benefit of life insurance policyholders who bear the investment risk	0	10,578,852	0	0	0	0	10,578,852
Total	**2,016,636**	**14,397,313**	**1,037,160**	**15,000**	**213,229,310**	**69,234,108**	**299,929,527**

Financial investments in 2006

(EUR)	Held-to-maturity	At fair value through profit or loss			Available for sale	Loans and receivables	Total
		Non-derivative					
	Net carrying amount	Held for trading	Designated at fair value through P/L	Derivativ			
Long-term financial investments							
Equity and other variable income securities and mutual funds	264,534	0	0	0	23,097,891	0	23,362,425
Debt and other fixed income securities	0	0	1,075,400	0	77,661,687	0	78,737,087
Shares in investment funds	0	0	0	0	969,090	0	969,090
Other financial investments	12,487	0	0	0	0	0	12,487
Bank deposits		0	0	0	0	13,070,669	13,070,669
Short-term financial investments							
Held for trading shares and interests	0	1,513,095	0	0	1,209,525	0	2,722,620
Held for trading securities or securities with a remaining maturity of less than one year	0	0	0	0	60,161,149	0	60,161,149
Bank deposits	0	0	0	0	0	43,477,385	43,477,385
Other short-term financial investments	1,230,500	0	0	0	0	0	1,230,500
Financial investments of reinsurers in respect of reinsurance contracts with ceding companies	0	0	0	0	0	5,618,832	5,618,832
Investments for the benefit of life insurance policyholders who bear the investment risk	0	6,899,686	0	0	0	0	6,899,686
Total	**1,507,521**	**8,412,781**	**1,075,400**	**0**	**163,099,342**	**62,166,886**	**236,261,930**

Investments in subordinated debt instruments in 2006 and 2007 (EUR)

Financial investment	Symbol	As at 31 December 2007	As at 31 December 2006
Bond Abanka 4th issue	AB04	0	1,209,114
Bond Abanka 6th issue	AB06	437,984	445,873
Bond Banke Domžale 1st issue	BDM1	527,131	486,901
Bond Factor banke 15th issue	FB15	838,215	834,001
Bond NLB 13th issue	NLB13	1,141,303	1,191,788
Bond NLB	NLB Float	4,474,800	4,663,124
Bond Probanka 8th issue	PRB8	2,017,951	2,000,000
Bond Zavarovalnica Triglav 1st issue	ZT01	340,173	336,968
Bond ING Bank	INTNED 5 7/8 02/11	445,683	436,083
Bond Dexia BIL	DEXGRP 5 5/8 03/08	238,643	231,760
Bond Banke Celje 11th issue	BCE11	2,971,507	0
Total		**13,433,391**	**11,835,612**

Loans and receivables

In 2007, bank deposits, representing the majority total loans and receivables, amounted to EUR 63.3 million (2006: EUR 56.5 million).

Short-term deposits (EUR 51.2 million) represent slightly over 80% of the total bank deposits, while deposits with a maturity of over one year represented only 19% (2006: 23%).

In accordance with local regulatory requirements relating to diversification and concentration of investments, deposits are made only with domestic banks.

Loans and receivables also include investments of reinsurers in respect of in reinsurance contracts with ceding companies.

Held-to-maturity securities

Investments held-to-maturity represent only a small part of the Group's investment portfolio. If receivables for reinsurance premiums (EUR 5,900,793), which are retained by reinsurers and generally paid after one year, are excluded investments held to maturity amount to only EUR 2 million (0.7% of the Group's investment portfolio in 2007; 2006: 0.64%). Short-term financial investments represented the major part (EUR 1.2 million, the same as in 2006) of this group.

Available-for-sale securities

In 2007, securities available-for-sale accounted for 70% of the Group's investment portfolio (2006: 69%). Securities acquired as long-term investments amounted to EUR 148.8 million (2006: EUR 101.7 million), while those acquired as short-term investments amounted to EUR 53.2 million (2006: EUR 61.4 million).

Fixed income securities account for most of securities available for sale and amount to EUR 140.7 million in 2007 (2006: EUR 137.8). These comprise debt securities that amounting to approximately EUR 120 million (the same as in 2006) and structured products amounting to approximately EUR 20 million (2006: EUR 17 million). In 2007 almost 58% of fixed income securities had maturity that has less than one year (2006: 77%). Equity and other variable income securities and mutual funds largely comprise investments in mutual funds (2007: 75% of this item; 2006: 78%). The Group mainly invest in equity and mixed mutual funds. Investments in debt mutual funds were negligible both in 2006 and 2007.

Securities at fair value through profit or loss

In 2007, securities at fair value through profit or loss accounted for 5.2% of the total Group investment portfolio (2006: 4.0%).

Investments for the benefit of life insurance policyholders who bear the investment risk (unit linked products), account for 69% of all investments (2006: 73%). These comprise investments in mutual funds. Securities at fair value through profit and loss also comprise investments in equity securities held for short-term profit gain. Of this, slightly less than 77% were managed by stock broking firms and banks. These must comply with statutory and Group internal regulation when making investments. The remaining part of securities hld at fair value through were investments in domestic equity markets.

Since 2006, these investments comprise also a bond of EUR 1 million issued by France Telecom (FRTEL) and the derivative financial instrument (Interest Rate Swap) acquired to hedge interest rate risk.

Financial investments by type in 2006 and 2007 (EUR)

Type IFRS	As at 31 December 2007	As at 31 December 2006	Index
Fair value through profit and loss	15,449,473	9,488,181	163
Held to maturity	2,016,636	1,507,521	134
Loans and receivables	69,234,108	62,166,886	111
Available for sale	213,229,310	163,099,342	131
Total	**299,929,527**	**236,261,930**	**126.9**

As shown in the table above, the greatest increase, in relative terms, relates to securities at fair value through profit and loss. Loans and receivables also increased. This is due to the fact that new Group members mainly invested in deposits with domestic banks. However, in absolute terms, the greatest increase relates to securities available-for-sale. This was mainly due to the investments in debt securities made by the parent.

Investment portfolio rating

As shown in the table below, almost 79% of debt equities in which the Group invested in 2007 were rated A or above by S&P (2006: 85%). This shows that the Group has in place a prudent investment policy in respect of fixed income securities.

Debt securities by rating 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
	Amount	Structure	Amount	Structure
Aaa/AAA	9,319,736	6.9%	1,973,530	1.6%
Aa/AA	66,234,831	49.1%	88,268,074	71.7%
A/A	32,556,835	24.1%	17,371,044	14.1%
Baa/BBB	7,597,241	5.6%	4,121,702	3.4%
Less than Baa/BBB	509,864	0.4%	0	–
Non - rated	18,646,722	13.8%	11,360,034	9.2%
Total	**134,865,229**	**100.0%**	**123,094,384**	**100,0%**

Non-rated debt securities (15% and 11% in 2007 and 2006 respectively) mainly comprise non-rated government bonds (other than those issued by the Government of the Republic of Slovenia) and bonds issued by domestic financial institutions.

Geographic diversification

In 2007 and 2006, almost the entire portfolio of debt securities comprised securities issued by entities based in developed capital markets. The "Other" category comprises investments of Group members in domestic debt securities.

Debt securities geographic diversification in 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
	Amount	Structure	Amount	Structure
Slovenia	83,320,399	61.0%	114,753,794	93.2%
OECD	8,977,220	6.7%	1,127,220	0.9%
EU	42,757,740	31.7%	7,213,370	5.9%
Other	809,870	0.6%	0	–
Total	**134,865,229**	**100.0%**	**123,094,384**	**100.0%**

Equity issued by domestic entities prevailed in 2007 and 2006 (under "Slovenia" and "Other"). The categories OECD and EU comprise securities of the Sava Re managed by banks and stock broking firms.

Equity securities geographic diversification in 2006 and 2007

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
	Amount	Structure	Amount	Structure
Slovenia	19,400,461	66.7%	7,531,500	62.2%
OECD	850,910	2.9%	544,140	4.5%
EU	2,423,320	8.3%	1,085,500	9.0%
Other	6,401,810	22.0%	2,945,536	24.3%
Total	**29,076,501**	**100.0%**	**12,106,676**	**100.0%**

Remaining maturity of debt securities

(EUR, except percentages)	As at 31 December 2007		As at 31 December 2006	
Maturity	**Amount**	**Structure**	**Amount**	**Structure**
0–1 year	12,305,981	9.1%	19,849,919	16.1%
1–5 years	73,597,386	54.6%	42,021,812	34.1%
Over 5 years	48,961,862	36.3%	61,222,653	49.7%
Total	**134,865,229**	**100.0%**	**123,094,384**	**100.0%**

In 2007, more than 90% of fixed income securities were long-term (2006: slightly less than 85%). The majority of debt securities had a maturity of 1 to 5 years (2006: over 5 years).

8) Reinsurers' share of technical provisions

Reinsurers' share of technical provisions in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
Unearned premiums	3,117,433	2,193,472	142.1
Mathematical provision	206	372	55.4
Outstanding claims provision	18,950,999	14,821,202	127.9
Provision for bonuses, rebates and cancellations	0	0	–
Other technical provisions	352,529	0	–
Total	**22,421,167**	**17,015,046**	**131.8**

The ceded share of unearned premiums increases in line with the growth of premium for proportional retrocession, which account for the bulk of unearned premiums. The increase in the ceded share of the provision for outstanding claims relates to the catastrophe protection of Sava Re the priority of which was exceeded due to windstorm Kyrill. The retrocession relief from that cover has not been settled yet. The ceded other technical provisions comprise the additional unexpired risk reserve on the level of the retroceded portfolio.

9) Receivables

Receivables in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
Receivables from policyholders	19,096,533	9,603,614	198.8
Receivables from insurance borkers	483,809	333,368	145.1
Other receivables arising out of primary insurance business	537,222	0	–
Receivables for premiums arising out of reinsurance and co-insurance	21,171,906	20,350,650	104.0
Receivables for shares in claims	6,491,801	9,112,366	71.2
Receivables for commission	3,311,499	2,871,838	115.3
Receivables arising out of investments	584,444	845,262	69.1
Other receivables	5,952,891	1,317,291	451.9
Total	**57,630,105**	**44,434,389**	**129.7**

Receivables excluding Group companies in 2007

(EUR)	Secured	Unsecured	Total
Receivables from policyholders	2,254,762	16,841,771	19,096,533
Receivables from insurance brokers	163,947	319,862	483,809
Other receivables arising out of primary insurance business	459,642	77,580	537,222
Receivables for premiums arising out of reinsurance and co-insurance	220,093	20,951,813	21,171,906
Receivables for shares in claims	111,355	6,380,446	6,491,801
Receivables for commission	221,553	3,089,946	3,311,499
Receivables arising out of investments	68,947	515,497	584,444
Other receivables	299,849	5,653,042	5,952,891
Total	**3,800,148**	**53,829,957**	**57,630,105**

Receivables excluding Group companies in 2006

(EUR)	Secured	Unsecured	Total
Receivables from policyholders	320,131	9,283,483	9,603,614
Receivables from insurance brokers	0	333,368	333,368
Other receivables arising out of primary insurance business	0	0	0
Receivables for premiums arising out of reinsurance and co-insurance	23,936	20,326,714	20,350,650
Receivables for shares in claims	16,096	9,096,270	9,112,366
Receivables for commission	16,160	2,855,678	2,871,838
Receivables arising out of investments	51,342	793,920	845,262
Other receivables	181,316	1,135,975	1,317,291
Total	**608,981**	**43,825,407**	**44,434,388**

Receivables by maturity in 2007

(EUR)	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables from policyholders	7,939,906	6,444,934	4,711,693	19,096,533
Receivables from insurance brokers	0	85,759	398,050	483,809
Other receivables from primary insurance business	15,865	13,338	508,019	537,222
Receivables for reinsurance and co-insurance premiums	16,610,411	2,885,732	1,675,763	21,171,906
Receivables for shares in claims	4,504,785	902,980	1,084,036	6,491,801
Receivables for commission	2,548,585	359,105	403,809	3,311,499
Receivables arising out of investments	432,416	108,519	43,509	584,444
Other receivables	5,206,376	371,248	375,267	5,952,891
Total	**37,258,344**	**11,171,615**	**9,200,146**	**57,630,105**

Receivables by maturity in 2006

(EUR)	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables from policyholders	8,416,525	595,083	592,006	9,603,614
Receivables from insurance borkers	300,068	33,300	0	333,368
Other receivables from primary insurance business	0	0	0	0
Receivables for reinsurance and co-insurance premiums	18,391,023	1,305,838	653,789	20,350,650
Receivables for shares in claims	7,861,177	674,717	576,472	9,112,366
Receivables for commission	2,419,828	228,694	223,316	2,871,838
Receivables arising out of investments	788,740	53,102	3,420	845,262
Other receivables	868,342	357,821	91,128	1,317,291
Total	**39,045,703**	**3,248,555**	**2,140,131**	**44,434,389**

Movements in provision in 2007

(EUR)	As at 1 January	Used	Released	Formed	Foreign exchange differences	As at 31 December
Receivables from policyholders	4,484,390	91,307	160,078	1,390,297	–81,934	5,541,368
Receivables from life insurance policyholders	30,584	0	5,220	0	0	25,364
Other receivables from primary insurance business	61,663	405,403	0	680,728	–13,231	323,757
Receivables for reinsurance and co-insurance premiums	91,173	0	1,595	289	0	89,867
Receivables for shares in claims	63,453	0	17,696	0	0	45,757
Other short-term receivables from reinsurance business	2,271,716	297,111	0	329,764	1	2,304,370
Short-term receivables arising out of investments	7,351,012	2,033,898	0	685	–261,251	5,056,548
Other short-term receivables	1,048,395	380,521	199,266	2,244,000	–20,150	2,692,458
Bank deposits (long-term)	0	0	0	162,933	–511	162,422
Short-term loans granted	0	0	0	16,293	–51	16,242
Total	**15,402,386**	**3,208,240**	**383,855**	**4,824,989**	**–377,127**	**16,258,153**

Movements in provision in 2006

(EUR)	As at 1 January	Used	Released	Formed	Foreign exchange differences	As at 31 December
Receivables from policyholders	2,342,397	77,754	0	2,219,747	0	4,484,390
Receivables from life insurance policyholders	38,773	1,518	6,671	0	0	30,584
Other receivables from primary insurance business	0	0	0	61,663	0	61,663
Receivables for reinsurance and co-insurance premiums	95,840	0	4,765	98	0	91,173
Receivables for shares in claims	227,446	0	163,993	0	0	63,453
Other short-term receivables from reinsurance business	2,104,037	320,575	0	488,254	0	2,271,716
Short-term receivables arising out of investments	129,056	565	0	7,222,521	0	7,351,012
Other short-term receivables	404,514	43,260	0	687,141	0	1,048,395
Bank deposits (long-term)	0	0	0	0	0	0
Short-term loans granted	0	0	0	0	0	0
Total	**5,342,063**	**443,672**	**175,429**	**10,679,424**	**0**	**15,402,386**

10) Other assests

Other assests in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
Accrued income from interest and rent	816,141	2,838,922	28.7
Short-term deferred acquisition costs	5,375,660	5,684,196	94.6
Other short-term deferred costs and accrued income	7,548,647	5,559,959	135.8
Total	**13,740,448**	**14,083,077**	**97.6**

11) Cash and cash equivalents

The Group discloses balances in transaction accounts and overnight deposit accounts in the balance sheet and the cash flow statement.

12) Equity

In the General Meeting held August 2007, the amendments to the Articles of Association of Sava Re, whereby the Company changed to the system of no-par value shares, were adopted. At December 31, 2007, the share capital of the Company was divided into 7,862,519 no-par value shares. All shares are ordinary shares, of the same class and are registered. The holders of ordinary share are entitled to participate in the control of the Company and are entitled to a part of the profit (dividend).

At the end of 2007 and 2006, the Company had 21 shareholders were.

Pursuant to the Resolution of the General Meeting, the Group declared a EUR nil dividend in 2007.

Share premium

The share premium was EUR 106,162 in 2007, the same amount as 2006 as a result of a reversal of the general equity revaluation adjustment following a change in Slovenian accounting standards.

Revenue reserves

Revenue reserves comprise reserves required by the Articles of Association totalling EUR 11,475,547. In 2006 this reserve reached the maximum amount required set by the Articles of Association Legal reserves were EUR 3,510,978. This amount has not changed since 2006.

Reserves provided for by the Articles of Association are used for:

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

As required by IFRS, the Group does not set aside equalization provisions. However, pursuant to the ICA, the Group is obliged to set aside provisions for credit risks and provisions for catastrophe losses (earthquake). In order to comply with statutory requirements, the

Group discloses these provisions within revenue reserves (credit risk equalization reserve and catastrophe equalization reserve). These are formed by allocation of profit as decided by the Board of Directors. The credit risk equalization reserve is calculated in accordance with ICA and the resolutions; the earthquake reserve is calculated in accordance with Group's internal rules on establishing technical provisions.

Revenue reserves in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006	Index
Legal reserves and reserves provided for in the article of associations	14,986,525	14,986,525	100.0
Reserve for treasury shares	1,774	1,774	100.0
Treasury shares (as deduction item)	–1,774	–1,774	100.0
Credit risk equalization reserve	3,839,550	4,326,854	88.7
Catastrophe equalization reserve	1,387,095	722,211	192.1
Other revenue reserves	35,701,116	25,192,843	141.7
Total	**55,914,286**	**45,228,433**	**123.6**

Revaluation surplus in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006
Value adjustments - short-term available-for-sale financial assets		
As at 1 January	**1,416,838**	**1,117,645**
Increase due to change in fair value	1,403,143	778,688
Transfer of revaluation surplus to operating and financial income	–1,128,491	–479,407
Foreign exchange losses		–88
Total	**1,691,490**	**1,416,838**
Value adjustments - long-term available-for-sale financial assets		
As at 1 January	**5,274,134**	**4,810,959**
Increase due to change in fair value	22,789,676	578,083
Transfer of revaluation surplus to operating and financial income	–13,743,856	–114,114
Foreign exchange losses	–	–794
Total	**14,319,954**	**5,274,134**
Total value adjustments	**16,011,444**	**6,690,972**

Treasury shares

In 2007, the Group carried out no transactions with treasury shares. As at December 31, 2007, the Group held 210 treasury shares.

Net earnings per share in 2006 and 2007

(EUR)	As at 31 December 2007	As at 31 December 2006
Net earnings	20,845,254	12,945,498
No. of shares	7,862,519	7,862,519
Net earnings per share	**2.65**	**1.65**

As a result of a correction made relating to acquisition costs which were too large, there was an increase in earnings per share by EUR 0.05 for 2006.

The weighted average number of shares outstanding in the financial period was 7,862,519.

13) Subordinated liabilities

At the end of 2006 and the beginning of 2007, Sava Re took out subordinated loans in the amount of EUR 32 million and drew down 97% of the principal. The duration of the subordinated loan facility is 20 years, with the possibility of termination after 10 years. The principal is due at maturity. The interest rate is 3-month Euribor + 3.35%, with interest payable on a quarterly basis.

Subordinated liabilities as at 31 December 2007

Outstanding debt at effective interest rate as at 31 December 2007	31,136,034
Debt currency	EUR
Maturity date	December 27,2026
Conversion into capital	not applicable
Conversion into other liabilities	not applicable

Subordinated liabilities as at 31 December 2006

Outstanding debt at effective interest rate as at 31 December 2006	**11,614,395**
Debt currency	EUR
Maturity date	December 27, 2026
Conversion into capital	not applicable
Conversion into other liabilities	not applicable

To mitigate the interest rate risk, the Group entered an interest rate swap contract with a currency option. The first contract, entailing Sava Re paying a fixed interest rate of 3.35% and the counterparty paying a variable 3-month Euribor, was entered into on February 20, 2007. Upon termination the contract in July 2007, the Group realised a gain of EUR 915,000.

In August 2007, the Company signed another 5-year interest rate swap with a currency option. Under the terms of this contract, Sava undertook to pay a fixed interest rate of 3.65%, and the counterparty a variable interest rate of 3-month Euribor.

By entering these swap contracts, Sava Re hedges the cash flow connected to interest payment for the subordinated debt, payable at a variable interest rate. The current cash-flow hedge contract enables Sava Re to reduce the amount of interest payable (3-month Euribor) and to eliminate its exposure to interest rate fluctuations.

14) Technical provisions

Development of gross technical provisions in 2007

(EUR)	Consolidated GTP as at 1 January, prior to correction	Correction	Consolidated GTP as at 1 January	GTP as at 1 Janaury, prior to elimination	Additions (relating to companies in the Group on January 1)	Uses & releases (relating to companies in the Group on January 1)	GTP as at 31 December (relating to companies acquired by the Group in the year)	GTP as at 31 December before elimination	GTP as at 31 December consolidated
			1	2	3	4	5	6 = 2 + 3 – 4 + 5	7
Unearned premiums	52,774,864	0	52,774,864	58,720,079	59,626,526	51,672,822	6,685,179	73,358,962	66,259,147
Mathematical provision	8,021,728	650,082	8,671,810	8,671,810	1,888,365	1,265,640	0	9,294,535	9,294,535
Outstanding claims provision	114,861,903	0	114,861,903	127,528,458	66,159,413	50,488,709	3,996,486	147,195,648	135,741,158
Provision for bonuses, rebates and cancellations	288,790	0	288,790	396,849	475,718	396,849	0	475,718	330,975
Other technical provision	1,583,051	0	1,583,051	1,583,051	677,349	890,232	0	1,370,168	1,370,168
Unit linked life provision	6,585,842	0	6,585,842	6,585,842	4,698,257	171,261	0	11,112,838	11,112,838
Total gross technical provision	**184,116,178**	**650,082**	**184,766,260**	**203,486,089**	**133,525,629**	**104,885,513**	**10,681,665**	**242,807,869**	**224,108,821**

Development of gross technical provisions in 2006

(EUR)	GTP as at 1 January	GTP as at 1 January before elimination	Additions (relating to companies in the Group on 1 January)	Uses & releases (relating to companies in the Group on 1 January)	GTP as at 31 December (relating to companies acquired by the Group in the year)	GTP as at 31 December before elimination	GTP as at 31 December
	1	2	3	4	5	6 = 2 + 3 – 4 + 5	7
Unearned premiums	42,797,830	48,554,048	35,186,133	31,397,270	6,377,168	58,720,079	52,774,864
Mathematical provision	8,452,401	8,452,401	3,270,213	3,700,886	0	8,021,728	8,021,728
Outstanding claims provision	112,192,939	122,297,861	60,222,624	60,045,278	5,053,251	127,528,458	114,861,903
Provision for bonuses, rebates and cancellations	259,086	259,086	372,274	234,511	0	396,849	288,790
Other technical provisions	1,666,182	1,666,182	862,421	973,363	27,811	1,583,051	1,583,051
Unit-linked life provision	3,570,940	3,570,940	3,076,219	61,317	0	6,585,842	6,585,842
Total gross technical provisions	**168,939,378**	**184,800,518**	**102,989,884**	**96,412,625**	**11,458,230**	**202,836,007**	**184,116,178**

General information on methods of reserving is given under the heading Significant accounting policies.

Column (1) refers to the IFRS consolidated balance sheet at the beginning the year. Column (2) shows the amounts before elimination of intra-group transactions. Columns (3) to (5) explain the development of the column (6) from the column (2), where (3) and (4) refer to the development of the companies which were part of the Group as at January 1, and (5) shows the growth due to acquisitions of companies during the year.

The difference between total technical provisions as at January 1, 2007 and December 31, 2006 is due to the change in the method used for the calculation of the mathematical for the annuity portfolio. The new method was applied for the first time on January 1, 2007.

Structure of the provision for outstanding claims

As further described under the heading Significant accounting policies, the provision for reported but not settled claims (RBNS) is made on a case by case estimation basis. The provision for incurred but not reported claims (IBNR) is calculated using actuarial and statistical methods, mostly run-off triangles of paid claims. Primary insurance triangles include accident year developments, and reinsurance triangles include underwriting year developments. Reinsurance IBNR also includes the reinsurer's share in IBNR for proportional covers. Both RBNS and IBNR provisions contain allowances for claims handling expenses.

The following tables show the structure of the gross provision for outstanding claims by type, separately for primary insurance and reinsurance, and a portion of IBNR in the total provision for outstanding claims.

Gross provision for outstanding claims by type 2007

(EUR, except percentages)	RBNS provision	IBNR provision	Total claims provision	Share of IBNR in total claims provision
Consolidated	87,385,807	48,355,351	135,741,158	36%
Total before intra-group elimination	95,555,084	51,640,564	147,195,648	35%
Total from primary insurance	37,146,122	18,830,489	55,976,611	34%
Total from reinsurance	58,408,962	32,810,075	91,219,037	36%

Gross provision for outstanding claims by type 2006

(EUR, except percentages)	RBNS provision	IBNR provision	Total claims provision	Share of IBNR in total claims provision
Consolidated	75,780,665	39,081,238	114,861,903	34%
Total before intra-group elimination	85,349,849	42,178,609	127,528,458	33%
Total from primary insurance	28,523,838	15,826,928	44,350,766	36%
Total from reinsurance	56,826,011	26,351,681	83,177,692	32%

Liability adequacy testing

Unearned premiums are regularly tested for adequacy for each class of business, separately for gross and reinsured portfolio. The liability adequacy tests are performed separately for primary life insurance. Unearned premium is calculated based on the written premium mainly using the pro rata method. Therefore, if written premium is adequate, also unearned premium is adequate. If the expected combined ratio exceeds 100%, the unearned premium is not adequate and the part of the combined ratio over 100% is multiplied by the unearned premium to obtain the expected deficiency. The expected combined ratio is calculated based on the combined ratios, allowing for trends and corrections for exceptional losses and expenses. Combined ratios take into account earned premiums, incurred claims and expenses, and investment income. The calculated deficiency is recognized as the additional unexpired risk reserve (AURR) under the item "Other technical provisions". The following tables show the expected combined ratios and AURR for Sava Re (reinsurance) and Tilia (largest subsidiary). The other Group companies do not have and expect to have combined ratios over 100%. Only the classes of insurance for which these calculations were performed are shown in the table below. In order to avoid insignificant fluctuations in low volume classes of business, Tilia only performs calculations in classes where unearned premium exceeds EUR 4,172.

Gross additional provision for unexpired risks in 2007

(EUR, except percentages)	Primary insurance		Reinsurance	
	Expected CR	AURR	Expected CR	AURR
01 Accident	76.5%	0	58.0%	0
03 Land motor hull	113.1%	533,97	104.1%	252,078
05 Aircraft hull	–	0	43.2%	0
06 Marine hull	–	0	109.3%	11,077
07 Goods in transit	–	0	64.8%	0
08 Fire and natural forces	102.6%	23,782	93.5%	0
09 Other damage to property	104.7%	58,128	89.9%	0
10 Motor liability	85.9%	0	89.4%	0
11 Aircraft liability	–	0	31.8%	0
12 Liability for ships	–	0	20.2%	0
13 General liability	132.6%	149,319	132.9%	183,104
14 Credit	105.0%	102,045	92.8%	0
15 Suretyship	68.5%	0	145.9%	16,192
16 Miscellaneous financial loss	273.6%	11,264	151.9%	29,21
17 Legal expenses	66.0%	0	3.6%	0
18 Assistance	–	0	44.8%	0
19 Life	–	0	15.3%	0
21 Unit-linked life	–	0	6.5%	0
Total		**878,507**		**491,661**

Gross additional provision for unexpired risks in 2006

(EUR, except percentages)	Primary insurance		Reinsurance	
	Expected CR	AURR	Expected CR	AURR
01 Accident	76.3%	0	78.9%	0
03 Land motor hull	117.8%	416,505	112.6%	685,750
05 Aircraft hull	–	0	35.1%	0
06 Marine hull	–	0	124.7%	10,866
07 Goods in transit	–	0	64.4%	0
08 Fire and natural forces	71.7%	0	93.6%	0
09 Other damage to property	127.0%	138,855	102.6%	84,820
10 Motor liability	86.0%	0	89.4%	0
11 Aircraft liability	–	0	114.6%	586
12 Liability for ships	–	0	17.8%	0
13 General liability	150.1%	137,459	60.7%	0
14 Credit	80.2%	0	98.5%	0
15 Suretyship	116.6%	0	157.8%	21,545
16 Miscellaneous financial loss	93.8%	0	158.3%	19,430
17 Legal expenses	28.9%	0	0.0%	0
18 Assistance	–	0	110.0%	1,094
19 Life	–	0	70.8%	0
21 Unit-linked life	–	0	42.3%	0
Total		**692,819**		**824,090**

Liability adequacy testing for life insurance and unit-linked life insurance, described under the heading Significant accounting policies did not show any deficiencies.

15) Other provisions

Movements in other provisions in 2007

(EUR)	As at 1 January	Additions	Uses	Releases	Exchange differences	As at 31 December
Provision for pensions	0	0	0	0	0	0
Provision for termination benefits	422,358	115,203	24,335	13,469	–1,202	498,555
Provision for jubilee benefits	96,243	32,748	5,372	0	–47	123,619
Total provisions for employee benefits	**518,601**	**147,998**	**29,707**	**13,469**	**0**	**622,174**
Other long-term deferred income	**17,249**	**3,117**	**13,832**	**0**	**0**	**6,534**

Movements in other provisions in 2006

(EUR)	As at 1 January	Additions	Uses	Releases	Exchange differences	As at 31 December
Provision for pensions	0	0	0	0	0	0
Provision for termination benefits	417,258	35,228	30,128	0	0	422,358
Provision for jubilee benefits	92,559	5,964	2,280	0	0	96,243
Total provisions for employee benefits	**509,817**	**41,192**	**32,408**	**0**	**0**	**518,601**
Other long-term deferred income	**0**	**22,279**	**5,030**	**0**	**0**	**17,249**

16) Deferred tax liabilites

Deferred tax liabilities include deferred tax liabilities relating to the revaluation of available-for-sale financial investments to fair value.

17) Other liabilities and current income tax liabilities

Other liabilities and current income tax liabilities in 2007

(EUR)	Secured	Maturity			
		over 5 years	over 1 year	up to 1 year	Total
Liabilities to policyholders	0	0	0	820,363	820,363
Liabilities to insurance brokers	0	0	0	573,187	573,187
Other liabilities from primary insurance business	0	0	0	601,727	601,727
Liabilities for reinsurance and co-insurance premiums	0	0	0	10,093,240	10,093,240
Liabilities for shares in reinsurance claims	0	0	0	15,070,190	15,070,190
Other short-term liabilities	0	0	0	10,602,241	10,602,241
Tax liabilities	0	0	5,344,477	5,040,150	10,384,627
Short-term provisions	0	0	0	2,283,804	2,283,804
Total	**0**	**0**	**5,344,477**	**45,084,902**	**50,429,379**

Other liabilities and current income tax liabilities in 2006

(EUR)	Secured	Maturity			
		over 5 years	over 1 year	up to 1 year	Total
Liabilities to policyholders	0	0	0	11,284	11,284
Liabilities to insurance brokers	0	0	0	358,123	358,123
Other liabilities from primary insurance business	0	0	0	15,907	15,907
Liabilities for reinsurance and co-insurance premiums	0	0	0	7,431,938	7,431,938
Liabilities for shares in reinsurance claims	0	0	0	16,999,682	16,999,682
Other short-term liabilities	0	0	0	9,699,126	9,699,126
Tax liabilities	0	0	0	1,271,711	1,271,711
Short-term provisions	0	0	0	1,758,701	1,758,701
Total	**0**	**0**	**0**	**37,546,472**	**37,546,472**

38. NOTES TO THE CONSOLIDATED STATEMENTS – CONSOLIDATED INCOME STATEMENT

18) Net earned premiums

Premiums by class of insurance

(EUR)	Gross premiums	Reinsurers' (-)	Retention	
Class of insurance	**written**	**share**	**2007**	**2006**
01 Personal accident	15.562,910	–86,563	15,476,347	13,117,992
02 Health	162,260	0	162,260	–
03 Land vehicles casco	37,768,547	–2,400,598	35,367,949	22,763,341
04 Railway rolling stock	1,379	0	1,379	–
05 Aircraft hull	307,732	–305,455	2,277	91,259
06 Ships hull	986,416	–150,630	835,786	695,756
07 Goods in transit	2,268,325	–365,475	1,902,850	1,262,547
08 Fire and natural forces	26,829,773	–8,770,396	18,059,377	15,251,517
09 Other damage to property	33,922,623	–7,387,596	26,535,027	17,661,858
10 Motor liability	50,616,861	–1,956,183	48,660,678	36,899,486
11 Aircraft liability	406,053	–222,183	183,870	169,801
13 Liability for ships	154,175	–25,781	128,394	71,367
13 General liability	4,893,827	–1,032,277	3,861,550	2,975,865
14 Credit	2,682,562	0	2,682,562	2,661,069
15 Suretyship	171,455	–6,692	164,763	130,030
16 Miscellaneous financial loss	824,751	–346,274	478,477	405,620
17 Legal expenses	72,416	0	72,416	64,967
18 Assistance	664,606	–179,313	485,293	239,144
Premiums from assumed co-insurance	340,261	–62,408	277,853	52,526
Total non-life	**178,636,932**	**–23,297,824**	**155,339,108**	**114,514,145**
19 Life	2,728,987	–260,069	2,468,918	2,617,501
20 Wedding and childbirth insurance	0	0	0	0
21 Unit-linked life	7,271,119	–6,600	7,264,519	5,432,846
22 Tontine	0	0	0	0
23 Capital redemption	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0
Total life	**10,000,105**	**–266,669**	**9,733,436**	**8,050,347**
Total	**188,637,037**	**–23,564,493**	**165,072,544**	**122,564,492**

The table above shows gross (re)insurance premiums and (retro)ceded reinsurance premiums by class of insurance. The amount of net premiums earned is also determined by the movement in unearned premiums, i.e. a decrease of EUR 7,336,644.

19) Income from investments in associates

Investment income from associates entirely relates to the income received from the associated company of Sava Re.

Income from investments in associates in 2006 and 2007

(EUR)	2007	2006
Participation in profits of associates	1,655,883	2,056,470
Total	**1,655,883**	**2,056,470**

20) Investment income

Breakdown of investment income – non-life business in 2006 and 2007

(EUR)	Liability fund 2007	Liability fund 2006	Index
Income from shares and interests	184,765	0	–
Income from land and buildings	73,807	36,371	202.9
Interest income	5,800,413	7,550,130	76.8
Financial income from revaluation	316,264	396,297	79.8
Other financial income	244,529	82,278	297.2
Value adjustments on investments	0	893,200	–
Gains on disposal of investments	2,948,518	998,226	295.4
Total investment income associated with liability fund	**9,568,296**	**9,956,502**	**96.1**

(EUR)	Capital fund 2007	Capital fund 2006	Index
Income from shares and interests	196,818	0	–
Income from land and buildings	103,123	318,125	32.4
Interest income	3,127,363	1,558,010	200.7
Financial income from revaluation	28,189	13,196	213.6
Other financial income	0	187,030	–
Value adjustments on investments	0	768,270	–
Gains on disposal of investments	17,377,144	2,051,831	846.9
Total investment income associated with capital fund	**20,832,637**	**4,896,462**	**425.5**
Total investment income	**30,400,933**	**14,852,964**	**204.7**

Breakdown of investment income – life business

(EUR)	Liability fund 2007	Liability fund 2006	Index
Income from shares and interests	0	0	–
Income from land and buildings	0	0	–
Interest revenue	506,290	462,383	109.5
Financial income from revaluation	0	1,656	–
Other financial income	5,737	511	1122.7
Value adjustments on investments	0	0	–
Gains on disposal of investments	90,874	2,997	3,032.2
Net unrealised gains on investments of life insurance policyholders who bear the investment risk	857,707	691,665	124.0
Total investment income associated with liability fund	**1,460,608**	**1,159,212**	**126.0**

(EUR)	Capital fund 2007	Capital fund 2006	index 07/06
Income from shares and interests	0	0	–
Income from land and buildings	0	0	–
Interest income	34,678	32,372	107.1
Financial income from revaluation	0	0	–
Other financial income	0	39	–
Value adjustments on investments	0	0	–
Gains on disposal of investments	0	0	–
Total investment income associated with capital fund	**34,678**	**32,411**	**107.0**
Total investment income	**1,495,286**	**1,191,623**	**125.5**

The Group maintains separate records for income from the capital fund and from the liability fund. The relatively high investment income generated in 2007 (more than twice the amount in 2006) is largely the result of (i) the capital gains made by Sava Re from the sale of equity securities, (ii) proceeds from the sale of property by Sava Re and (iii) capital gains from sale of of Slovenian government bonds.

21) Other technical income

This item includes reinsurance commission income and expenses. In insurance companies, this item is generally an income item, while in reinsurance companies it is usually an expense item.

Other technical income (EUR)

Class of insurance	2007	2006	Index
01 Personal accident	–1,955,309	–1,882,676	103.9
02 Health	5,980	0	–
03 Land vehicles casco	–3,560,540	–3,135,114	113.6
04 Railway rolling stock	0	0	–
05 Aircraft hull	14,714	–534	–2,755.4
06 Ships hull	–105,505	–114,244	92.4
07 Goods in transit	–31,261	–241,010	13.0
08 Fire and natural forces	–3,093,287	–3,724,981	83.0
09 Other damage to property	–3,895,814	–3,603,409	108.1
10 Motor liability	–5,137,887	–5,003,516	102.7
11 Aircraft liability	–54,215	–52,046	104.2
13 Liability for ships	–21,789	–7,370	295.6
13 General liability	–400,187	–298,386	134.1
14 Credit	–191,663	–263,003	72.9
15 Suretyship	–5,252	–2,561	205.1
16 Miscellaneous financial loss	–86,660	–70,909	122.2
17 Legal expenses	–291	1,112	–26.2
18 Assistance	–9,180	–19,159	47.9
Total non-life	**–18,528,146**	**–18,417,806**	**100.6**
19 Life	–64,377	–57,451	112.1
20 Wedding and childbirth insurance	0	0	–
21 Unit-linked life	–2,331	–2,244	103.9
22 Tontine	0	0	–
23 Capital redemption	0	0	–
24 Income protection (accident and illness)	0	0	–
Total life	**–66,708**	**–59,695**	**111.7**
Total	**–18,594,854**	**–18,477,501**	**100.6**

In 2007, the Group generated EUR 18,594,854 of commission income. This represents an increase by 0.6% from the previous year.

(22) Other income

Other income and expenses are unusual items referring to previous accountings periodes, which increase or decrease the result in the curent accounting period.

Other income comprises income from sale of property and equipment, compensations received, recoveries of bad debts and other income.

23) Net insurance claims and benefits incurred

Net insurance claims and benefits incurred in 2007 (EUR)

Class of insurance	Gross claims	Gross subrogation recoveries	Reinsurers' share (-)	Coinsurance share (-)	Net claims
01 Personal accident	7,233,284	0	–34,364	0	7,198,920
02 Health	17,593	0	0	0	17,593
03 Land vehicles casco	24,216,133	–1,177,791	–587,785	11,200	22,461,757
04 Railway rolling stock	0	0	0	0	0
05 Aircraft hull	133,457	0	–103,772	0	29,685
06 Ships hull	643,604	0	–115,507	0	528,097
07 Goods in transit	603,108	0	–3	0	603,105
08 Fire and natural forces	18,203,702	–455,359	–7,668,101	0	10,080,242
09 Other damage to property	16,173,410	0	–2,477,722	0	13,695,688
10 Motor liability	27,846,502	–1,322,834	–446,485	0	26,077,183
11 Aircraft liability	65,556	0	–17,133	0	48,423
13 Liability for ships	7,472	0	–3	0	7,469
13 General liability	3,033,603	0	–121,369	0	2,912,234
14 Credit	2,437,557	–1,311,702	4,804	0	1,130,659
15 Suretyship	132,739	0	–	0	132,739
16 Miscellaneous financial loss	892,100	0	–577,533	0	314,567
17 Legal expenses	81	0	–	0	81
18 Assistance	35,078	0	–	0	35,078
Total non-life	**101,674,979**	**–4,267,687**	**–12,144,973**	**11,200**	**85,273,519**
19 Life	1,719,544	0	–105,531	0	1,614,013
20 Wedding and childbirth insurance	0	0	0	0	0
21 Unit-linked life	295,520	0	0	0	295,520
22 Tontine	0	0	0	0	0
23 Capital redemption	0	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0	0
Total life	**2,015,064**	**0**	**–105,531**	**0**	**1,909,533**
Total	**103,690,043**	**–4,267,687**	**–12,250,504**	**11,200**	**87,183,052**

Net insurance claims and benefits incurred in 2006 (EUR)

Class of insurance	Gross claims	Gross subrogation recoveries	Reinsurers' share (-)	Coinsurance share (-)	Net claims
01 Personal accident	6,975,559	0	–102,233	0	6,873,326
02 Health	0	0	0	0	0
03 Land vehicles casco	18,777,089	–884,336	–1,854,279	–22,694	16,015,780
04 Railway rolling stock	0	0	0	0	0
05 Aircraft hull	29,805	0	–4,659	0	25,146
06 Ships hull	639,393	0	–122,133	0	517,260
07 Goods in transit	516,856	0	–375	0	516,481
08 Fire and natural forces	14,201,366	–1,061	–4,949,590	0	9,250,715
09 Other damage to property	12,082,513	0	–2,767,802	0	9,314,711
10 Motor liability	23,033,646	–1,523,321	–577,213	–	20,933,112
11 Aircraft liability	80,495	0	–19,455	0	61,040
13 Liability for ships	9,907	0	–1,516	0	8,391
13 General liability	2,835,782	0	–109,574	0	2,726,208
14 Credit	2,220,177	–1,302,161	–15,429	0	902,587
15 Suretyship	59,923	0	–85	0	59,838
16 Miscellaneous financial loss	8,744,247	0	–8,562,366	0	181,882
17 Legal expenses	0	0	0	0	0
18 Assistance	27,736	0	–265	0	27,471
Total non-life	**90,234,493**	**–3,710,879**	**–19,086,972**	**–22,694**	**67,413,948**
19 Life	2,948,257	0	–109,323	0	2,838,934
20 Wedding and childbirth insurance	0	0	0	0	0
21 Unit-linked life	106,536	0	0	0	106,536
22 Tontine	0	0	0	0	0
23 Capital redemption	0	0	0	0	0
24 Income protection (accident and illness)	0	0	0	0	0
Total life	**3,054,793**	**0**	**–109,323**	**0**	**2,945,470**
Total	**93,289,286**	**–3,710,879**	**–19,196,295**	**–22,694**	**70,359,418**

The above tables show gross claims paid and reinsurance recoveries based on retrocession. The difference between the net claims as per the consolidated income statement and net claims as per the table above relates to the change in claims provision (2007: EUR 10,669,864; 2006: EUR 7,082,769).

24) Change in other technical provisions

The change in other technical provisions relates to the change in the provision for unit-linked and mathematical relating to life insurance business. In the income statement, this item does not include the change in unearned premiums and claims provision for unit-linked relating to life business as these two items are included in premiums earned and claims incurred. The total change in other technical provisions for life business is EUR 4,849,620.

The remaining part of the change in other technical provisions is largely due to the decrease in the provision for unexpired risks.

25) Operating expenses

Operating expenses in 2006 and 2007

(EUR)	2007	2006	Index
1. Acquisition costs (commissions)	8,300,207	3,343,355	248.3
2. Change in deferred acquisition costs	106,261	–254,114	–
2. Depreciation of operating assets	1,187,645	534,194	222.3
3. Labour costs	15,461,917	11,701,410	132.1
– salaries and wages	11,304,417	8,552,184	132.2
– social and pension insurance costs	2,343,789	1,749,707	134.0
– other labour costs	1,813,711	1,399,519	129.6
4. Contractors not pursuing business activities	438,350	139,185	368.7
5. Other operating costs	9,284,993	4,586,467	202.4
– entertainment, advertising, exhibition costs	1,839,567	731,430	251.5
– material and energy costs	832,463	551,306	151.0
– maintenance costs	289,574	37,259	777.2
– reimbursement of work-related costs	848,602	606,056	140.0
– professional services costs	905,718	453,285	199.8
– taxes, levies and charges independent of profit or loss, except for insurance	557,045	273,278	203.8
– transport and communication costs	489,520	52,486	932.7
– insurance premium costs	157,087	52,009	302.0
– bank fees	625,300	306,544	204.0
– rentals and leases	416,454	295,414	–
– training costs	1,337,469	31,088	4,302.2
– other service costs	986,194	1,196,312	82.4
Total operating costs	**34,779,373**	**20,050,497**	**173.5**

Expenses for auditing services in 2007 amounted to EUR 128,371 (EUR 101,510 in 2006).

Total (gross) remuneration paid to directors and members of the Supervisory Board's key management personnel in 2006 and 2007

(EUR)	2007	2006
Management board members	810,417	622,834
Supervisory board members	58,527	123,477
Supervisory boards/bodies of subsidiaries	17,569	5,800
Key management personnels	2,384,396	1,322,768
Total	**3,270,909**	**2,074,879**

Average number of employees by degree of education in 2006 and 2007

Number of employees by education	As at 31 December 2007	As at 31 December 2006
Primary and lower secondary (I-IV)	407	264
Secondary (V)	207	171
Higher (VI)	86	65
University (VII)	248	163
Post-graduate (VIII)	16	12
Total	**964**	**675**

26) Investment expenses

Investment expenses for non-life business in 2006 and 2007

(EUR)	Liability fund 2007	Liability fund 2006	Index
Depreciation of investments not necessary for operations	709	845	83.9
Asset management expenses, interest expenses and other financial expenses	1,342,222	157,437	852.5
Financial expenses from revaluation	100,416	956,609	10.5
Losses on disposal of investments	521,854	195,426	267.0
Total investment expenses	**1,965,201**	**1,310,317**	**150.0**

(EUR)	Capital fund 2007	Capital fund 2006	Index
Depreciation of investments not necessary for operations	44,172	58,005	76.2
Asset management expenses, interest expenses and other financial expenses	2,592,548	548,568	472.6
Financial expenses from revaluation	57,144	66,875	85.4
Losses on disposal of investments	1,368,440	3,717	36,815.7
Total investment expenses	**4,062,304**	**677,165**	**599.9**

Total investment expenses	**6,027,505**	**1,987,482**	**303.3**

Investment expenses for life business in 2006 and 2007

(EUR)	Liability fund 2007	Liability fund 2006	Index
Depreciation of investments not necessary for operations	0	0	–
Asset management expenses, interest expenses and other financial expenses	423	156	271.2
Financial expenses from revaluation	0	836	–
Losses on disposal of investments	0	4,453	–
Net unrealised losses on investments of life insurance policyholders who bear the investment risk	377,162	56,287	–
Total investment expenses	**377,585**	**61,732**	**611.7**

(EUR)	Capital fund 2007	Capital fund 2006	Index
Depreciation of investments not necessary for operations	0	0	–
Asset management expenses, interest expenses and other financial expenses	0	0	–
Financial expenses from revaluation	0	28	–
Losses on disposal of investments	0	0	–
Total investment expenses	**0**	**28**	**–**

Total investment expenses	**377,585**	**61,760**	**611.4**
Total investment expenses life and non-life	**6,405,090**	**2,049,242**	**312.6**

The bulk of investment expenses relates to interest that Sava Re started to pay in 2007 for the subordinated drawn down at the end of 2006 and at the beginning of 2007.

27) Current tax

Current tax in 2006 and 2007

(EUR)	31 December 2007	31 December 2006
Income calculated in accordance with accounting regulations	176,158,791	120,041,104
Adjustment of income because of previously unrecognised expenses	–1,402,267	–1,019,742
Recognised income	**174,756,524**	**119,021,362**
Expenses calculated in accordance with accounting regulations	148,966,711	104,211,532
Adjustment of expenses	–415,335	–536,200
Increase in expenses because of payment of previously unrecognised expenses	0	285,098
Recognised expenses	**148,551,376**	**103,960,430**
Recognised income less recognised expenses	26,205,148	15,060,932
Increase in tax due to transition to IFRS	12,072,513	–
Increase in tax base	67,572	–
Tax incentives	**–54,561**	**–82,933**
Tax base	**38,290,672**	**14,977,999**
Tax	**8,961,318**	**3,647,291**
Deferred tax	**–2,614,492**	**763,217**
Income tax	**6,346,826**	**2,884,074**

In 2007, the effective tax rate was 32.96%, against 23.04% in 2006. The increase in the effective tax rate is mainly due to the release of the equalization provision following the transition to IFRS. Due a change in the tax regulations, the recognition of credit risk reserves and catastrophe equalization reserves were not deemed tax deductible expenses.

39. NOTES TO THE OPERATIONS OF SUBSIDIARIES

Investments in Group companies and amounts due from Group companies in 2007 (EUR)

Item		Zavarovalnica Tilia d.d. Novo mesto	Sava Osiguranje, a.d.o., Belgrade	Dukagjini kompania e sigurimeve sh.k.p. Priština, Kosovo	Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje	Montenegro osiguranje a.d., Podgorica
Debt securities and loans to Group companies	gross	1,670,523	1,500,000	500,000	0	0
	value adjustments	0	0	0	0	0
	net	1,670,523	1,500,000	500,000	–	0
Receivables for reinsurance premiums	gross	3,787,797	0	173,348	2,135,370	25,243
	value adjustments	0	0	0	0	0
	net	3,787,797	0	173,348	2,135,370	25,243
Other short-term receivables from insurance business	gross	0	2,492	4,444	0	0
	value adjustments	0		0	0	0
	net	0	2,492	4,444	0	0
Long-term receivables	gross	0	35,308	0	0	0
	value adjustments	0	0	0	0	0
	net	0	35,308	0	0	0
Total		**5,458,320**	**1,537,800**	**677,792**	**2,135,370**	**25,243**

Investments in Group companies and amounts due from Group companies in 2006 (EUR)

Item		Zavarovalnica Tilia d.d. Novo mesto
Debt securities and loans to Group companies	gross	1,585,712
	value adjustments	0
	net	1,585,712
Receivables for reinsurance premiums	gross	3,145,735
	value adjustments	0
	net	3,145,735
Other short-term receivables from insurance business	gross	0
	value adjustments	0
	net	0
Long-term receivables	gross	0
	value adjustments	0
	net	0
Total		**4,731,447**

Amounts due to Group companies in 2007 (EUR)

Item	Sava Re d.d.	Zavarovalnica Tilia d.d. Novo mesto	Sava Osiguranje, a.d.o., Belgrade	Dukagjini kompania e sigurimeve sh.k.p. Priština, Kosovo	Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje	Montenegro osiguranje a.d., Podgorica
Liabilities for reinsurance premiums	0	2,209,725	0	5,782	582,642	0
Other short-term liabilities	0	1,340,989	0	19,205	710,697	5,213
Total (excluding provisions)	**0**	**3,550,714**	**0**	**24,987**	**1,293,339**	**5,213**

Amounts due to Group companies in 2006 (EUR)

Item	Sava Re d.d.	Zavarovalnica Tilia d.d. Novo mesto	Sava Osiguranje, a.d.o., Belgrade	Dukagjini Kompania ë sigurimeve sh.k.p. Priština, Kosovo
Liabilities for reinsurance premiums	0	4,246,661	0	0
Other short-term liabilities	0	0	0	0
Total (excluding provisions)	**0**	**4,246,661**	**0**	**0**

Subsidiaries – basic info 2007 (EUR)

Item	Zavarovalnica Tilia d.d. Novo mesto	Dukagjini kompania e sigurimeve sh.k.p. Priština, Kosovo	Akcionersko društvo za osiguruvanje Sava Tabak a.d.o., Skopje
Gross premiums written	16,888,072	479,462	2,878,150
Gross claims paid	11,519,207	7,229	664,957
Other operating costs	3,963	0	0
Reinsurance commissions	4,168,322	0	775,856

Subsidiaries – basic info 2006 (EUR)

Item	Zavarovalnica Tilia d.d. Novo mesto
Gross premiums written	15,009,748
Gross claims paid	10,382,210
Reinsurance commissions	3,281,641

Development of income and profit/loss by subsidiary (EUR)

Zavarovalnica Tilia	2007	2006
Income	43,826,104	40,573,501
Net profit/loss for the year	555,423	1,259,691

Sava Osiguranje	2007
Income	10,626,874
Net profit/loss for the year	78,295

Dukagjini	2007
Income	7,567,622
Net profit/loss for the year	418,282

Sava Tabak	2007
Income	9,760,159
Net profit/loss for the year	660,298

Bro-Dil	2007
Income	882,100
Net profit/loss for the year	302,070

SAVA

Pozavarovalnica Sava d.d.

Reinsurance Company Sava Limited.