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Ljubljana, 16 April 2009

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Mag. Zvonko Ivanušič (left)

Dušan Čeč (right)
Chairman of the Management Board
until 30 Dec 2008


Jošt Dolničar (left)

Srečko Čebron (right)

DECLARATION OF THE MANAGEMENT BOARD

"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 Sava Re Group business 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."

Mag. Zvonko Ivanušič, Chairman

Jošt Dolničar, Member

Srečko Čebron, Member

Ljubljana, 16 April 2009

CONTENTS

INTRODUCTION

SUMMARY OF KEY PERFORMANCE INDICATORS

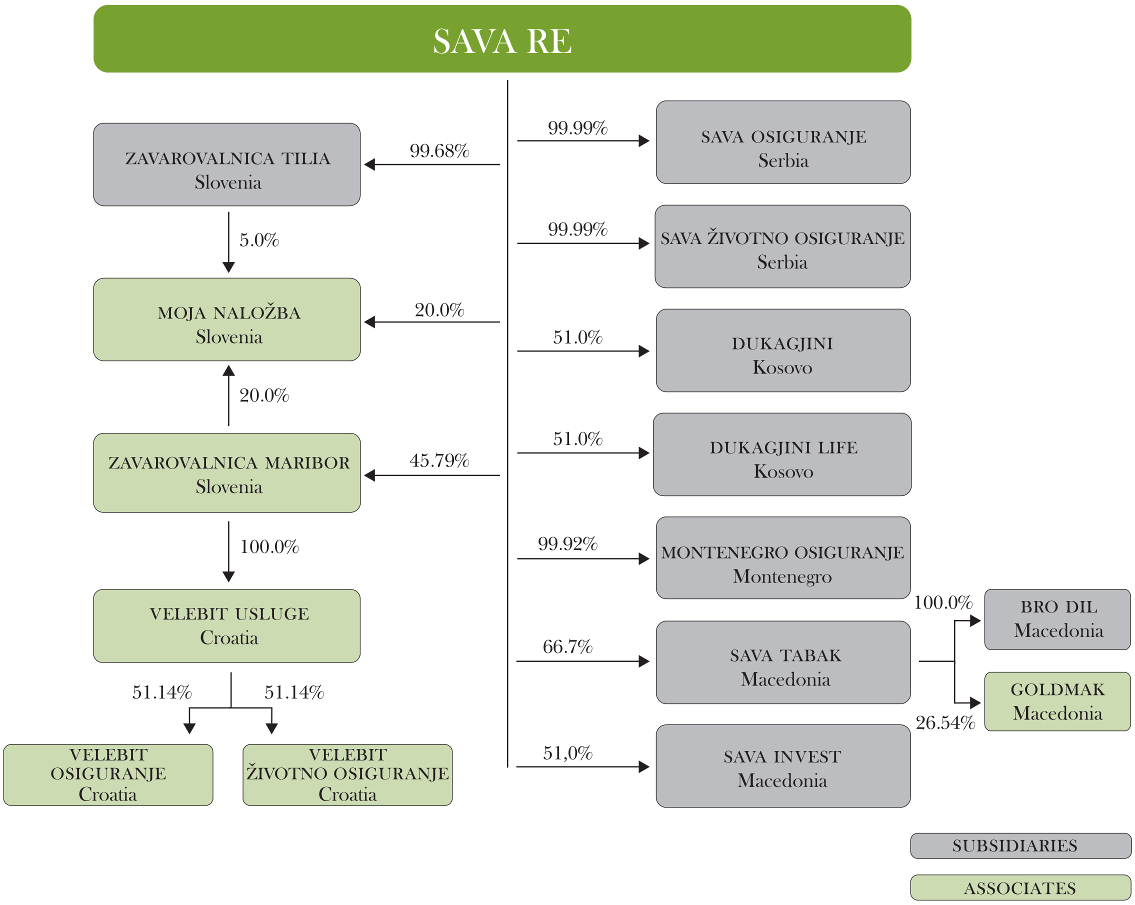
(EUR, except percentages)	Sava Re		Sava Re Group	
	2007	2008	2007	2008
Gross premiums written	118,539,938	134,743,719	188,637,037	229,606,927
Change on gross premiums written	14.1%	13.7%	34.3%	21.7%
Gross premiums written – Slovenia	80,196,155	81,821,496	121,416,978	130,613,994
Gross premiums written – International	38,343,784	52,922,223	67,220,059	98,992,933
International premium as % of total GPW	32.3%	39.3%	35.6%	43.1%
Gross claims paid	70,358,934	114,689,231	99,422,356	155,131,483
Change on gross claims paid	–1.2%	63.0%	11.0%	56.0%
Loss ratio, net of reinsurance	67.3%	72.5%	62.0%	62.8%
Operating expenses including reinsurance commissions	28,999,627	36,332,598	53,374,227	70,841,502
Change on operating expenses	10.4%	25.3%	38.5%	32.7%
Expense ratio, net of reinsurance	31.0%	33.3%	33.8%	36.5%
Combined ratio, net of reinsurance	98.3%	105.8%	95.8%	99.3%
Profit/loss for the period	18,205,423	–7,991,649	20,845,254	–8,472,644
Change on profit/loss for the period	89.0%	–143.9%	61.0%	–140.6%
Total assets	356,701,026	399,152,651	478,960,480	535,346,611
Change on total assets	21.6%	11.9%	26.2%	11.8%
Net technical provisions	108,010,647	121,618,338	201,687,655	226,914,678
Change on net technical provisions	7.5%	12.6%	20.7%	12.5%
ROE (profit/loss for the period/average shareholders' equity)	13.8%	–5.3%	13.7%	–4.9%

I SAVA RE GROUP AND ASSOCIATED COMPANIES

The Sava Re Group experienced strong growth in the period 2006–2008. As at year-end 2008, it was present in the insurance markets of Slovenia, Serbia, Montenegro, Macedonia and Kosovo, and in the global reinsurance market. In addition to insurance and reinsurance, the Sava Re Group provides also investment fund products.

1.1 Sava Re Group structure with associates in 2008

Figure 1: Sava Re Group structure with associates as at 31 December 2008



1.2 Sava Re Group members with associates

As at year-end 2008, members of the Sava Re Group were the following:

1. Pozavarovalnica Sava, Ljubljana, Slovenia
2. Zavarovalnica Maribor, Maribor, Slovenia
3. Zavarovalnica Tilia, Novo mesto, Slovenia
4. Moja naložba, Maribor, Slovenia
5. Sava Osiguranje, Belgrade, Serbia
6. Dukagjini kompania e sigurimeve, Pristina, Kosovo
7. Sava Tabak, Skopje, Macedonia
8. Montenegro osiguranje, Podgorica, Montenegro
9. Sava Invest, Skopje, Macedonia
10. Bro-Dil, Skopje, Macedonia
11. Sava životno osiguranje, Belgrade, Serbia
12. Dukagjini Life, Pristina, Kosovo

	I.	
1.	**Company name:**	**Pozavarovalnica Sava, d. d.**
2.	Registered office:	Dunajska 56, 1000 Ljubljana, Slovenia
3.	Company ID no:	5063825
4.	Business activity code:	65.200
5.	Share capital:	EUR 39,069,099
6.	Stakes held by Group members:	*Zavarovalnica Maribor*: 4.32% *Moja naložba*: 0.06%
7.	Governing bodies	<u>Management Board</u> Chairman (until 30 December 2008) – Dušan Čeč Chairman (from 31 December 2008) – Mag. Zvonko Ivanušič Deputy Chairman (until 30 December 2008) – Mag. Zvonko Ivanušič Member (from 31 December 2008) – Jošt Dolničar <u>Supervisory Board</u> Chairman – Mag. Marko Pogačnik
8.	Position in the Group:	*parent, reinsurance company*

	II.	
1.	**Company name:**	**Zavarovalnica Maribor d. d.**
2.	Registered office:	Cankarjeva ulica 3, 2507 Maribor, Slovenia
3.	Company ID no:	5063400
4.	Business activity code: 65.120	65.200
5.	Share capital:	EUR 28,426,181 (consolidated basis)
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 45.79%
7.	Governing bodies	<u>Management Board</u> Chairman – Drago Cotar Deputy Chairman – Srečko Čebron Members – David Kastelic, Marko Planinšec Member (employee representative) – Srečko Čarni <u>Supervisory Board</u> Chairman – Matjaž Kovačič
8.	Position in the Group:	*associate, insurance company*

	III.	
1.	**Company name:**	**Zavarovalnica Tilia, d. d.**
2.	Registered office:	Seidlova cesta 5, 8000 Novo mesto, Slovenia
3.	Company ID no:	5063426
4.	Business activity code: 65.120	65.120
5.	Share capital:	EUR 14,317,673
6.	Stakes held by Group members:	*Pozavarovalnica Sava:* 99.68%
7.	Governing bodies	<u>Management Board</u> Chairman – Andrej Kavšek Members – Dr. Janez Balkovec, Mag. Tadej Avsec <u>Supervisory Board</u> Chairman – Mag. Zvonko Ivanušič
8.	Position in the Group:	*subsidiary, insurance company*

IV.

1.	**Company name:**	**Moja naložba, pokojninska družba, d. d.**
2.	Registered office:	Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia
3.	Company ID no:	1550411
4.	Business activity code:	65.300
5.	Share capital:	EUR 6,301,109
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 20.00% *Zavarovalnica Maribor*: 20.00% *Zavarovalnica Tilia*: 5.00%
7.	Governing bodies	<u>Management Board</u> Chairman – Lojze Grobelnik Member – Dr. Igor Pšunder <u>Supervisory Board</u> Chairman – Mag. Andrej Plos
8.	Position in the Group:	*associate, pension company*

V.

1.	**Company name:**	**Sava Osiguranje a. d. o., Beograd**
2.	Registered office:	Sremska 6, 11000 Belgrade, Serbia
3.	Company ID no:	17407813
4.	Business activity:	non-life insurance
5.	Share capital:	EUR 5,639,160
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 99.99%
7.	Governing bodies	<u>Management Board</u> Chairman – Duško Jovanović Members – David Kastelic, Mag. Maja Krumberger, Goran Miličević, Dr. Goran Pitić, Filip Šramel <u>Supervisory Board</u> Dušan Čeč, Janez Komelj, Slobodan Kopanja
8.	Position in the Group:	*subsidiary, insurance company*

VI.

1.	**Company name:**	**Dukagjini kompania e sigurimeve sh. p. k., Priština**
2.	Registered office:	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo
3.	Company ID no:	70152892
4.	Business activity:	non-life insurance
5.	Share capital:	EUR 3,228,050
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 51.00%
7.	Governing bodies	<u>Chief Executive Officer</u> Fatmir Gashi <u>Management Board</u> Chairman – Sergej Simoniti Deputy Chairman – Ekrem Lluka Members – Rok Moljk, Mag. Tomaž Oplotnik, Fatmir Gashi
8.	Position in the Group:	*subsidiary, insurance company*

	VII.	
1.	**Company name:**	**Akcionarsko društvo za osiguruvanje Sava Tabak a. d. o., Skopje**
2.	Registered office:	III Makedonske brigade b.b., 1000 Skopje, Macedonia
3.	Company ID no:	4778529
4.	Business activity:	non-life insurance
5.	Share capital:	EUR 2,982,148
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 66.70%
7.	Governing bodies	Executive Director Rok Moljk Chief Executive Officer: Blaže Srbinovski Board of Directors Chairman – Jošt Dolničar Members — Rok Moljk, Milojka Kolar, David Kastelic, Zagorac Tumbovski
8.	Position in the Group:	*subsidiary, insurance company*

	VIII.	
1.	**Company name:**	**Montenegro osiguranje a. d., Podgorica**
2.	Registered office:	PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro
3.	Company ID no:	02303388
4.	Business activity:	non-life insurance
5.	Share capital:	EUR 4,499,863
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 99.92%
7.	Governing bodies	Executive Director Nebojša Ščekić Board of Directors Chairman – Mag. Tomaž Oplotnik Members – Milojka Kolar, Predrag Bajović
8.	Position in the Group:	*subsidiary, insurance company*

	IX.	
1.	**Company name:**	**Sava Invest, a. d., Skopje**
2.	Registered office:	Partizanski odredi br. 43 b/1 – 03, Skopje, Macedonia
3.	Company ID no:	6369103
4.	Business activity:	fund management activities
5.	Share capital:	EUR 202,684
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 51.00% *Sava Tabak*: 49.00%
7.	Governing bodies	Director – Velko Velkovski Board of Directors Chairman – Uroš Lorenčič Members – Velko Velkovski, Trajče Nikolovski, Peter Skvarča, Maja Parnargijeva
8.	Position in the Group:	*subsidiary, fund management company*

X.

1.	**Company name:**	**Bro-Dil AD, Skopje, Macedonia**
2.	Registered office:	Ulica 27 mart broj5/4, Skopje, Macedonia
3.	Company ID no:	5256372
4.	Business activity:	security dealing and financial consultancy
5.	Share capital:	EUR 75,660
6.	Stakes held by Group members:	Sava Tabak: 100.00%
7.	Governing bodies	Executive Director – Iskra Kostova Board of Directors Chairman – Jordan Ralupovski Members – Melita Gugulovska, Mirče Kitanovski
8.	Position in the Group:	*indirect subsidiary, brokerage company*

XI.

1.	**Company name:**	**Sava životno osiguranje a. d. o., Belgrade**
2.	Registered office:	Sremska 6, 11000 Belgrade, Serbia
3.	Company ID no:	20482443
4.	Business activity:	life insurance
5.	Share capital:	EUR 3,313,126
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 99.99%
7.	Governing bodies	Management Board Chairman – Vladimir Đurić Members – Mag. Polona Pirš, Jošt Dolničar Supervisory Board Milan Viršek, Milojka Kolar, Samo Selan
8.	Position in the Group:	*subsidiary, insurance company*

XII.

1.	**Company name:**	**Dukagjini Life sh. a., Priština**
2.	Registered office:	Sheshi Nëna Terezë 33, 10000 Pristina, Kosovo
3.	Company ID no:	70520893
4.	Business activity:	life insurance
5.	Share capital:	EUR 3,285,893
6.	Stakes held by Group members:	*Pozavarovalnica Sava*: 51.0%
7.	Governing bodies	Director – Ramis Ahmetaj Board of Directors Chairman – Mag. Primož Močivnik Members – Sergej Simoniti, Mag. Tomaž Oplotnik, David Wansbrough-Jones, Ekrem Lluka, Fatmir Gashi, Ramis Ahmetaj
8.	Position in the Group:	*subsidiary, insurance company*

1.3 Activities of the Sava Re Group and its associates

Sava Re, the parent, is a reinsurance company. In addition to it, the Group comprises also: two composite insurance companies, Zavarovalnica Tilia (subsidiary) and Zavarovalnica Maribor (associate), both established in Slovenia; four non-life insurance companies, Sava Osiguranje (Serbia), Sava Tabak (Macedonia), Dukagjini (Kosovo), and Montenegro osiguranje (Montenegro); two life insurance companies, Sava životno osiguranje (Serbia) and Dukagjini Life (Kosovo); as well as one fund management company, Sava Invest (Macedonia), and one pension company, Moja naložba (Slovenia).

1.4 Sava Re's investments in other insurance companies

As at year-end 2008, Sava Re had, in addition to its investments in Group subsidiaries and associates, also equity investments in other insurance companies.

Table 1: Other investments of Sava Re in insurance companies as at 31 December 2008

	Holding (%)
Slovenia	
Triglav Insurance Company	0.1759%
Skupina prva, zavarovalniški holding, d.d.	4.0424%
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	0.0818%

1.5 Sava Re's shareholders and share trading

In the first half of 2008, Sava Re, in accordance with the Prospectus relating to the initial public offering of Sava Re, as approved by the Insurance Supervision Agency with its decision no. 11/393/AG-08-(214) of 9 May 2008, and in accordance with the Addendum to the said Prospectus, as approved by the Insurance Supervision Agency with its decision no. 11/396/AG-08-(284) of 27 May 2008, carried out its initial public offering. This involved both the existing shares offered by the Slovenian Restitution Fund (SOD), and the newly issued shares offered by Sava Re to increase its share capital. Shares were offered to holders of pre-emptive rights (i.e. SOD, which, however, waived its rights), small investors, and well-informed investors in Slovenia and abroad. The initial public offering was successful both for SOD and for the Company: 1,500,000 new shares were sold, and equity increased by EUR 42 million. Share capital increased by EUR 6,259,389.08 (from EUR 32,809,710.40 to EUR 39,069,099.48), and share premium increased by EUR 35,740,610.92. The number of shares with voting rights increased by 1,500,000.

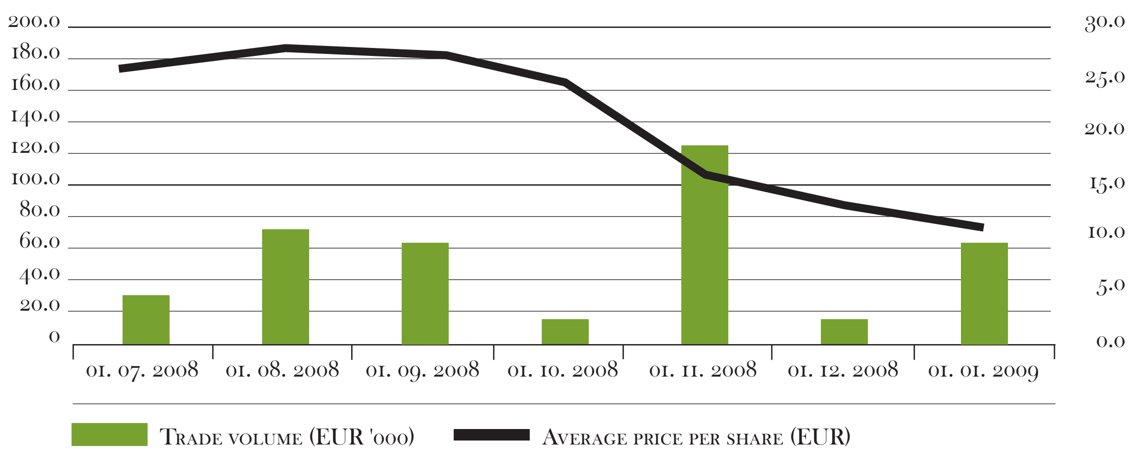
The stake held by SOD decreased from 99.8665% to 25.0% plus one share.

As at year-end 2008, Sava Re's share capital amounted to EUR 39,069,099.48, and was divided into 9,362,519 non-par value shares. Shares, which are registered, were issued in a dematerialised form and entered in the central securities registry with the code POSR. All pertain to the same class and are freely transferable without restrictions. The Management Board is not aware of shareholders' agreements restricting share transferability.

Sava Re's ordinary (regular) shares give their holders the following rights:
- to participate in the Company's control, with one share carrying one vote at the General Meeting;
- to participate in the Company's profits (dividends) and
- to participate in assets remaining after the Company's liquidation or bankruptcy.

With the listing of its shares on the Ljubljana Stock Exchange on 11 June 2008, Sava Re became a public company. Its shares are traded in the standard equity market of the Ljubljana Stock Exchange (as defined by the new segmentation effective as of 30 June 2008).

Chart 1: Trading in the POSR share in 2008



As at year-end 2008, Sava Re had 5,678 shareholders (30 June 2008: 5,896; 31 December 2007: 21).

As at year-end 2008, Sava Re held 210 treasury shares, which represented 0.002% of all shares outstanding. In 2008, the Company did not buy back any treasury shares.

The table below shows the top ten shareholders of Sava Re as at year-end 2008.

Table 2: Largest shareholders of Sava Re as at 31 December 2008

Shareholder	No. of shares	Holding
Slovenska odškodninska družba d.d.	2,340,631	25.0%
Poteza naložbe d.o.o.	468,125	5.0%
Abanka d.d.	440,032	4.7%
Nova KBM d.d.	435,925	4.7%
Zavarovalnica Maribor d.d.	404,485	4.3%
Vuković Slaven	340,000	3.6%
Kapitalska družba d.d. – ZVPSJU[1]	320,346	3.4%
KD Galileo, vzajemni sklad flekibilne S	250,000	2.7%
Kapitalska družba d.d. – SODPZ[2]	238,109	2.5%
NFD 1 delniški investicijski sklad d.d.	211,000	2.3%
Total	5,448,653	58.2%

Source: Central securities registry of KDD

As at year-end 2008, 94.8% of shareholders were domestic and 5.2% were foreign.

1 Closed mutual pension fund for civil servants
2 Compulsory supplemental pension insurance fund

Table 3: Shareholders of Sava Re as at 31 December 2008 by type

	Domestic	International
Banks	14.1%	1.1%
Individuals	30.9%	0.0%
Investment and mutual funds	13.3%	3.8%
Insurance companies and pension funds	16.5%	0.4%
Other financial institutions	5.1%	0.0%
Other commercial companies	14.8%	0.0%
Own shares	0.0%	N/A
Total	94.7%	5.3%

Source: Central securities registry of KDD, and own calculations.

As at year-end 2008, members of the Management and the Supervisory Board held 2,105 shares or 0.022% of all shares outstanding.

Table 4: POSR shares held by Management/Supervisory Board members as at 31 December 2008

	No. of shares	Holding
Management Board		
Mag. Zvonko Ivanušič	1,071	0.011%
Jošt Dolničar	357	0.004%
Supervisory Board		
Dr. Edo Pirkmajer	570	0.006%
Nada Zidar	107	0.001%
Total	2,105	0.022%

Source: Central securities registry of KDD

As at year-end 2008, net loss per share was EUR 0.85[3], and consolidated net loss per share was EUR 0.90.

As at year-end 2008, book value per share was EUR 16.42[4], and consolidated book value per share was EUR 18.59.

Table 5: The POSR share at the Stock Exchange

Average stock price 12 June–31 December 2008 (EUR)	21.49
Stock price at 31 December 2008 (EUR)	11.45
Trading volume 12 June–31 December 2008 (EUR)	14,970,800
Period low 12 June–31 December 2008 (EUR)	10.19
Period high 12 June–31 December 2008 (EUR)	28.34

In 2008, the Company did not pay dividends.

In 2008, the Company did not have conditional equity.

3 Net profit or loss for the period / number of shares outstanding excluding treasury shares (9,362,309).
4 Equity as at 31 December 2008 / number of shares outstanding (9,362,519).

1.6 Sava Re profile

Company name:	**Pozavarovalnica Sava d. d.**
Registered office:	Dunajska 56 1000 Ljubljana Slovenia
Telephone/secretariat:	+386 1 47 50 200
Facsimile:	+386 1 47 50 264
E-mail:	info@sava-re.si
Web site:	www.sava-re.si
Company ID number:	5063825
Tax number:	17986141
Share capital:	EUR 39,069,099 (no. of non-par value shares: 9,362,519)
Registration:	28 December 1990, Ljubljana District Court
Certified auditor:	BDO EOS Revizija, d. o. o. Dunajska cesta 106 1000 Ljubljana Slovenia
Largest shareholder and its stake:	25.0% (no. of non-par value shares: 2,340,631)

The Company does not have branches.

1.7 Sava Re's governing bodies

Management Board

Pursuant to its Articles of Association, Sava Re is managed and represented by its Management Board consisting of two to five members. For any legal transaction to be valid, the Company must be represented by at least two of them.

The Supervisory Board appointed Dušan Čeč and Mag. Zvonko Ivanušič Chairman and Deputy Chairman of the Management Board: the former started his term of office on 1 October 2004, and the latter on 23 November 2004, after being granted authorisation by the Insurance Supervision Agency. They were appointed for a term of five years, with the possibility of re-appointment.

At its session of 14 October 2008, the Supervisory Board accepted the resignation of Dušan Čeč, Management Board Chairman, as well as his proposal to terminate the employment relationship by mutual consent due to retirement as of 30 December 2008. At the same session, it appointed Mag. Zvonko Ivanušič in his place. At its session of 4 November 2008, the Supervisory Board appointed the following Management Board members: Mag. Maja Krumberger, Srečko Čebron and Jošt Dolničar. Their appointment was conditional on their obtaining authorisation from the Insurance Supervision Agency. The Management Board was expanded in response to the expansion of the Sava Re Group, and the consequent need for distributing responsibility for the various business areas and the control of the Group. The five-year term of office of Mag. Zvonko Ivanušič and Jošt Dolničar started on 31 December 2008, while that of Srečko Čebron started on 1 February 2009.

Management Board members in 2008:

until 30 December 2008:	
Chairman:	Dušan Čeč
Deputy Chairman:	Mag. Zvonko Ivanušič

from 31 December 2008:	
Chairman:	Mag. Zvonko Ivanušič
Member:	Jošt Dolničar

In addition from 1 February 2009:	
Member:	Srečko Čebron

Supervisory Board

Pursuant to its Articles of Association and the applicable legislation, Sava Re's 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. Supervisory Board members are appointed for a term of up to four years and may be re-elected. In 2008, there were no changes in the Supervisory Board.

Supervisory Board members in 2008:
Mag. Marko Pogačnik, Chairman
Dr. Timotej Jagrič, Deputy Chairman
Dr. Edo Pirkmajer
Anton Sagadin
Mag. Aleš Mirnik (employee representative)
Nada Zidar (employee representative)

General Meeting

The General Meeting of Sava Re was convened twice in 2008. On 14 April 2008, the 20th General Meeting was held at the Company's registered office to approve an amendment to the Articles of Association relating to the authorisation to the Management Board to increase the Company's share capital. Pursuant to the relevant resolution adopted by the General Meeting, the Management Board obtained authority to increase, within five years of entry of the said amendment in the court register, the Company's share capital up to EUR 49,214,563.51, i.e. by up to EUR 16,404,853.11, with the consent of the Supervisory Board but without a special resolution of the General Meeting. No challenging actions were announced at the 20th General Meeting.

On 10 July 2008, the 21st General Meeting was held in the ground floor meeting room of the TR3 tower in Ljubljana, Trg Republike 3. The General Meeting was presented with the approved Annual Report 2007 and the related auditor's opinion, the Supervisory Board report for 2007, and the internal audit report for 2007 with the Supervisory Board's opinion. The General Meeting was convened to decide the use of the accumulated profit, and to adopt Management and Supervisory Board discharges for 2007. It also approved an amendment to the Articles of Association, and appointed BDO EOS Revizija, družba za revidiranje, d. o. o., Ljubljana, auditor for 2008. No challenging actions were announced at the 21st General Meeting.

1.8 Statement of compliance with the Corporate Governance Code for Public Joint-Stock Companies

The Management Board and Supervisory Board of Sava Re hereby state that:

– the Company operates in compliance with the binding provisions of the Corporate Governance Code for Public Joint-Stock Companies ("Code") (i.e. the provisions using any form of "must");
– the Company endeavours to operate, to the largest extent possible, in compliance with the non-binding provisions of the Code (i.e. the provisions using the words "recommend/can");
– the Company operates in compliance with the recommendations of the Code (i.e. the provisions containing the word "should"), except for the deviations expressly explained below.

Recommendation 1.1.1.: The Company does not have the goals pursued by it in performing its activities expressly laid down in its Articles of Association. Instead, they are laid down in its business policy and financial plan, as well as in its medium-term strategic plan.

Recommendation 1.2.6.: In the period covered by this statement, the Company did not encourage representation of shareholders at the General Meeting by organising collection of proxy documents and publishing information on proxies. The Company thereby encouraged shareholders to participate at the General Meeting in person, or to appoint a proxy by themselves. The Company encouraged shareholders to actively exercise their rights by publishing the registration form and proxy document on its web site.

Recommendation 1.3.19.: The 21st General Meeting held on 10 July 2008 did not adopt Management and Supervisory Board discharges separately for each body. The Company intends to propose an agenda at the next regular General Meeting, based on which the General Meeting can adopt Management and Supervisory Board discharges separately.

Recommendation 2.2.2.: The Company's Articles of Association or the Supervisory Board's resolutions do not stipulate requirements additional to those stipulated by the law for the position of a Management Board member. However, the Company as reinsurer is subject to special regulations, i.e. the Insurance Act, which stipulates additional requirements for the position of a Management Board member. In addition, Management Board members must obtain authorisation from the Insurance Supervision Agency before they can start their term of office, is the authorisation being issued only in relation to a specific insurance or reinsurance company. In view of the strict regulatory framework, the Company is of the opinion that stipulating additional requirements is not necessary.

Recommendation 3.1.6.: The Supervisory Board did not evaluate the performance of each individual Management Board member, but evaluated the performance of the Management Board as a whole. As a rule, the Management Board meets in its full composition and adopts decisions jointly, which makes it difficult to evaluate the contribution of each individual member. All members also participate in all Management Board decision-making and other processes. In view of all this, the Company is of the opinion that evaluating the performance of each individual Management Board member is not necessary.

Recommendation 3.1.10.: The Supervisory Board does not evaluate the competence and efficiency of each individual Supervisory Board member, as it functions as a whole. As a rule, the Supervisory Board meets in its full composition and adopts decisions jointly, which makes it difficult to evaluate the contribution of each individual member. All members also participate in all Supervisory Board decision-making and other processes. In view of all this, the Company is of the opinion that evaluating the performance of each individual Supervisory Board member is not necessary.

Recommendation 3.2.1.: The Management Board Chairman proposed his successor less than one year before the end of his term of office, which expired early due to retirement. However, he proposed a person with long experience as Management Board member, thus ensuring continuity.

Recommendation 3.4.4.: Management Board members who are also members of associates' Supervisory Boards receive special remuneration in addition to the reimbursement of expenses.

Recommendation 3.5.5.: The Company's internal acts do not contain specific provisions governing the assessment of conflicts of interests and the measures to be taken to avoid them. The Company intends to adopt or amend its relevant internal acts in 2009.

Recommendation 7.1.4.: The auditor was not present at the 21st General Meeting held on 10 July 2008. The Company's bodies responsible for convening the General Meetings will make sure that the auditor is present at the next General Meeting.

Recommendation 8.2.: The Company did not provide all of its public announcements also in English. The Company intends to provide all of its public announcements also in English in 2009.

Recommendation 8.4.: The Company does not publish, as required by the law, an annual document containing a list of all information published in the previous 12 months. The Company intends to publish such a document after the publication of the Annual Report.

Recommendation 8.15.1.: Up to the date of this statement, the Company has not had a special rulebook on the protection of business secrets and inside information. The Company will adopt such a rulebook in 2009.

Recommendation 8.15.5.: Up to the date of this statement, the Company has not had a special rulebook on limitation of trading and on disclosure of trading in its shares and its associates' shares. The Company will adopt such a rulebook in 2009.

This statement relates to the Company's operations from the listing of its shares on the Ljubljana Stock Exchange on 11 June 2008 up to the date of this statement.

Ljubljana, 16 April 2009

Sava Re Management Board

Mag. Zvonko Ivanušič
Chairman

Jošt Dolničar
Member

Srečko Čebron
Member

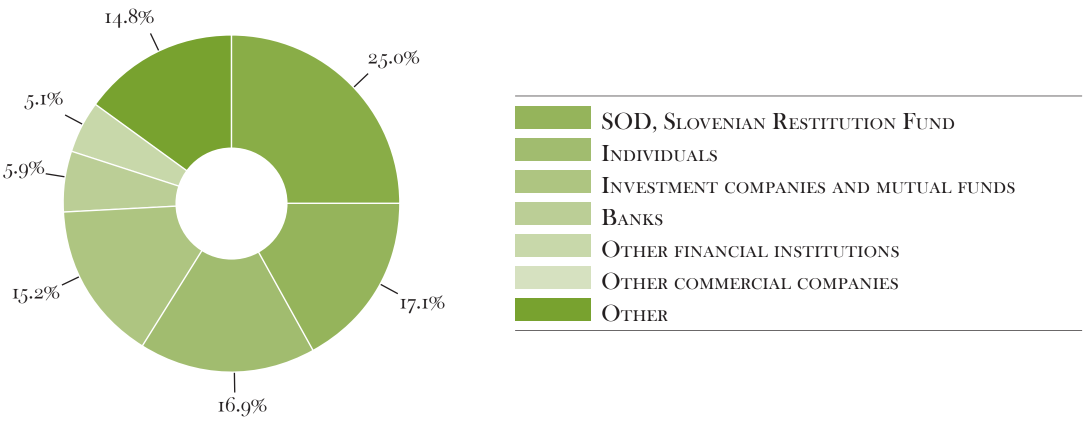
Sava Re Supervisory Board

dr. Timotej Jagrič
Chairman

1.9 Information under Article 70(6) of the Companies Act

In this section, Sava Re, as company subject to the Takeover Act, provides information (year-end data) required under Article 70(6) of the Companies Act.

1. Share capital by type of shareholder



The table showing the Company's top ten shareholders as at year-end 2008 is included in section 1.5.

All Sava Re's shares are ordinary registered shares with no par value. All were issued in a dematerialised form and all pertain to the same class. Sava Re's shares give their holders the following rights:

- to participate in the Company's management, with one share carrying one vote at the General Meeting;
- to participate on a proportional basis in the Company's distributable profits (dividends); and
- to participate on a proportional basis in assets remaining after the Company's liquidation or bankruptcy.

Pursuant to its Articles of Association and the applicable legislation, Sava Re's current shareholders also hold pre-emptive rights entitling them to purchase a proportional number of shares in case of a future public offering. Their pre-emptive rights can be excluded under a resolution to increase share capital adopted by the General Meeting by a majority of at least three quarters of the represented share capital.

2. Share transfer restrictions

All Sava Re's shares are freely transferable.

3. Qualified stake holders under the Takeover Act

As at year-end 2008, Sava Re's qualified stake holders as defined in Article 77 of the Takeover Act were the following:

- Slovenian Restitution Fund (SOD) with a 25.0% stake; and
- Poteza naložbe with a 5.0% stake

4. Holders of securities carrying special control rights

Sava Re has not issued any securities carrying special control rights.

5. Employee share schemes

Sava Re does not have an employee share scheme.

6. Restrictions of voting rights

Sava Re does not restrict voting rights.

7. Shareholders' agreements restricting share transferability

Sava Re is not aware of such agreements.

8. Rules on appointment/removal of members of management/supervisory bodies and on amendments to the Articles of Association

– appointment/removal of Management Board members

Pursuant to its Articles of Association, Sava Re is represented by its Management Board consisting of two to five members. Its Chairman and members are appointed by the Supervisory Board for a term of five years, with the possibility of re-appointment. Natural persons with an unlimited legal capacity that meet the legally prescribed conditions may be appointed members of Sava Re's Management Board. The Management Board as a whole or its individual members may be recalled by the Supervisory Board for legally prescribed reasons.

– appointment/removal of Supervisory Board members

Pursuant to its Articles of Association, the Supervisory Board of Sava Re supervises its management and performs other tasks in accordance with the applicable legislation and Sava Re's Articles of Association and other internal acts. Sava Re's Supervisory Board is composed of six members, of which four (shareholder representatives) are elected by the General Meeting, and two (employee representatives) are elected by the Workers' Council, which informs the General Meeting of its decision. Shareholder representatives are elected by the General Meeting, by a majority of votes present and for a term of four years, with the possibility of re-election Natural persons with an unlimited legal capacity that meet the legally prescribed conditions may be appointed members of Sava Re's Supervisory Board. Supervisory Board members who are shareholder representatives may be removed by the General Meeting for legally prescribed reasons.

– amendments to the Articles of Association

Sava Re's Articles of Association do not contain special provisions governing their amendments. They may be amended, in accordance with the applicable legislation, by the General Meeting by a majority of at least three quarters of the represented share capital.

9. Management Board authorisations (particularly relating to treasury shares)

The General Meeting of 14 April 2008 approved an amendment to the Articles of Association, thus authorising Sava Re's Management Board to increase, within five years of entry of the said amendment in the court register, the Company's share (authorised) capital up to EUR 49,214,563.51 or by up to EUR 16,404,853.11 by issuing up to 3,931,259 new shares subject to consent of the Supervisory Board but without a resolution of the General Meeting required. The relevant resolution was entered in the court register on 16 April 2008. On 9 May 2008, Sava Re's Management Board by consent of the Supervisory Board, decided to increase the Company's share capital to EUR 39,069,099.48 or by EUR 6,259,389.08 by issuing 1,500,000 new shares. After successful completion of the initial public offering, the Management Board may further increase the Company's share capital by up to EUR 10,145,464.03, i.e. up to EUR 49,214,563.51. It may do so by 16 April 2013 by issuing up to 2,431,259 new shares subject to consent of the Supervisory Board but without a resolution of the General Meeting required. Any new shares shall be issued under the conditions and in the manner and with the rights as decided by the Management Board. Any new shares must be ordinary and of the same class as the existing ones, and may only be acquired against cash payment.

The Management Board does not have any other authorisations, including those relating to treasury shares.

10. Important agreements applying, changing or terminating after a public takeover bid resulting in control changes

Sava Re protects itself against the risk of losses by means of retrocession contracts. These usually contain provisions governing contract termination in cases involving significant changes in ownership or control of the counterparty. It follows that in the case of a successful takeover bid, Sava Re's retrocessionaires could terminate their relevant contracts.

11. Agreements between an entity and members of its management/supervisory bodies on compensation in case of resignation, dismissal without cause or employment relationship termination due to a bid specified in the Takeover Act.

Sava Re’s Management Board members are not entitled to a severance benefit in case of resignation. They are entitled to a benefit in case of recall and dismissal without cause.

The Company has a functioning internal control and risk management system. The internal control system aims at ensuring accurate and reliable financial reporting, compliance with the law and efficient and successful operations. The system is set up in a manner providing for early recognition of errors or fraud, while the Company is aware of the restrictions inherent in every internal control system, which cannot be overcome. To achieve the above-mentioned aims, the Company regularly monitors the business risks mentioned under point 23 of the business report, identifying the requirement for setting up new or different internal controls. We believe that the current system of internal controls enables the efficient and successful attainment of business goals, ensures that operations are in compliance with the law and that reporting is true and fair in all relevant respects.

2 SIGNIFICANT EVENTS IN 2008

- On 14 April 2008, the General Meeting of Sava Re was held. On proposal from the Management Board, it approved an amendment to the Articles of Association relating to the authorisation to the Management Board to increase the Company's share capital by up to 50% within the next five years.
- On 9 May 2008, the Management Board of Sava Re, pursuant to the resolution adopted by the General Meeting on 14 April 2008 and by consent of the Supervisory Board, decided to increase the Company’s share capital from EUR 32,809,710.40 to EUR 39,069,099.48. New shares were issued through an initial public offering, and the Company’s equity increased by EUR 42 million.
- On 11 June 2008, the **initial public offering** of Sava Re was successfully completed with listing of its shares on the Ljubljana Stock Exchange under the symbol POSR. Sava Re thus achieved a dispersed ownership structure.
- In June 2008, Sava Re, implementing its long-term strategy, established its first fund management company, **Sava Invest**, which it did together with the Sava Tabak subsidiary established in Macedonia.
- The General Meeting of Sava Re’s shareholders was held on 10 July 2008 to approve an amendment to the Articles of Association relating to the publishing of information and announcements by the Company. Under the amended version, Sava Re is to publish all important announcements on SEOnet (an electronic information dissemination system provided by the Ljubljana Stock Exchange), while it shall publish calls for the General Meeting and other information/announcements, required by the law to be published in a printed form, also in the dailies Delo/Finance/Dnevnik or the Official Gazette of the Republic of Slovenia. The General Meeting was also presented with the Annual Report 2007 and the accompanying documentation, decided to allocate the total distributable profit of EUR 35,914,680.80 to other profit reserves, adopted the Management Board discharge for 2007, and appointed BDO EOS Revizija auditor for 2008.
- On 15 August 2008, Standard & Poor’s confirmed Sava Re’s credit and financial strength rating of **BBB+ with a stable mid-term outlook**, first assigned to the Company in 2005.
- In August 2008, Sava Re gathered information on the losses sustained by its cedants due to the **summer storms** and, based on this and other information, estimated the associated losses incurred by Slovenian insurers at over EUR 130 million. Despite the reinsurance coverage it purchases to reduce the net effect of such losses on its results of operations, Sava Re still had to purchase additional catastrophic reinsurance coverage, given the extraordinary amount of claims and the partly exhausted primary coverage. The total net effect of losses associated with the summer storms of 13 and 14 July and 8 and 15 August 2008, as well as of costs of the additional reinsurance coverage purchased, was estimated at EUR 1,5 million (non-proportional reinsurance), while crop claims payable by the Company for its own account (proportional reinsurance) were EUR 4.1 million. Total losses incurred by Sava Re for its own account due to the summer storms were thus EUR 5.6 million.
- On 25 September 2008, Standard & Poor’s upgraded Sava Re’s credit and financial strength rating to **A- with a stable mid-term outlook**.

- On 25 September 2008, **Sava Invest**, the Macedonian fund management company, obtained permission from Macedonian authorities ("Komisija za hartije od vrednosti Republike Makedonije") to register and market two open investment funds.
- At its 29th session held on 14 October 2008, the Supervisory Board of Sava Re accepted the resignation due to retirement of the long-standing **Management Board Chairman Dušan Čeč**. At the same session, it appointed **Mag. Zvonko Ivanušič**, then Deputy Chairman, in his place.
- At its 30th session of 4 November 2008, the Supervisory Board of Sava Re, at the proposal of Mag. Zvonko Ivanušič, appointed other **Management Board members**. The Management Board was expanded in response to the expansion of the Sava Re Group, and the consequent need for distributing responsibility for the various business areas and the control of the Group.
- The Sava Re Group, together with a local partner, established a life insurance company **Dukagjini Life**. The first registered life insurance company in Kosovo has its registered office in Pristina. On 11 November 2008, Dukagjini Life, in which Sava Re holds a 51.0% stake, obtained permission from the Central Bank of Kosovo to engage in life insurance. The conditions for it to commence operations, i.e. selling life insurance products, were thus met. In the market with two million inhabitants, the company mainly markets traditional life insurance products. Its initial equity was EUR 3.5million.
- On 20 November 2008, the life insurance company **Sava životno osiguranje** obtained permission from the Central Bank of Serbia to engage in life insurance. The conditions for it to commence operations, i.e. selling life insurance products, were thus met. The company commenced operations in December 2008, on completion of registration. Sava Re holds a 99.99% stake in the Serbian subsidiary, which, in the Serbian 7.6 million market, mainly markets traditional life insurance products. The Group, which is already present in the Serbian market with non-life insurance products, established the life insurance company in accordance with its strategy to expand to the Western Balkans markets. After Kosovo, Serbia is now the second market where the Group is present with life insurance products. The initial capital of Sava životno osiguranje was EUR 3.5 million.

3 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- At the beginning of 2009, the Company launched its new corporate identity, which will be common to all Group companies.
- On 1 February 2009, the term of office started of **Srečko Čebron** as Member of Sava Re's Management Board.
- Sava Re published its intention to acquire from Zavarovalnica Maribor a 100% stake in **Velebit usluge**, Zagreb, which in turn held majority stakes in two Croatian insurance companies: **Velebit osiguranje** and **Velebit životno osiguranje**. The former commenced operations in December 2007, the latter in January 2008. The former, Velebit Osiguranje, is a non-life insurance company providing all classes of insurance. According to unaudited data, it wrote gross premiums of EUR 5.2 million in the first year of operations, thus winning a 0.5% share of the relatively developed Croatian non-life insurance market. The second, Velebit životno osiguranje, is a life insurance company, which started off selling traditional life insurance products. According to unaudited data, it wrote gross premiums of EUR 1.1 million in the first year of operations, thus winning a 0.3% share of the Croatian life insurance market. On 12 February 2009, the Croatian Financial Services Supervision Agency (HANFA) issued permission to Sava Re for an indirect acquisition of a qualified stake of 51.14% in Velebit osiguranje and Velebit životno osiguranje.
- On 11 March 2009, the Insurance Supervision Agency issued a negative opinion on **Mag. Maja Krumberger** as candidate member of the Sava Re Management Board.
- At its correspondence session of 31 March 2009, the Supervisory Board took note of the irrevocable resignation of Mag. Marko Pogačnik, its then Chairman, and appointed from amongst its members Dr. Timotej Jagrič, then Deputy Chairman, in his place. It also elected Dr. Edo Pirkmajer, then Member, new Deputy Chairman. At its 37th session of 10 April 2009, the Supervisory Board appointed a five-member nomination committee to ensure objective and transparent selection of candidate Supervisory Board members to be proposed to the General Meeting for election. Members of the nomination committee are Dr. Timotej Jagrič, Chairman of Sava Re's Supervisory Board, Mag. Tomaž Kuntarič, representative of the Slovenian Restitution Fund (SOD), Matjaž Kovačič, representative of the Nova kreditna banka Maribor (NKBM) Group, Borut Jamnik, representative of

the Pension Fund Management (KAD), and Mag. Franc Jamšek, representative of the Staffing and Accreditation Council of the Slovenian Government. As the agenda of the General Meeting to be convened in June 2009 should also contain an item "Election of Supervisory Board Members" (the four-year term of office of three members (shareholder representatives) expires on 13 July 2009), the setting up of the commission seems appropriate.

4 LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Partners, dear Shareholders,

The year behind us was one of the most dynamic in the history of Sava Re. We completed a number of the projects that we had targeted. Shares of Sava Re were floated on the Ljubljana Stock Exchange in June 2008, following the required increase in the Company's share capital. In accordance with our strategy to expand to the markets of the Western Balkans, we established two life insurance companies: one in Kosovo, where Sava Re Group is the first provider of life insurance products, and one in Serbia, our largest target market. As mentioned, 2008 was an extremely dynamic year: there were ups, but there were also downs. The latter were mainly brought about by the global economic conditions. In Sava Re, we are well aware of them, and see the financial sector turmoil not only as a problem, but also as an important opportunity for new projects and experience-based development. The year behind us is a reminder of how demanding and complex risk management is, indeed a task never completed. It also showed us that globalisation contains positive and negative implications for almost every economy and company.

Sava Re is no exception. The year under report was one of the worst in Sava Re's history in terms of results of operations. The gross consolidated loss was EUR 8,968,274, and the net consolidated loss EUR 8,354,709. Sava Re with its loss of EUR 7,991,649 was the main contributor to the negative consolidated results. All other Group members had positive results, except Montenegro osiguranje, which made a loss of EUR 2.3 million. I can name three reasons for such results. The first are the "once-in-a-century" storms. Three catastrophic storms in July and August 2008, mainly in the Štajerska region of our country, resulted in losses of some EUR 130 million in Slovenia's insurance market, contributing EUR 5.6 million to the negative results of Sava Re. The events caused a deterioration of 5 percentage points in our combined ratio in retained business, but did not affect significantly the results of other Group members. The second reason for the negative results is Sava Re's permanent impairment of investments of EUR 12.6 million and its negative rate of return on investments of 1%. Our policy of making permanent investment impairments affected also the net results of other Group members, which were EUR 1.9 million lower on this account. The third reason for the negative results of operations is the stage of development of Sava Re Group members. The Group, which comprised ten members as at year-end 2008, was formed mainly in the period 2006–2008. The strategy of Sava Re is to bring the subsidiaries' technical provisions in line with European actuarial standards, and to improve the quality of their balance sheets, while at the same time developing their sales network. Consequently, and as planned for this stage of development, the subsidiaries are yet to achieve optimal returns on equity. In addition, two Group members, the newly established life insurance companies, will not earn profits in the next couple of years owing to the nature of their business.

Despite the severe impacts on the 2008 results mentioned above, I must repeat that 2008 was primarily a year of significant events, events that not only marked out the year as being special, but that will significantly shape our future development.

In the first half of the year, Sava Re completed its initial public offering and its shares were floated on the Ljubljana Stock Exchange on 11 June 2008. We increased our equity by EUR 42 million and achieved a dispersed ownership structure. The Slovenian Restitution Fund (SOD) maintained 25% of its once almost 100% stake, and sold the rest mainly to domestic investors. Sava Re thus became a public company subject to transparent and prompt communication with the public. Indeed, communication with the public was one of the key business areas for us to adapt in view of the new status.

In the course of 2008, Sava Re established a fund management company and two life insurance companies, thus enlarging the Group by three members. This contributed towards business diversification and towards the strategy to offer other products in addition to non-life insurance products in the target markets.

The Sava Re Group wrote gross premiums of EUR 229.6 million in 2008 or 21.7% more than in the prior year. Reinsurance contributed 48.9%, non-life insurance 46.3% and life insurance 4.7%. Of the total consolidated premiums, 56.9% or 3.2 percentage points less than in the prior year was written in Slovenia, which reflects the diversity achieved from direct insurance and foreign-sourced reinsurance business.

Early in 2009, Sava Re entered the Croatian market by acquiring Zagreb-based Velebit usluge, which held 51.14% of both the non-life insurer Velebit osiguranje and the life insurer Velebit životno osiguranje. The acquisition brought Sava Re one more step closer to realising its strategy of expansion to the primary insurance markets of the Western Balkans.

In 2008, Standard & Poor's upgraded Sava Re's financial strength rating to A- with a stable mid-term outlook. Even before being awarded this rating, Sava Re experienced high growth in premiums written in international reinsurance markets. In the period 2006–2008, foreign-sourced reinsurance premiums grew at an average annual rate of 33% (2008: 38%). Such growth rates reflect Sava Re's strategy of building a reinsurance portfolio more equally balanced between the Slovenian and international markets. In 2008, the share of reinsurance premiums written abroad thus represented already 39.3% of the total reinsurance premiums (2004: 20.4%). The rating awarded will help the Group pursue this strategy as well as enable it to adopt a more selective approach to underwriting. Due to volatility in investment income which is highly dependent on developments in global financial markets, Sava Re focused on optimising profitability in its core reinsurance segment, which should be 2% in 2009 and 3% in the next plan period. In this, it will be facilitated by an upturn anticipated in the reinsurance cycle (followed by growth in reinsurance premium rates and reduction of reinsurance commissions), as well as its high capital adequacy.

Upon entering a new phase, the Group launched a new corporate identity early in 2009. With this, we sent a message to all stakeholders that we are aware of the new challenges inherent in progress and today's highly competitive business environment, and we wanted to show that we are a tightly knit Group. Our environment changed, we changed with it, and this had to be reflected in our corporate identity.

Together with two new Management Board members, I took the helm of Sava Re at the end of 2008. Since its establishment, the Company has grown and prospered: it also positioned itself as a trustworthy financial institution in foreign reinsurance markets, it obtained a financial strength rating, it became a public joint-stock company, and, implementing its strategy to expand also to direct insurance, formed a Group that today has twelve members and two associated companies, and employs 1338 persons. Coming after Mr. Dušan Čeč, whom I thank for the positive contribution to Sava Re's development, my task is to maintain the position and reputation of Sava Re in international reinsurance markets and at home, to consolidate its financial group, and to bring its hitherto strong growth and development to new levels. These are not easy tasks, in particular given the new business conditions, but I am confident that together with my highly-educated, highly-skilled and highly-committed colleagues, we will succeed in taking the Company towards these goals.

Mag. Zvonko Ivanušič

Chairman of the Management Board

5 SUPERVISORY BOARD REPORT

COMPOSITION OF THE SUPERVISORY BOARD

In 2008, Sava Re's Supervisory Board had the following members: Mag. Marko Pogačnik, Chairman, Dr. Timotej Jagrič, Deputy Chairman, Dr. Edo Pirkmajer and Anton Sagadin, members shareholder representatives, and Nada Zidar and Mag. Aleš Mirnik, members employee representatives. In 2008, there were no changes in the composition of the Supervisory Board. In March 2009, Mag. Marko Pogačnik resigned as Chairman. At the time of preparation of this report, the Supervisory Board had five members only, as it elected from amongst its members Dr. Timotej Jagrič new Chairman and Dr. Edo Pirkmajer new Deputy Chairman.

ACTIVITIES OF THE SUPERVISORY BOARD

In 2008, Sava Re's Supervisory Board held 14 sessions, 12 regular and two extraordinary. It also had one correspondence session held in accordance with the Rules of Procedure of the Supervisory Board and with the consent of all members. In the course of the year, the Supervisory Board, within its statutory mandate, discussed all relevant aspects of Sava Re's performance and activities. Discussions about business-related matters were attended also by Management Board members, those about certain agenda items also by other experts employed in Sava Re.

Early in 2008, the Supervisory Board approved the Company's business policy and financial plan for 2008. It also adopted the 2008–2012 strategic plan of the Sava Re Group, which serves as the basis for Sava Re and other Group members when preparing their annual business policies and financial plans. The Company uses a dynamic planning model, which uses the Group's strategic plan as its basis.

In 2008, the Supervisory Board, within its statutory mandate, also oversaw Sava Re's internal audit. It approved the internal audit plan for 2008, and the internal audit report for 2007. It also considered the internal audit reports for the second half of 2007 and for the first half of 2008. All documents relating to internal audit were presented to it by the Company's internal auditor. The Supervisory Board considers that all internal audit reports were independent and objective, and that all comments and findings of the internal auditor were taken into consideration by the Management Board. It further noted that internal audit found no significant or material irregularities in the Company's operations. In accordance with the recommendation made by the Supervisory Board in 2007, the Management Board in 2008 separately reported to it on Sava Re's risk management.

In addition to the above-mentioned documents, the Supervisory Board also considered in 2008 the Unaudited Annual Report 2007 of Sava Re, as well as its interim reports for the periods January–June and January–September 2008.

The Supervisory Board monitored closely Sava Re's investing activity, in particular when capital market conditions worsened. It imposed on the Management Board the obligation to report at each of its session also on Sava Re's investment portfolio.

In 2008, the Supervisory Board adopted the Annual Report 2007 of Sava Re, and presented it at the General Meeting together with the related auditor's opinion, its own report for 2007, and its own opinion on the internal audit report for 2007.

Together with the Management Board, it proposed resolutions to be adopted by the General Meeting, and decided the appropriation of the 2007 net profit.

In addition to the mandatory matters, the Supervisory Board in the first half of 2008 dedicated its efforts also to the initial public offering of Sava Re aimed at increasing the Company's share capital. At its regular session of 11 March 2008, it proposed that the General Meeting be convened to vote through an amendment to the Articles of Association relating to the authorisation of the Management Board to increase the Company's share (authorised) capital to up to EUR 49,214,563.51, i.e. by up to EUR 16,404,853.11. At its regular session of 9 May 2008, it granted consent to the Management Board's increasing the Company's share capital by EUR 6,259,389.08.

The Supervisory Board noted that all reports required by it and its Audit Committee, as prepared by the Management Board, were sufficient and appropriate for it to examine various information and comply with the statutory requirements.

Judged against the background of the prevailing economic conditions, performance of Sava Re in 2008 was good. The Supervisory Board considers that the Company achieved its goals as regards business growth. Its performance was however unfavourably affected by capital market conditions, given that the Company is a financial fund; in addition, 2008 was a year of extraordinary losses.

AUDIT COMMITTEE

At its 31st session of 24 November 2008, the Supervisory Board, in accordance with the amended Companies Act (the obligation to set up an audit committee in any public joint-stock company), appointed a three-member Audit Committee consisting of: Dr. Edo Pirkmajer as Chairman, and Dr. Timotej Jagrič and Mag. Blanka Vezjak as members. Mag. Blanka Vezjak is an external member with long experience in auditing. She was appointed certified auditor in 1993, certified internal auditor in 1996, certified accountant in 2000, and government auditor and government internal auditor in 2004. The Audit Committee met twice in 2008.

ANNUAL REPORT

Within its statutory mandate, the Supervisory Board examined the Annual Report 2008 of Sava Re. It noted that it was clear and transparent, as well as that it was fully compliant with contents and disclosure requirements under the Companies Act, International Accounting Standards and specific regulations or implementing regulations adopted on the basis of such specific regulations.

The Supervisory Board also took note of the related auditor's opinion. The auditor audited the Annual Report 2008 of Sava Re, and, throughout the year, carried out several audits in its subsidiary Zavarovalnica Tilia. The Supervisory Board also closely examined consolidated information in the Annual Report 2008 of Sava Re. Based on its examination of the Annual Report 2008, as well as based on the related auditor's opinion and Audit Committee's opinion, the Supervisory Board considers that the Annual Report 2008 gives a true and fair view of assets and liabilities, as well as of the financial position and results of Sava Re and Sava Re Group. The Supervisory Board hereby adopts the Annual Report 2008 of Sava Re.

This report of the Supervisory Board was prepared in accordance with Article 274(a) of the Companies Act.

Dr. Timotej Jagrič

Chairman of the Sava Re Supervisory Board

6 AUDITOR'S 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, 2008, 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, 2008, 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.

Report on other legal and regulatory requirements

Management is also responsible for preparing a business report, including the corporate governance statement, in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720 and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from unaudited financial records.
The business report is consistent with the audited financial statements.

Ljubljana, 16 April 2009

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

Nadja Knez M.Sc.
Certified auditor
Managing Partner

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WWW: www.bdo.si

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, 2008, 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.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pozavarovalnica Sava, d.d. as of December 31, 2008, 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.

Report on other legal and regulatory requirements

Management is also responsible for preparing a business report, including the corporate governance statement, in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720 and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from unaudited financial records.
The business report is consistent with the audited financial statements.

Ljubljana, 16 April 2009

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Nadja Knez M.Sc.
Certified auditor
Managing Partner

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Vesna Hribar Pilgram

7 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 2008. The actuarial investigation was performed in compliance with the Insurance Act and relevant executive acts.

My task was 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. Adequate technical provisions are the responsibility of the Company's Board of Management; the appointed actuary has to express the opinion on adequacy of technical provisions regarding the liabilities of the Company arising out of or in relation to reinsurance contracts, and to verify the compliance of statutory regulations; in respect to reinsurance contracts entered into during the financial year, to confirm that 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 these contracts. My task is also to verify the adequacy of the liability fund; 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 required capital and on the capital adequacy position.

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

The records for the valuation of reinsurance liabilities of Sava Re are adequate. Technical provisions have been set aside in compliance with regulations and in adequate amounts regarding the liabilities arising out of or in relation to reinsurance contracts. 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

Ljubljana, 24 March 2009

8 SAVA RE GROUP STRATEGY

8.1 Mission

We ensure financial safety and a profitable future.

- We are partners to our insureds and offer them our full support.
- We ensure a return on equity to our shareholders.
- We offer professional and personal development to our employees.
- We behave friendly and responsibly to our social environment.

8.2 Vision

To be a financial and insurance group recognisable in its target markets for the highest-quality insurance, reinsurance and other financial products provided.

Group companies will be recognisable in the target markets for providing the highest-quality products. By offering a complete range of products, we will allow our clients to choose the optimal level of financial safety based on their specific needs. We will provide expert advice to our clients to choose the appropriate set of products, always guided by client safety and satisfaction.

We will offer a high-quality service to our policyholders (i.e. insurance companies and other clients), and will continuously develop our insurance (and other) products, as well as our business and monitoring processes. This will reflect positively on our profitability, and allow us to earn appropriate returns on equity.

We believe that employees are the key success factor, and will accordingly adopt, at Group level, a systematic approach to employee training and motivation, to enable them to contribute creatively to the development and reputation of their insurance companies, while at the same time growing professionally and personally. The Group will develop its own corporate culture that will reflect positively on employee loyalty and on the high quality of service provided by them.

Insurance companies by definition provide economic safety by mitigating economic dangers if they arise, which makes them an integral part of the broader economic environment. In this environment, they are responsible for actively supporting certain activities that improve the social environment, such as research projects in the areas of health, education, traffic, ecology, geology, geography, etc. Insurance companies members of the Group will support such activities in their local environments.

8.3 Values

Values of the Sava Re Group are the following:

- commitment to clients
- profitable and reputable Group members
- committed and satisfied employees
- integrity
- professionalism
- innovativeness
- social responsibility

8.4 Strategy highlights

The Group will be recognisable in its target markets as provider of the highest-quality insurance, reinsurance and other financial products, and as the most professional and flexible insurance and financial group.

As regards intra-Group reinsurance services, the Group will aim at transparency, and will base its decisions exclusively on professional aspects.

Premium growth in the Group will be, as a rule, above the industry average in each of the markets covered, but in any case secondary to the above targets. The Group's primary targets will therefore be quality, and profitability of the Group as a whole and of its individual members.

In the medium-term, the Group will generate an average return on equity of 8% p.a. (both at individual and consolidated level), however after its individual members have brought their technical provisions up to European actuarial standards.

In the second half of the plan period, the Group will continue expanding to the markets of the South-East Europe, however never jeopardising thereby its sound corporate governance.

In the target markets abroad, where the Group is already present or will be present in the future, the parent will examine the possibility of expanding to the life insurance segment by establishing life insurance companies, as well as complementary investment and mutual fund management companies.

In 2009, Sava Re will make certain organisational changes to enhance transparency in its two most important business areas: reinsurance and strategic investment management.

The Group will revise and implement in full the Group Corporate Governance Policy.

The Group will enhance its operations at all levels by means of effective business process technology and information technology.

The Group will also develop a modern, Group-specific corporate culture based on high-quality corporate governance, continuous internal and external training, and implementation of the Group Code of Ethics.

9 PLANS FOR 2009

Summary of Sava Re Group's goals for 2009:
- strengthening the position held by its insurance companies in their local insurance markets;
- adjustment of technical provisions to European actuarial standards (in the mid-term);
- management of operating expenses;
- expansion of agency network;
- optimisation of investment structure;
- employment of highly-qualified experts;
- achievement of the best possible return on equity with the above-listed objectives being a priority.

Summary of Sava Re's goals for 2009:
- growth in the share of gross reinsurance premiums written abroad;
- increase in profitability of reinsurance portfolio;
- maintenance of high capital adequacy required by Standard & Poor's;
- maintenance of the expense ratio;
- adaptation of organisation to enhance reinsurance segment and investment management.

10 ACHIEVEMENTS IN 2008

10.1 Sava Re Group

Table 6: Gross premiums written of Group insurers compared to planned amounts

(EUR)	2008	Plan 2008	Index
Tilia	68,274,627	63,887,966	106.9
Sava Osiguranje	12,603,791	11,109,800	113.4
Dukagjini	8,472,878	8,956,525	94.6
Sava Tabak	16,431,054	14,150,216	116.1
Montenegro osiguranje	11,544,198	14,670,000	78.7

10.2 Sava Re

Table 7: Key figures compared to planned amounts

(EUR)	2008	2007	Plan 2008	Index	Index
	1	2	3	4=1/2	5=1/3
Gross premiums written	134,743,719	118,539,938	123,774,750	113.7	108.9
Net premiums written	113,856,951	97,207,906	104,312,760	117.1	109.1
Gross claims paid	114,689,231	70,358,934	71,937,336	163.0	159.4
Net claims paid	70,395,437	58,761,715	61,828,365	119.8	113.9
Gross loss ratio	85.1%	59.4%	58.1%	143.4	146.5
Net loss ratio	61.8%	60.4%	59.3%	102.3	104.3
Operating expenses as % of gross premiums written	5.0%	4.4%	6.4%	113.7	78.1
Profit/loss before tax	–9,490,069	23,536,658	11,891,046	–40.3	–79.8
Profit/loss for the period	–7,991,649	18,205,424	9,275,016	–43.9	–86.2
Assets	399,445,110	356,701,026	389,995,157	111.9	102.4
Equity	153,740,161	145,637,435	186,058,273	105.6	82.6
Gross technical provisions	159,309,008	129,483,842	135,719,733	123.0	117.4
Net technical provisions	121,618,337	108,010,647	114,417,662	112.6	106.3
Return on equity (ROE)	–5.3%	13.8%	5.9%	–38.4	–89.8
Return on investments	–1.0%	8.8%	4.0%	–11.4	–24.9
Capital adequacy (surplus)	59,885,303	38,794,307	40,286,236	154.4	148.6

11 ORIGIN AND DEVELOPMENT

2008	**Change in ownership structure of Sava Re**
	An initial public offering is carried out and the stake held by SOD is reduced to 25.0%. On 11 June 2008, Sava Re's shares are floated on the Ljubljana Stock Exchange.
	Expansion of the Sava Re Group
	Sava Re establishes a fund management company in Macedonia (Sava Invest) and life insurance companies in Pristina and Belgrade (Dukagjini Life and Sava životno osiguranje).
2007	**Expansion of the Sava Re Group**
	Sava Re acquires a majority stake in two non-life insurance companies, the Macedonian Sava Tabak and the Montenegrin Montenegro osiguranje.
2006	**Expansion of the Sava Re Group**
	Sava Re acquires a majority stake in two non-life insurance companies, the Serbian Sava Osiguranje and the Kosovan Dukagjini.
2003	**New owner of Sava Re**
	The Slovenian Restitution Fund (SOD) becomes 99.8665% owner of Sava Re.
1999	**Expansion of the Sava Re Group**
	Sava Re acquires a more than 40% stake in Zavarovalnica Maribor.
1998	**Sava Re Group**
	Sava Re acquires a 99% stake in Zavarovalnica Tilia.
1991	**Pozavarovalnica Sava, d. d., Ljubljana (Reinsurance Company Sava Limited)**
	Pozavarovalna skupnost Sava is transformed into a joint stock company.
1977	**Pozavarovalna skupnost Sava (Reinsurance Community Sava)**
	The reinsurance business area is spun off from Zavarovalna skupnost Sava and transformed into an independent legal person.
1975	**Zavarovalna in pozavarovalna skupnost Sava (Insurance and Reinsurance Community Sava)**
1973	**Reinsurance department within the insurance company Zavarovalnica Sava**
	The department is tasked with inwards reinsurance underwriting.

12 BUSINESS ENVIRONMENT IN 2008

12.1 Amendments to legislation

Insurance companies

<u>Amendments to the Insurance Act (ZZavar-E, Official Gazette of the RS, no. 69/08)</u>

Amendments to the Insurance Act relate to the organisation of work in the Insurance Supervision Agency, and the obligation to provide information required for the Agency's decisions, which was imposed on the government, local authorities, holders of public authorisations and other legal persons and organisations.

<u>Implementing regulations of the Insurance Supervision Agency pursuant to the Insurance Act</u>

NEW: *Rules associated with the obligation to provide information to the Insurance Supervision Agency* (Official Gazette of the RS, no. 87/08)

NEW: *Decision on the temporary exemption from payment of the annual supervision fee for November and December 2008* (Official Gazette of the RS, no. 97/08)

Companies in general

Amendments to the Companies Act (ZGD-1A, Official Gazette of the RS, no. 10/08)

Amendments to the Companies Act relate to harmonisation of national legislation with the European Union directives in the field of cross-border mergers. The amendments do not affect the main principles of transformation of a legal person's status laid down in ZGD-1 (creditors' protection and preservation of shareholder wealth).

Amendments to the Companies Act (ZGD-1B, Official Gazette of the RS, no. 68/08)

Amendments to the Companies Act relate to harmonisation of national legislation with the EU directives adopted in 2006 and 2007 to amend certain directives in the field of company law, mainly in the field of accounting, which had to be transposed by the end of 2008. They mainly addressed harmonisation with the so-called "Audit Directive", which, amongst other things, comprehensively regulates the obligation to set up audit committees in public limited liability companies.

Labour relationships

Employee Profit Participation Act (ZUDDob, Official Gazette of the RS, no. 25/08)

This Act regulates employee participation in profit and ownership, and the associated contract on participation in profit and the procedure for its conclusion, as well as the cash bonus and share option schemes, and the conditions for tax and social contribution deductions.

12.2 Macroeconomic environment

Slovenia

The outlook remains grim for the global financial crisis that, in the second half of 2008, spread from the United States and hit badly the European financial and "real" sectors. In February 2009, analysts feared that it could turn out to be the worst recession since World War II. In Slovenia, it has already hit badly the financial and banking sectors, as well as certain segments of the "real" and trade sectors, and is expected to hit their other segments sooner or later. The affected "real" sector segments are already facing a 30% to 40% drop in orders, and consequently a drop in production and cash flows, payment deferment, unavailability of finance, retardation of capital expenditures, falling exports, etc. Statistical and other macroeconomic indicators do not yet reflect entirely the effects of the crisis. The crisis in Slovenia's real sector will be getting deeper, maybe even after it will have hit bottom in some European economies, as developments in global markets would usually show Slovenia with a certain delay.

In December 2008, the annual inflation in Slovenia was 2.2%. It slowed down faster than in the euro area as a whole. In the second half of 2008, the annual harmonised consumer price index dropped from 6.9% in July to 1.8% in December, while in the euro area as a whole, it dropped from 4.0% to 1.6% in the same period. At year-end, inflation was well below the level still expected in the autumn, which was due to the marked drop in oil prices in global markets. They started dropping really fast after July, and caused inflation to drop fast, too, both in Slovenia and in the whole euro area. In Slovenia, the effect of dropping oil prices on the domestic inflation was marked in particular with regard to their rapid rising in the same months of 2007.

In view of the ever weaker economic activity and the ongoing financial markets crisis, the European Central Bank (ECB) in mid-January 2009 decreased its key interest rate by 0.5 basis points, after already having reduced it in December by 0.75 basis points. The 2% interest rate was the lowest in the ECB's history. The key ECB's interest rate affected also the interest rate relevant for banks and companies, Euribor, which was growing in 2008 until October, when it reached the highest level ever of 5.4% (the three-month Euribor), and then started a downward course. In mid-January 2009, it was 2.51% (the three-month Euribor).

After a period of strong euro, there was a turnabout in the EUR/USD exchange rate in August 2008, when the euro first fell below 1.5 against the dollar. Since then, the dollar gradually appreciated: for 1 euro, you paid on average 1.332 dollars in October and 1.273 dollar in November, while in December it depreciated slightly (to 1.345 EUR/USD). The average EUR/USD exchange rate in 2008 was 1.47. Analysts expect the dollar to continue appreciating.

In December 2008, there were 66,239 registered unemployed in Slovenia, which was 4.5% more than in November 2008 and 3.2% less than in December 2007. In 2008, the average number of registered unemployed was 63,216 or 11.4% less than in 2007. The registered unemployment rate was 6.7% in November 2008. The number of registered vacancies in December 2008 was 12,274 or 22% less than in November 2008 and 13.4% less than in December 2007. The total number of registered vacancies in 2008 was 256,796 or 20,044 per month on average, which was 1% less than in 2007.

Table 8: Major economic indicators for Slovenia in 2006, 2007 and 2008

	2008	2007	2006
GDP (real growth in %)	4.1	6.8	5.9
GDP per capita (EUR)	18,464	17,076	15,446
Export of goods and services (real growth in %)	5.8	13.8	12.5
Import of goods and services (real growth in %)	6.5	15.7	12.2
Unemployment (%)	4.6	4.9	6.0
Inflation – average	5.7	3.6	2.5
Inflation – end of year	2.2	5.6	2.8

Source: Revised autumn macroeconomic forecasts for 2008–2010
GDP = gross domestic product
ILO = International labour organization

Slovenia's financial markets

After the gradual slowdown in the first ten months of 2008, the lending activity of domestic banks all but stopped in November 2008 due to the tightened conditions in the international interbank markets. It hit the lowest point since March 2005 and was further slowed down due to repayment of a larger foreign loan by the NLB bank in June 2008. In November, net repayments of foreign loans made by domestic banks were EUR 583.6 million, the highest ever. Net repayments were attributable to their repayments of short-term loans (EUR 820.6 million), while they still managed to make net drawings of long-term loans (EUR 237.0 million or the third largest amount in the first 11 months of 2008), despite the tightened conditions. In December, the lending activity of domestic banks increased slightly, but remained at a very low level compared to the first ten months of 2008 (the monthly net flow of loans was EUR 63.5 million). In December, annual growth in the volume of loans dropped by a further 0.8 percentage points, to 18.1%, which was 14.2 percentage points below the already relatively low lending activity in December 2007.

In 2008, the volume of assets in mutual funds managed by domestic management companies almost halved, after having had an annual growth of almost 90% in the period 2000–2007. Mutual funds thus lost EUR 1.4 billion in 2008. Almost all types of mutual funds were affected, the most however stock funds: the volume of assets managed by them more than halved. Only money market funds, which are supposed to be safe and liquid, had more assets under management at year-end. They however represent only slightly more than 1% of all assets managed by domestic management companies. Of the total drop in the volume of assets in mutual funds, almost 80% is attributable to the drop in investment value, while the remaining 20% is attributable to net outflows of EUR 303.6 million. Only in 2007, mutual funds saw record-high inflows of EUR 469.7 million. Despite the large net outflows, distribution of assets across the different mutual funds did not change significantly in 2008: the more risky stock and mixed mutual funds accounted for more than 95% of mutual funds assets.

The volume of assets in mutual funds decreased also in December, and was, at 5.9%, the lowest in the last quarter of 2008. Much of this drop is attributable to the drop in investment value, while only 10% is attributable to net outflows. These were EUR 13.2 million in December, the lowest in the last four months. Stock and mixed mutual funds saw the largest net outflows.

SBI, the main index of the Ljubljana Stock Exchange, fell in each month of 2008 as compared with the previous month, but then grew by 3.8% in January 2009. January was thus the second consecutive month in which the SBI moved in the opposite direction as global capital market indexes: these had a relatively favourable December before dropping significantly in January 2009. The two indexes that saw the largest drop (9.8%) were the main indexes of Tokyo and Frankfurt stock exchanges, the NIKKEI 225 and the DAX 30.

World and Europe

The year 2008 was a year of excesses in capital markets. Worrying results and pessimistic macroeconomic outlooks were on the daily menu. It seems that in 2008, the world entered maybe the worst economic crisis since 1929.

While in the first half of 2008 high inflation and record-high oil prices were the main concerns, a turnabout happened that made inflation of secondary importance. Stock indexes and oil prices plummeted, and exchange rates were more volatile than usually. Consequently, investors sought safety in treasury bonds and gold. The price of gold reached USD 1,000 per ounce.

The reason for this was probably the financial crisis with its epicentre in the United States. The consequences of the global financial crisis were soon felt in the "real" sector, which caused significant cooling of global economies.

To mitigate the situation, governments, assisted by international organisations, intervened on several occasions trying to salvage their financial institutions and other business entities.

Heads of the most influential countries and central banks tried to use leverage at their disposal to calm the chaotic situation in capital markets, restore confidence in the economy and get the interbank markets going again, thus alleviating and shortening the crisis.

Various stimulation measures were adopted aimed at financial institutions, companies and individuals, mainly comprising cash injections, and aggressive reductions of key interest rates.

In 2008, some of the once largest Wall Street banks were subject to takeover or merger. Some could no longer be rehabilitated, amongst them Lehman Brothers. It declared bankruptcy, which appears to be the largest in the history of the United States. With it, the United States according to many made a disservice to the world and deepened the already bad crisis.

Not surprisingly, fear and distrust run high in the financial markets. This, as well as the unchanged forecasts of unfavourable macroeconomic developments, increased the downward pressure on stock prices.

Troubles deepened, and certain less-developed economies that are highly dependent on foreign capital were on the verge of bankruptcy. This was obvious from the dramatic depreciation of their currencies against the major global currencies, as well as from their worrying macroeconomic outlooks.

Within one year, the main stock market indexes lost more than 10%. Certain global corporations previously considered by the investors as synonymous with success were reduced to their symbolic value.

Following the decrease in energy (mainly oil) and food prices, Inflation slowed down in the last months of 2008. According to the estimates published by Eurostat, the euro area annual inflation was 1.6% in December (2.1% in November), while the European Union annual inflation was 2.2% in December (2.8% in November). The annual harmonised consumer price index dropped in Slovenia, too. Of the Member States, Slovenia was ranked the eighth (together with Cyprus) in terms of annual inflation in 2008. Just a couple of months before, it was ranked higher, amongst the Member States with the highest inflation.

The European Central Bank further reduced its key interest rate in January 2009, and the inflation slowdown continued: according to the flash estimate published by Eurostat, the euro area annual inflation was 1.1% in January (as compared to the December 2008 inflation of 0.1% in the United States). The main reason for the inflation slowdown remains the decrease in oil prices, but also the weak economic activity.

Table 9: Key macroeconomic indicators for certain European countries in 2007 and 2008

(%)	GDP growth		Inflation (HICP)		Unemployment	
	2008	2007	2008	2007	2008	2007
EU 27	1.4	2.9	3.9	2.4	7.0	7.1
Euro-zone	1.0	2.6	3.3	2.1	7.6	7.5
Austria	1.7	3.1	3.4	2.2	3.9	4.4
Belgium	1.3	2.8	4.7	1.8	7.1	7.5
Cyprus	3.3	4.4	4.5	2.2	3.9	4.0
Finland	2.2	4.5	4.2	1.6	6.3	6.9
France	0.9	2.1	3.3	1.6	8.0	8.3
Greece	2.9	4.0	4.4	3.0	9.0	8.3
Ireland	–1.6	6.0	3.3	2.9	6.1	4.6
Italy	–0.4	1.4	3.6	2.0	6.8	6.1
Luxembourg	2.5	5.2	4.4	2.7	4.0	4.1
Malta	2.4	3.7	4.4	0.7	5.9	6.4
Germany	1.6	2.5	3.0	2.3	7.3	8.4
The Netherlands	2.0	3.5	2.5	1.6	3.0	3.2
Portugal	0.5	1.8	2.9	2.4	7.7	8.1
Spain	1.2	3.7	4.2	2.8	10.8	8.3
Slovenia*	4.1	6.8	5.7	3.6	4.6	4.9

Source: Bank of Slovenia, International Economic Developments, December 2008
**IMAD, Slovenian Economic Mirror, January 2009*

Other countries covered by Sava Re Group

Serbia

While the real GDP growth in 2007 was 7.5%, it is estimated to have been 6.5% in 2008. The estimate was made by the European Bank for Reconstruction and Development (EBRD). Similarly as in 2007, growth was driven by domestic demand, mainly investments and private consumption. Investments increased by some 10.0%, and private consumption by 6.0%. In view of the worsening global recession and its effect on transition countries, EBRD revised downwards Serbia's GDP growth forecast for 2009. There will be growth, however, due to the still relatively high domestic demand, and thanks to the lower level of Serbia's integration in the global financial system. The faster the recovery of the global economy, the smaller the effect of the global recession will be on transition countries. Efforts undertaken by national governments and international financial institutions to protect the financial systems in these countries will also play an important role. The priorities of Serbia's economic policies will be: to be awarded candidate status by the European Union, to strengthen the country's economy and social responsibility, to combat crime and corruption, and to meet the country's international obligations. To strengthen its economy, Serbia will have to complete privatisation and structural reforms, and improve investment climate. Completion of privatisation is very important also as a source of additional revenue to cover the country's budget deficit, which is estimated to have been 1% of GDP in 2008.[5]

The average annual HICP inflation is estimated to have been 11.0% in 2008, and should slow down to 7.2% in 2009. The global financial crisis affected also Serbia's dinar. Being overvalued, it started depreciating very fast: while its exchange rate was 79.5972 RSD/EUR as at 1 January 2008, it was 89.3718 RSD/EUR as at year-end 2008, which translates into a 12.28% depreciation.

Unemployment rate was 14.0% in October 2008, but is estimated to have increased to 17.4% in December 2008.[6]

The total external trade in the period January–November 2008 was USD 31,661.9 million, up 28.4% from the same period in 2007. Exports of goods were USD 10.2 billion, up 28.0% from the same period in 2007. Imports of goods, however, increased by 28.6%, to USD 21.4 billion, and the resulting trade account

5 EBRD: Manji privredni rast Srbije (http://www.b92.net/biz/vesti/srbija.php?yyyy=2009&mm=01&dd=27&nav_id=341575), and Izvozno okno, Srbija, Gospodarska rast in industrijska proizvodnja.

6 Izvozno okno, Srbija, Gospodarska rast in industrijska proizvodnja.

deficit was USD 11.1 billion. Serbia's most important export partners were Bosnia and Herzegovina, Montenegro and Germany, and its most important import partners Russia, Germany and Italy.[7]

Macedonia

The solid GDP growth continued also in the third quarter of 2008, mainly on the account of manufacture of metal products. Certain industries though experienced a slowdown, in particular transport and financial intermediation.[8] GDP growth was more or less at the same level as in 2007, when it reached 5.1%: in the first quarter of 2008, it was 5.2%, and should have been around 4.5% in 2008 as a whole.[9]

The annual inflation was 8.3%, mainly due to higher energy and food prices. In December, however, it decreased to 4.1%, following the drop in oil prices.[10]

Exports in the period January–November 2008 were MKD 2.5 billion, while imports were MKD 4.3 billion, which means that the country had a trade account deficit.[11] The country's external trade was mainly oriented towards the European Union (51.5%), while the country's most important trading partners were Serbia, Russia, Germany and Greece.[12]

Macedonia was awarded candidate status by the European Union already in December 2005, and all its efforts are now focused on its eventual full membership.

Montenegro

In 2008, the global financial crisis which started in the course of the year did not affect significantly transition countries, Montenegro included. GDP growth remained relatively high; the country also saw a record-high inflow of foreign investments, and a high current account surplus. Moreover, it experienced a drop in unemployment and inflation. The crisis is expected to affect the country in 2009. GDP growth in the first nine months of 2008 was 8.0%, while it is estimated to have been 9.9% in 2008 as a whole. In the three-year period 2006–2008, the average GDP growth was around 7.0% or at the level of the least developed Member States, which is important in view of the country's need to meet the Copenhagen criteria for joining the European Union. Data published by Eurostat also prove that amongst all European countries, Montenegro experienced the fastest growth in the period 2005–2007. The Montenegrin government forecast the nominal GDP to be EUR 3.5 billion in 2009 or 14.5% higher than in 2008. The real GDP growth should thus be 7.0% in 2009.[13] The global financial crisis will slow down the country's economic growth, but will probably not lead to recession.

Until now, it has caused a drop in inflation: while it was 8.0% still at the end of 2008, it is forecast to be 4.5% in 2009. In 2008, in addition to external factors (the rising oil and food prices), inflation was affected also by internal factors, mainly the rising electricity prices.

Aggregate demand has been increasing since the beginning of 2008. However, economic activity has been strong, too, and growth in aggregate demand (3.3%) therefore below the estimated growth in GDP (8.0%). As many as 68.0% of the companies surveyed said they intended to grow their businesses, and 86.0% said they intended to make capital expenditures, which shows that the country can probably expect its economy to grow in 2009.

Imports are expected to drop in 2009, while investments should remain the same as in 2008. Monstat, the Montenegrin statistical office, estimated the 2008 exports and trade account deficit to have been at EUR 346.6 million and EUR 1.54 billion respectively in 2008.[14]

To mitigate the effects of the global financial crisis, the Montenegrin government announced reductions in income tax and social contributions, as well as other measures aimed at unburdening of the economy and at encouraging economic activity.

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7 Serbian Chamber of Commerce, Macroeconomics Indicators and Economic Trends in the Republic of Serbia.
8 National Bank of the Republic of Macedonia, Monthly Information 12/2008, January 2009.
9 Travel Document Systems (www.traveldocs.com/mk/economy, and Banka Slovenije, International Economic Developments, September 2008.
10 National Bank of the Republic of Macedonia, Monthly Information 12/2008, January 2009.
11 National Bank of the Republic of Macedonia, Monthly Information 12/2008, January 2009.
12 Travel Document Systems (www.traveldocs.com/mk/economy).
13 Alternativa's Daily Brief, 8 December 2008.
14 Alternativa's Daily Brief, 8 December 2008.

Kosovo

In 2009, while celebrating the first anniversary of independence, Kosovo continued setting up an economic structure that will bring it closer to the European economies and eventually result in full European Union membership.

Despite being a developing economy, as evident from its economy and internationalisation indicators, the country has always attracted Slovenian businesses. Recently, investments in infrastructure and local businesses have been of particular interest.[15]

Kosovo's GDP is forecast to grow in the entire period 2008–2011 at an average rate of 5.2%. The major contribution is expected from the private sector, but also from capital expenditures made by the government. The most important drivers of GDP growth remain private sector expenditures and exports.

While inflation was 4.4% in 2007, it climbed to 9.8% in 2008.[16] Inflation is forecast to fall slightly in 2009, and significantly in the period 2010–2011. However, in an open and import-dependent economy, movements in domestic prices are highly dependent on movements in import prices.[17]

In 2008, imports were EUR 1.9 billion, of which 18.1% is attributable to Macedonia and 10.9% to Serbia. Exports were EUR 195.9 million, of which 14.3% is attributable to Belgium and 13.0% to Italy.[18] Imports should increase slowly to reach EUR 2,350 million or 47.0% of GDP in 2011.[19]

At the end of 2008, the number of unemployed was 335,942.[20] Recession, which moved from the USA to Europe, represents a risk for Kosovo, should its immigrants lose jobs abroad and the developed countries cut down their cross border development assistance, which in turn could lead to insufficient liquidity required for the country's imports.[21]

12.3 Slovenia's re/insurance market

Slovenia's insurance market wrote gross premiums of EUR 2,019 million in 2008, up 6.7% from 2007, and paid gross claims of EUR 1,210 million, up 17.7% from 2007.

Gross non-life and life insurance premiums increased by 7.1% and 5.9% respectively, while gross non-life and life claims increased by 19.2% and 10.0% respectively.

Table 10: Gross premiums written by type of business (life/non-life)

(EUR)	Non-life business	Life business	Total
2008	1,376,307,195	642,652,700	2,018,959,895
2007	1,284,848,550	606,665,402	1,891,513,952
Index	107.1	105.9	106.7

Source: Slovenian Insurance Association, Yearly Statistics, February 2009

Table 11: Gross claims by type of business (life/non-life)

(EUR)	Non-life claims	Life claims	Total
2008	1,026,618,812	183,162,234	1,209,781,046
2007	861,471,725	166,441,718	1,027,913,443
Index	119.2	110.0	117.7

Source: Slovenian Insurance Association, Yearly Statistics, February 2009

15 Slovenian Chamber of Commerce, a paper entitled Slovenian business delegation in Kosovo, Pristina, on 18 and 19 March 2009.
16 CBAK, Monthly Statistics Bulletin, December 2008.
17 Medium Term Expenditure Framework 2009–2011, June 2008.
18 CBAK, Monthly Statistics Bulletin, December 2008.
19 Medium Term Expenditure Framework 2009–2011, June 2008.
20 CBAK, Monthly Statistics Bulletin, December 2008.
21 Medium Term Expenditure Framework 2009–2011, June 2008.

Table 12: Market shares of insurance companies based on premium income (with a market share of at least 1%)

Insurance company	2008			2007			Index		
	Market share	Non-life	Life	Market share	Non-life	Life	Market share	Non-life	Life
Triglav Insurance Company	37.3%	37.8%	36.1%	37.4%	37.5%	37.1%	106.4	107.9	103.0
Adriatic Slovenica Insurance Company	12.7%	17.5%	2.5%	13.3%	18.2%	2.9%	102.2	102.8	93.7
Maribor Insurance Company	12.5%	13.5%	10.3%	12.4%	13.3%	10.5%	107.5	108.9	103.6
Vzajemna Health Insurance Mutual	11.6%	17.1%	0.0%	12.0%	17.7%	0.0%	103.5	103.5	
Kapitalska Družba Pension Fund	6.6%	0.0%	20.6%	6.3%	0.0%	19.5%	111.9		111.9
KD Življenje Insurance Company	3.4%	0.0%	10.8%	3.0%	0.0%	9.4%	121.0		121.0
Tilia Insurance Company	3.4%	4.2%	1.7%	3.1%	3.8%	1.6%	117.6	118.2	114.4
Generali Insurance Company	3.1%	3.1%	3.0%	2.8%	2.8%	2.6%	118.1	116.9	120.6
Triglav Health Insurance Company	2.9%	4.3%	0.0%	2.7%	4.0%	0.0%	115.0	115.0	
Merkur Insurance Company	2.2%	0.5%	5.8%	2.2%	0.5%	5.8%	105.2	101.8	105.8
Grawe Insurance Company	1.8%	0.9%	3.8%	1.9%	0.9%	4.0%	101.0	101.9	100.5
NLB Vita Insurance Company	1.6%	0.1%	4.6%	1.9%	0.1%	5.8%	86.4	111.1	85.4

Source: Slovenian Insurance Association, Yearly Statistics, February 2009

Table 13: Shares Market shares of Group companies

	2008	2007
Tilia non-life	4.2%	3.8%
Tilia life	1.7%	1.6%
Tilia total	3.4%	3.1%
Sava Osiguranje	2.2%[22]	1.8%
Dukagjini	19.3%	18.7%
Sava Tabak	16.3%	15.1%
Montenegro osiguranje[23]	21.8%	23.0%

Table 14: Premium income and market shares on the Slovenian reinsurance market

(EUR)	Sava Re	Triglav Re	Total
Slovenia	81,821,496	65,393,156	147,214,651
International	52,922,223	41,600,963	94,523,186
Total	134,743,719	106,994,118	241,737,837
Market share	55.7%	44.3%	100.0%

22 Market share for the period January–September 2008
23 Market share for non-life business; 2008 figure relates to the period January–September.

12.4 International reinsurance market

The tables below show movements in premium rates for non-proportional reinsurance, and in commission rates and loss ratios for proportional reinsurance in international reinsurance markets. The numbers reflect our assumptions regarding the reinsurance cycle.

Table 15: Chain index of premium rate movements for non-proportional reinsurance business

Non-proportional reinsurance business	2008	2009	2010	2011	2012	2013
Property – per risk	90	110	110	105	100	100
Property – cat cover	90	110	115	105	100	100
Land vehicles casco	100	110	110	100	100	100
Motor Third Party Liability	100	110	110	100	100	100
Marine	90	110	110	105	100	100
Liability	95	105	105	100	100	100

Table 16: Year-on-year change in commission rates and loss ratios for non-proportional reinsurance business in percentage points

Proportional reinsurance		2008	2009	2010	2011	2012	2013
Property	commission rate	+1.5	–1	–2	0	0	0
	loss ratio	0	+1	–1	–2	0	0
Land vehicles casco	commission rate	0	–1	–2	0	0	0
	loss ratio	+3	0	0	0	0	0
Motor Third Party Liability	commission rate	0	–1	–1	0	0	0
	loss ratio	+1.5	0	0	0	0	0
Marine	commission rate	0	0	–2	0	0	0
	loss ratio	0	+2	0	0	0	0
Liability	commission rate	0	0	0	0	0	0
	loss ratio	0	0	0	0	0	0

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Gross and net reinsurance premiums

Table 17: Gross and net reinsurance premiums written in Slovenia and abroad

(EUR)	2008	2007	Index	Structure 2008	Plan 2008	Index 2008/plan
Gross premium – Slovenia	81,821,496	80,196,155	102.0	60.7%	77,572,866	105.5
Gross premium – International	52,922,223	38,343,784	138.0	39.3%	46,201,884	114.5
Total gross premiums written	134,743,719	118,539,938	113.7	100.0%	123,774,750	108.9
Total net premiums written	113,856,951	97,207,906	117.1	100.0%	104,312,760	109.1

In 2008, Sava Re wrote gross reinsurance premiums of EUR 134.7 million, which was 13.7% more than in 2007 and 8.9% more than planned.

Premiums assumed from domestic cedants increased 2.0% compared to 2007. Those assumed from Zavarovalnica Maribor, the largest domestic cedant, fell 0.2% due to a change in the proportional reinsurance programme. Premiums from Zavarovalnica Tilia increased 15.4% due to the insurer's strong premium growth and assumption of certain large risks. Premiums from Adriatic Slovenica fell 28.1% due to the fact that in 2008, Sava Re confirmed its participation only for that part of the reinsurance programme which it used to retain. Premiums from domestic cedants were 5.5% above the planned figure.

Of the total premiums from domestic cedants, those from the subsidiary Zavarovalnica Tilia accounted for 23.8% (2007: 21.1%). Premiums from the cedants Zavarovalnica Maribor and Adriatic Slovenica accounted for 70.1% (2007: 71.6%) and 4.1% (2007: 5.8%) respectively.

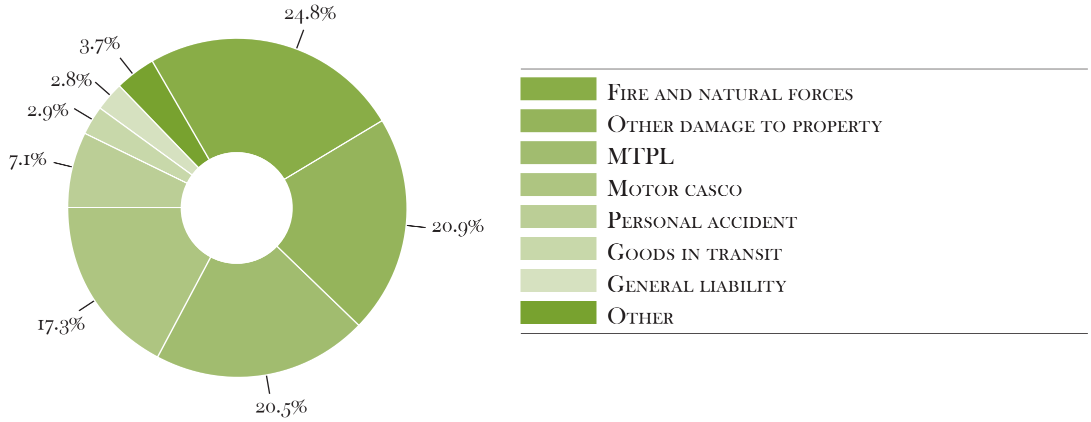
Foreign-sourced premiums increased 38.0% compared to 2007 and were 14.5% above the planned figure. The largest share was written in Austria (15.5%), followed by Croatia (6.8%), Sweden (5.6%) and Turkey (5.3%).

Foreign-sourced business also includes business from the countries of the former Yugoslavia. In 2008, they accounted for 5.6% (2007: 9.4%) of the total premiums written abroad. The decrease in their share of premiums written abroad is explainable by the significant increase in premiums from cedants that are not subsidiaries, as well as by the decrease in premiums from Sava Tabak due to the premium reduction granted to the largest risk in its portfolio.

There was a significant increase in the percentage share of foreign-sourced premium, which accounted for 39.3% (2007: 32.3%), and a corresponding decrease in the share of domestic premium.

In 2008, Sava Re wrote net reinsurance premiums of EUR 113.9 million, which is 17.1% more than in 2007. Net premiums increased faster than gross premiums with a consequent increase in the retention rate by 2.5 percentage points to 84.5% in 2008. The increase in the retention rate is largely due to the increase in gross reinsurance premiums written abroad, as this business segment is mainly retained. Of the foreign-sourced business, Sava Re mainly retrocedes business written by its subsidiaries.

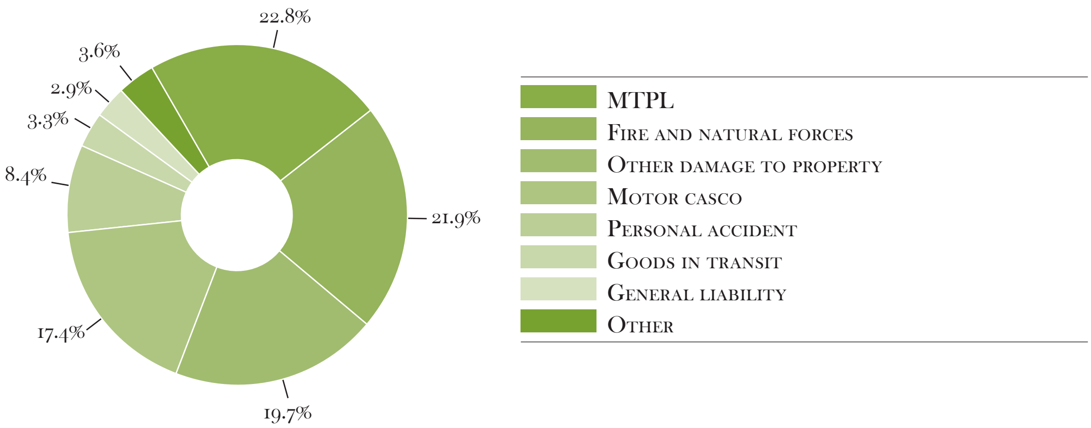
Chart 2: Gross reinsurance premiums in 2008 by insurance classes



The chart shows that of all insurance classes, "fire and natural forces" accounted for the largest share of gross reinsurance premiums, and increased 38.4% in 2008. The increase is attributable to the significant increase in premiums written abroad, where fire business prevails. In 2007, "MTPL" accounted for the largest share of gross reinsurance premiums with 23.2%, while in 2008 its share decreased to 20.5% due to Sava Re's reduced participation in the proportional reinsurance business of Zavarovalnica Maribor. The share of "other damage to property" was 20.9% in 2008, down 1.2 percentage points from 2007.

Absolute amounts of gross reinsurance premiums by insurance class are shown in the section "Performance indicators", together with their growth as compared to 2007.

Chart 3: Net reinsurance premiums in 2008 by insurance classes



Just as in 2007, "MTPL" with 22.8% (2007: 26.4%) again accounted for the largest share of net reinsurance premiums. The share of "fire and natural forces" and "other damage to property" was 41.6%, which is less than their share of gross reinsurance premiums of 45.75%. This business is exposed to losses on large risks and to natural catastrophes; therefore, a larger share is retroceded (mainly domestic business), and it is protected by a proportional as well as a non-proportional coverage. In 2008, these two insurance classes accounted for 68.0% of all premiums retroceded.

Gross and net reinsurance claims

Table 18: Gross and net reinsurance claims from Slovenia and abroad

(EUR)	2008	2007	Index	Structure 2008	Plan 2008	Index 2008/plan
Gross claims – Slovenia	85,747,041	51,685,980	165.9	74.8%	49,222,420	174.2
Gross claims – International	28,942,190	18,662,026	155.1	25.2%	22,714,916	127.4
Total gross claims paid	114,689,231	70,348,006	163.0	100.0%	71,937,336	159.4
Total net claims paid	70,395,437	58,761,715	119.8	100.0%	61,828,365	113.9

In 2008, Sava Re recorded gross reinsurance claims of EUR 114.7 million, which was 63.0% more than in 2007. In terms of claims, 2008 was unfavourable both as regards the domestic and the foreign portfolio.

The increase in claims associated with Sava Re's domestic portfolio was due to the storms that hit Slovenia in the summer of 2008. As the Company did not consider such an extraordinary event in its planning documents, the total gross reinsurance claims exceeded the planned figure by 59.4%.

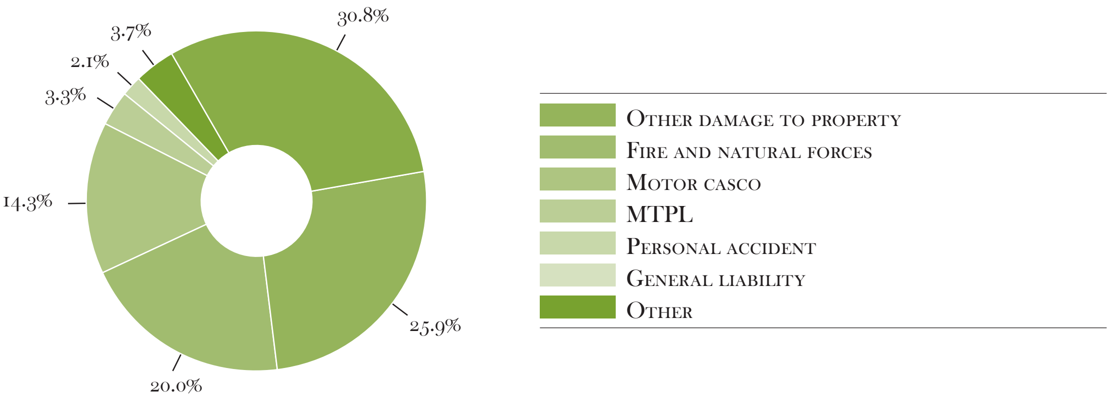
The summer storms in Slovenia affected the gross result with gross claims incurred of some EUR 55.0 million, of which EUR 41.7 million were paid out by the end of 2008. Gross reinsurance claims on the domestic account thus increased 65.9% compared to 2007 and exceeded the planned figure by 74.2%.

Claims associated with Sava Re's foreign portfolio also increased, by 55.1%. The reason for this is the increase in the foreign portfolio (premiums written abroad increased by 38.0% and 22.7% in 2008 and 2007 respectively), and certain large and small losses. The largest losses (or provisions for outstanding claims) associated with the Sava Re's foreign portfolio are:

- Ike storm and a fire damage on Cuba: provision of EUR 0.7 million set aside;
- Claims paid for underwriting year 2007 (Korean business): EUR 0.9 million;
- Claims paid for underwriting years 2007 and 2008 (Austrian business): EUR 2.0 million;
- Fire damage in the Channel Tunnel: provision of EUR 0.5 million set aside;
- Claims paid for underwriting year 2007 (Swedish business): EUR 1.3 million;
- Several losses that occurred in 2008 (Russian business): provision of EUR 1.5 million set aside;
- Loss on bucket wheel in Macedonia: provision of EUR 0.8 million set aside.

Foreign claims in 2008 exceeded the planned figure by 27.4%.

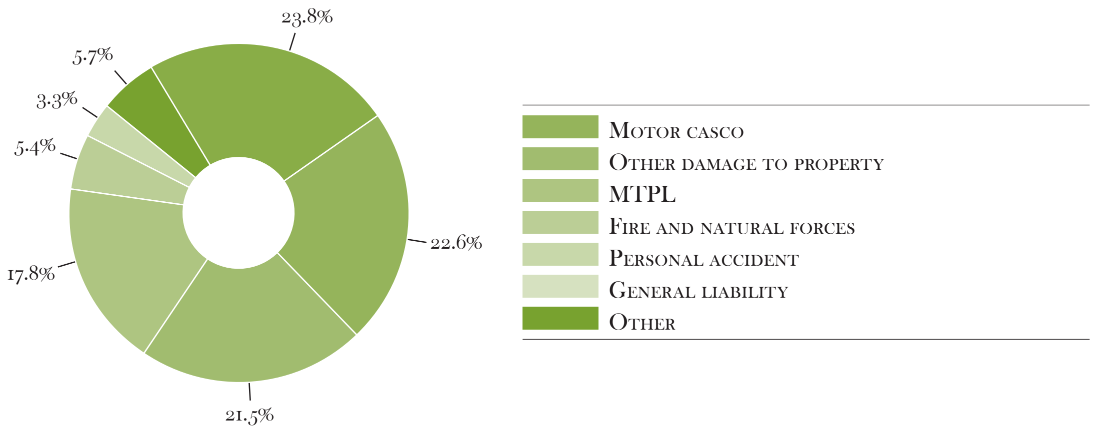
Chart 4: Gross reinsurance claims in 2008 by insurance classes



The structure of gross reinsurance claims, very much like the structure of gross reinsurance claims by insurance premiums, changed slightly in 2008: "other damage to property" and "fire and natural forces" dominated, accounting for 56.7% of the total gross reinsurance claims (2007: 43.7%). The change is mainly attributable to storms that hit Slovenia in the summer of 2008. "Land motor casco" decreased from 21.3% in 2007 to 20.0% in 2008.

Absolute amounts of gross reinsurance claims by insurance classes are shown in the section "Performance indicators", together with their growth as compared to 2007.

Chart 5: Net reinsurance claims in 2008 by insurance classes



In the net reinsurance claims structure, the largest share relates to "land motor casco", an insurance class that decreased by 0.9 percentage points from 2007. The share of "other damage to property" increased by 3.5 percentage points, while "MTPL" decreased by 4.1 percentage points from 2007.

Gross underwriting result of inwards business

Table 19: Gross underwriting result of inwards business in 2007 and 2008

(EUR)	Premiums	Claims	Fees and commis-sions	Result	Change in the provi-sions for claims out-standing	Change in the provi-sions for unearned premiums	Change in deferred provisions	Result
	1	2	3	4=1–2–3	5	6	7	8=4+5+6+7
2007	118,539,938	70,348,006	28,837,572	19,354,361	–7,835,128	–4,537,785	1,946,603	8,928,051
2008	134,743,719	114,689,231	33,684,777	–13,630,290	–25,446,160	–4,389,313	1,331,431	–42,134,331

Table 20: Gross paid and incurred loss ratio in reinsurance business in 2007 and 2008

	2008	2007
Gross paid loss ratio	85.1%	59.3%
Gross incurred loss ratio	132.3%	92.2%

The gross paid loss ratio, calculated as the ratio of gross claims paid to gross premiums written, increased by 25.8 percentage points compared to 2007. Its deterioration is mainly attributable to storms that hit Slovenia in the summer of 2008.

The gross paid loss ratio for domestic business increased by 40.3 percentage points compared to 2007, to 104.8%. The gross paid loss ratio associated with Zavarovalnica Maribor increased to 122.4% (2007: 58.5%) due to the summer storms. On the other hand, gross paid loss ratios associated with Zavarovalnica Tilia and Adriatic Slovenica decreased. The first by 9.7 percentage points, to 56.1%, and the latter by 24.2 percentage points, to 112.3% (still exceeding 100%).

The gross paid loss ratio for foreign-sourced business increased by 6.0 percentage points compared to 2007, to 54.7%.

The gross incurred loss ratio, which includes commission and changes in unearned premiums and provisions, increased by 40.2 percentage points from 2007. This deterioration is attributable to the claims in 2008 described above. In absolute terms, the underwriting result, which was a loss of EUR 42.1 million, was much below the one achieved in 2007, which was a profit of EUR 8.9 million.

The gross incurred loss ratio for domestic and foreign-sourced business increased by 47.7 and 32.1 percentage points respectively.

The deterioration of the first is mainly attributable to the business ceded by Zavarovalnica Maribor with a gross incurred loss ratio of 168.9% (2007: 91.3%). The gross incurred loss ratios for business ceded by Zavarovalnica Tilia and Adriatic Slovenica were 101.8% (2007: 78.0%) and 147.6% (2007: 175.1%) respectively.

Underwriting result of retained business

Table 21: Underwriting result of retained business in 2007 and 2008

(EUR)	Net premiums	Net claims	Net fees and commissions	Result	Change in the provisions for claims outstanding (net retention)	Change in the provisions for unearned premiums (net retention)	Change in deferred provisions (net retention)	Result
	1	2	3	4=1–2–3	5	6	7	8=4+5+6+7
2007	97,207,906	58,761,715	25,514,397	12,931,794	–4,324,143	–3,526,293	1,757,736	6,839,093
2008	113,856,951	70,395,437	30,740,884	12,720,630	–8,872,464	–4,758,444	1,182,483	272,206

Table 22: Paid and incurred loss ratio for retained business in 2007 and 2008

	2008	2007
Net paid loss ratio	61.8%	60.4%
Net incurred loss ratio	99.8%	92.7%

In 2008, paid loss ratio for retained business increased by 1.4 percentage points from 2007, while the incurred loss ratio for retained business increased by 7.1 percentage points, to 99.8%. In absolute terms, the underwriting result for retained business was a profit of EUR 272,206 (2007: a profit of EUR 6.8 million).

The same as for the overall underwriting result, the underwriting result for the net account deteriorated due to business from domestic cedants and due to certain large losses on the foreign account.

Movements in technical provisions

Table 23: Development of gross and net technical provisions in 2008

(EUR)	As at 31 December 2008	As at 1 January 2008	Index
Gross unearned premiums	41,967,178	37,577,865	111.7
Gross provisions for outstanding claims	116,458,980	91,219,036	127.7
Provisions for bonuses, discounts and cancellations	309,973	195,280	158.7
Other gross technical provisions	572,878	491,661	116.5
Total gross technical provisions	159,309,008	129,483,842	123.0
Net unearned premiums	39,218,876	34,460,433	113.8
Net provisions for outstanding claims	81,553,098	72,886,850	111.9
Net provisions for bonuses, discounts and cancellations	309,973	195,280	158.7
Other net technical provisions	536,391	468,085	114.6
Total net technical provisions	121,618,337	108,010,647	112.6

Gross unearned premiums moved similarly as gross premiums in 2008: the first increased by 11.7% and the latter by 13.7% compared to 2007. Unearned premiums from domestic cedants increased 0.2% (premiums increased 2.0%), while those from foreign cedants increased 57.5% (premiums increased 38.0%). Retroceded unearned premiums decreased 11.8% compared to 2007 (retroceded premiums decreased 2.1%). Compared to the decrease in retroceded premiums, the decrease in retroceded unearned premiums was disproportionately high. This is attributable to the terms of the catastrophe XL cover for the foreign portfolio: while the associated retroceded unearned premiums (of EUR 548,438) were recognised as at 31 December

2007, they were not recognised a year later in accordance with the anniversary date and accounts relating to retroceded premiums.

The gross provision for outstanding claims increased 27.7% in 2008. The gross provision for outstanding claims relating to domestic and foreign business increased 26.7% and 30.3% respectively. Compared to the increase in premiums, the increase in the gross provision for outstanding claims for domestic business was disproportionately high. This is attributable to the summer storms (the associated provision as at 31 December 2008 stood at EUR 13.3 million), as well as to the motor liability XL cover for Zavarovalnica Tilia and Zavarovalnica Triglav (the associated provision increased EUR 2.0 million). The increase in the gross claims provision for foreign business is also due to certain large losses: damage to infrastructure paid by Sogaz, reinsured under a XL cover (provision increased by EUR 1.5 million); damage to an open mining loader paid by Sava Tabak, reinsured under a surplus treaty (provision increased by EUR 0.8 million); fire losses incurred by Wiener Staedtische, reinsured under a surplus treaty (provision increased by EUR 0.5 million); and the Channel Tunnel fire loss paid by SCOR, reinsured under a XL contract (provision increased by EUR 0.5 million).

Retroceded provisions for outstanding claims increased by 90.4%, mainly due to the summer storms, which were retroceded either by surplus treaties or non-proportional treaties (except for crop insurance). The above-mentioned increase in gross provisions for outstanding storm-related claims reflected directly also on the increase in retroceded provisions for outstanding storm-related claims. The same holds for motor liability XL coverage. Retroceded provisions for outstanding claims from domestic and foreign cedants thus increased 129.3% and decreased 11.9% respectively, mainly on account of partial settlement of the 2007 Kyrill storm claims.

The provision for bonuses, rebates and cancellations remained relatively low, and increased in line with the increase in business in which the Company participates (quota share treaty with Zavarovalnica Maribor, which set up this provision for the first time in 2008, with Zavarovalnica Tilia and Prva kreditna zavarovalnica).

In accordance with the International Financial Reporting Standards (IFRS) and the amended Insurance Act (ZZavar-D), which loosened the currency matching requirements imposed on insurance companies, other technical provisions now comprise only those for unexpired risks, which increased 16.5% in 2008. Provisions for unexpired risks must be calculated for each insurance class separately if the expected combined ratio exceeds 100%. The expected combined ratio deteriorated for fire and natural forces and suretyship insurance, and improved for land motor casco and general liability insurance. This provision is not required for other classes. Under IFRS, provisions for gross and retroceded other technical provisions must be calculated separately, which is why for fire risks, the Company set up these provisions also for the retroceded portions.

The earthquake provision was completely transferred to profit reserves as of 1 January 2007, and increased in 2008 by an amount equal to the difference between 80% of income and expenses of the retained earthquake business, i.e. by 117.4%.

The credit risk equalization reserve was completely transferred to profit reserves as of 1 January 2007, and decreased in 2008 by 16.8% because of a reduction in the prescribed maximum amount.

14 INVESTMENTS

In 2008, Sava Re's investment portfolio could not escape the negative trends in capital markets due to the global financial crisis. Despite the increase (of EUR 42 million) in the Company's equity, the investment portfolio shrank by EUR 7.0 million or 2.5% from 2007.

The decrease in Sava Re's investment portfolio is explainable by the following:

- permanent investment impairment of EUR 12.6 million;
- goodwill impairment in Montenegro osiguranje of EUR 1.3 million;
- payment of interest on subordinated debt of EUR 2.8 million;
- advance payment of corporate income tax of EUR 12.1 million;
- fair value revaluation of investments of EUR 25.7 million.

On the other hand, the positive cash flow from reinsurance business of EUR 5.5 million had a positive effect on the Company's investment portfolio.

Table 24: Structure of investments as at 31 December 2007 and 2008

(EUR, except percentages)	Investments as at 31 December 2008	Structure as at 31 December 2008	Investments as at 31 December 2007	Structure as at 31 December 2007	Index
Deposits and CDs	38,207,922	13.8%	26,571,404	9.4%	143.8
Government bonds	49,622,249	18.0%	53,291,116	18.8%	93.1
Corporate bonds	55,139,038	20.0%	60,704,018	21.5%	90.8
Structured products	10,225,740	3.7%	12,448,172	4.4%	82.1
Shares	14,693,075	5.3%	25,142,599	8.9%	58.4
Other mutual funds	29,759,367	10.8%	32,863,990	11.6%	90.6
Loans	2,003,663	0.7%	2,003,719	0.7%	100.0
Land and buildings	1,262,310	0.5%	728,514	0.3%	173.3
Other	–5,407	0.0%	355,000	0.1%	–1.5
Strategic shares	74,999,030	27.2%	68,816,774	24.3%	109.0
Total	275,906,987	100.0%	282,925,306	100.0%	97.5

In 2008, the structure of Sava Re's investment portfolio changed slightly. This change was partly the consequence of the Company's expansion, and partly due to the Company's efforts to deriskify the portfolio.

Investments in associates thus increased by EUR 6.2 million (9.0%) from 2007. The increase is attributable to the establishment of two life insurance companies in Serbia and Kosovo, and of a fund management company in Macedonia. Sava Re also increased share capital in four Group companies (Dukagjini, Sava Tabak, Zavarovalnica Tilia and Moja naložba).

Due to the turmoil in capital markets, and to avoid as much as possible market risks, the Company decided in the second half of 2008 to invest the majority of its surplus money as bank deposits. Deposits therefore increased by EUR 11.6 million or 43.8% from 2007.

Already at the beginning of 2008, the Company took advantage of certain opportunities in capital markets to realise capital gains. It sold a portion of its stock portfolio and a portion of illiquid domestic government bonds. The stock portfolio thus decreased by EUR 10.4 million (41.6%) from 2007, and domestic government bonds decreased by EUR 3.7 million (6.9%).

Other changes in the structure of Sava Re's investment portfolio are explainable by fair value revaluation.

Return on investments

The financial crisis affected also the return on the Company's investment portfolio. Below, return on investments in 2008 is shown by investment types and compared against the 2007 return on investments.

Table 25: Return on investments in 2007 and 2008

	As at 31 December 2008	As at 31 December 2007
Deposits and CDs	4.6%	4.0%
Government bonds	5.6%	4.2%
Corporate bonds	1.0%	4.1%
Structured products	–7.9%	–3.4%
Shares	20.4%	97.2%
Other mutual funds	–15.4%	1.8%
Loans	5.7%	5.6%
Land and buildings	9.9%	67.0%
Other	N/A	330.3%
Strategic shares	–1.7%	1.8%
Total	–1.0%	8.8%

To calculate return on investments, Sava Re uses the arithmetic average of the total investment amount as at five cut-off days in the year. Return on investments is then calculated as income from investments, expressed as percentage of the average investment amount in the year.

Return on the entire investment portfolio of Sava Re was –1.0% in 2008, down 9.8 percentage points from 2007. The decrease is mainly attributable to permanent investment impairment of EUR 12.6 million due to the drop in market prices in capital markets in 2008.

The stock portfolio earned the highest return, mainly on account of disposal of shares of Zavarovalnica Triglav.

Deposits and government bonds also earned higher returns than in 2007. Deposits earned higher returns due to higher interest rates, while government bonds earned higher returns due to disposal of domestic government bonds (in response to the invitation by the Ministry of Finance to sell old illiquid government bonds).

Corporate bonds earned lower returns mainly due to permanent investment impairment associated with the bankruptcy of Lehman Brothers. Investments in mutual funds also earned lower returns due to permanent investment impairment to account for the drop in market prices, in accordance with the Company's policy of permanent impairments.

Investments in land and buildings also earned lower returns, but this was expected as the high returns earned in 2007 resulted from disposal of property on Celovška street (Ljubljana, Slovenia), while in 2008 income from buildings and land only comprised rent.

Negative return on strategic holdings of shares is associated with goodwill impairment in Montenegro osiguranje of EUR 1.3 million.

15 PROFIT/LOSS FOR THE PERIOD BY INSURANCE CLASSES

Table 26: Profit for the period by insurance classes in 2008

(EUR)	Net earned premiums	Net claims incurred	Change in other technical provisions	Operating expenses	Com-mission expenses	Investment income – expenses	Other expenses – income	Profit/loss
Personal accident	9,576,625	3,699,575	–2,135	3,711,771	930	–199,928	–39,493	1,928,924
Land vehicles casco	19,620,544	15,986,109	–7,107	6,580,535	157,788	–498,828	–82,054	–3,362,086
Aircraft casco	54,059	33,102	8.9	21,947	2,583	–2,311	–408	–1,135
Ships hull	1,067,208	996,987	–10,787	270,316	6,483	–27,774	–5,073	–215,671
Goods in transit	3,442,219	2,765,846	137,100	905,338	13,255	–109,176	–15,462	–477,450
Fire and natural forces	22,359,012	16,904,363	21,614	9,571,184	1,288,918	–687,479	–103,010	–3,639,720
Other damage to property	20,750,517	18,341,034	17,172	7,972,223	987,311	–577,562	–92,870	–5,263,034
Motor liability	26,470,522	16,590,788	7288.78	7,859,811	133,774	–383,298	–107,352	1,655,758
Aircraft liability	181,541	22,361	–1.77	102,450	17,594	–3,394	–742	70,190
Liability for ships	157,361	210,712	67,078	50,329	482	–3,619	–778	–174,674
General liability	3,083,638	2,219,978	–177,574	1,121,058	68,683	–1,316	–13,460	–25,917
Credit	1,493,973	812,025	148,680	501,996	0	–22,940	–6,300	2,031
Suretyship	82,501	223,177	–15,787	30,584	0	–3,248	–547	–159,268
Miscellaneous financial loss	425,269	154,955	–2,718	229,887	39,617	–11,099	–1,676	69,989
Legal expenses	2,611	0	0	1,159	0	410	–33	1,828
Assistance	32,547	12,841	168	12,359	0	–917	–149	6,114
Life	241,984	93,833	0	173,344	77,527	–1,164.71	–1,002	50,167
Wedding and childbirth insurance	0	0	0	0	0	–5,182.52	0	–5,183
Unit-linked life	56,376	–5,999	0	11,253	0	–618.65	–233	50,270
Tontine	0	0	0	0	0	–1,205	0	–1,205
Total	109,098,508	79,061,685	182,999	39,127,543	2,794,945	–2,540,652	–470,642	–9,490,069
Current tax								3,666,923
Deferred tax								–5,165,343
Profit/loss for the period								–7,991,649

16 RISK MANAGEMENT

Sava Re is obliged under the Insurance Act (ZZavar) to ensure capital adequacy at any time in view of the amount and type of policies and contracts written, and risks assumed thereby. Sava Re must operate in such a way to be at any time capable of meeting its liabilities when due (liquidity), and to be in the long term capable of meeting all of its liabilities (solvency).

Sava Re is mainly exposed to underwriting, market, liquidity, credit and operational risks. These risks are specified in detail in the notes to the financial statements (section 23, "Risk management"), together with the estimated exposures to and measures to reduce such risks.

17 ORGANISATION, EMPLOYEES AND KNOWLEDGE

Employees: number and the highest level of education achieved

In 2008, Sava Re recruited eight persons, of these two experts in the field of direct reinsurance, to optimise management of subsidiary insurance companies; and two in the finance and accounting sector. One was appointed head of accounting, and one was employed in the field of management of fund management companies. Two were employed in the field of reinsurance underwriting; one was employed as trainee in the technical accounting sector; and one was employed in the secretariat.

In 2008, the employment relationship of five employees terminated: three retired; one's employment relationship was terminated by mutual consent; and one's fixed-term employment relationship was terminated on expiry.

Compared to 2007, the number of employees increased by three, and the Company had 58 regular employees as at year-end 2008, of which 54 had permanent and four had fixed-term contracts. The average number of employees in 2008 was 58.25.

Table 27: Personnel records as at 31 December 2008

Degree of formal 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	5	0
University (VII)	27	13	14
Post-graduate (VIII)	10	8	2
Total	58	27	31

The average age of Sava Re's employees was 39.7. In the age bracket of "under 30", there were nine employees, while in the age bracket of "over 55", there were seven.

Employees: education and training

Sava Re involves its employees in education and training processes to ensure that they have a high level of expert and general knowledge, as well as that they grow personally and at the same time develop their careers, cope successfully with challenges at work, and are capable of working alone and in a team.

The Company sees to it that its employees, through training provided by domestic and foreign partners, keep abreast in particular with the developments in finance, accounting and legislation, and that they deepen their specialist knowledge in the fields of auditing, actuarial, IT and business processes, as well as insurance and reinsurance.

In 2008, 12 employees had a valid study contract concluded with the Company: two for undergraduate studies, and ten for post-graduate studies – seven for studies leading to a master's degree and three for studies leading to a specialist degree. Two employees completed their post-graduate studies and obtained master's degrees in the first half of 2008.

18 BUSINESS PROCESSES AND IT SUPPORT

In accordance with its plan to modernise server infrastructure, Sava Re acquired a new server system in the first half of 2008. The system comprises two server blades, a disk array with a capacity of 1.2 terabytes, and all the necessary connection infrastructure. By installing the two server blades, the Company adopted a simpler and more cost effective approach to server infrastructure gradual modernisation and upgrading, and at the same time obtained a sound basis for the full server virtualisation planned for 2009. The new servers also have installed updated databases, in particular the one pertaining to the Navision system supporting finance and accounting, which is accessible also by other Group companies via the terminal server.

As part of the ongoing modernisation of personal computers used by its employees, Sava Re in 2008 acquired seven desktop and six laptop computers, and replaced five monitors with larger ones. Together with hardware, software was also modernised: Sava Re concluded a three-year licensing agreement with Microsoft for Microsoft Office Professional Plus, and purchased a processor licence for Microsoft SQL. In the first year of licensing agreements, it installed Office tools on 20 work stations, while the database management software can be used by an unlimited number of users.

In 2008, Sava Re also upgraded its reinsurance policy administration and technical accounting software, which was developed together with external experts, with a connection to the finance and accounting system. The software is intensively used in the day-to-day operations, and has already been modernised to support the Company's main activity even more effectively.

19 PERFORMANCE INDICATORS

1. Gross premiums written in 2008 by insurance class

(EUR, except index)	2008	2007	Index
	1	2	1/2
Personal accident	9,596,466	9,420,014	101.9
Land vehicles casco	23,285,621	21,094,801	110.4
Aircraft casco	97,629	304,966	32.0
Ships hull	1,329,809	982,763	135.3
Goods in transit	3,938,411	1,944,201	202.6
Fire and natural forces	33,455,024	24,176,833	138.4
Other damage to property	28,140,735	26,238,296	107.3
Motor liability	27,573,305	27,453,384	100.4
Aircraft liability	259,361	403,525	64.3
Liability for ships	191,735	141,777	135.2
General liability	3,822,554	3,434,782	111.3
Credit	1,524,097	1,547,915	98.5
Suretyship	132,306	69,754	189.7
Miscellaneous financial loss	782,772	752,666	104.0
Legal expenses	8,077	6,167	131.0
Assistance	36,012	43,034	83.7
Life	513,429	481,634	106.6
Unit-linked life	56,376	43,426	129.8
Total non-life insurance	134,173,914	118,014,879	113.7
Total life insurance	569,805	525,060	108.5
Total	134,743,719	118,539,938	113.7

2. Net premiums written as a percentage of gross premiums written in 2008 by insurance class

(EUR, except percentages)	Gross premiums written	Net premiums written	%	%
		2	2/1	2007
Personal accident	9,596,466	9,554,163	99.6%	99.1%
Land vehicles casco	23,285,621	19,850,307	85.2%	90.1%
Aircraft casco	97,629	97,629	100.0%	–0.2%
Ships hull	1,329,809	1,227,160	92.3%	84.7%
Goods in transit	3,938,411	3,740,643	95.0%	81.9%
Fire and natural forces	33,455,024	24,920,066	74.5%	65.8%
Other damage to property	28,140,735	22,467,025	79.8%	75.2%
Motor liability	27,573,305	25,970,393	94.2%	93.4%
Aircraft liability	259,361	179,389	69.2%	44.9%
Liability for ships	191,735	189,322	98.7%	81.8%
General liability	3,822,554	3,256,104	85.2%	74.5%
Credit	1,524,097	1,524,097	100.0%	100.0%
Suretyship	132,306	132,306	100.0%	90.4%
Miscellaneous financial loss	782,772	405,373	51.8%	54.0%
Legal expenses	8,077	8,077	100.0%	100.0%
Assistance	36,012	36,012	100.0%	99.8%
Life	513,429	242,510	47.2%	46.0%
Unit-linked life	56,376	56,376	100.0%	84.8%
Total non-life insurance	134,173,914	113,558,066	84.6%	82.2%
Total life insurance	569,805	298,886	52.5%	49.2%
Total	134,743,719	113,856,951	84.5%	82.0%

3. Gross claims paid in 2008 by insurance class

(EUR, except percentages)	2008	2007	Index
		2	1/2
Personal accident	3,839,920	3,877,362	99.0
Land vehicles casco	22,891,903	14,976,402	152.9
Aircraft casco	19,557	133,326	14.7
Ships hull	875,934	643,604	136.1
Goods in transit	1,828,209	488,313	374.4
Fire and natural forces	29,715,016	17,528,077	169.5
Other damage to property	35,277,632	13,238,338	266.5
Motor liability	16,384,817	15,508,733	105.6
Aircraft liability	117,477	65,527	179.3
Liability for ships	25,315	7,457	339.5
General liability	2,392,932	2,197,464	108.9
Credit	421,398	521,456	80.8
Suretyship	468,661	106,623	439.6
Miscellaneous financial loss	321,645	852,558	37.7
Legal expenses	0	81	–
Assistance	14,499	25,149	57.7
Life	94,316	176,055	53.6
Unit-linked life	0	1,483	–
Total non-life insurance	114,594,915	70,170,468	163.3
Total life insurance	94,316	177,538	53.1
Total	114,689,231	70,348,006	163.0

4. Loss ratio in 2008 by insurance class

(EUR, except percentages)	Gross premiums written	Gross claims paid	%	%
		2	2/1	2007
Personal accident	9,596,466	3,839,920	40.0%	41.2%
Land vehicles casco	23,285,621	22,891,903	98.3%	71.0%
Aircraft casco	97,629	19,557	20.0%	43.7%
Ships hull	1,329,809	875,934	65.9%	65.5%
Goods in transit	3,938,411	1,828,209	46.4%	25.1%
Fire and natural forces	33,455,024	29,715,016	88.8%	72.5%
Other damage to property	28,140,735	35,277,632	125.4%	50.5%
Motor liability	27,573,305	16,384,817	59.4%	56.5%
Aircraft liability	259,361	117,477	45.3%	16.2%
Liability for ships	191,735	25,315	13.2%	5.3%
General liability	3,822,554	2,392,932	62.6%	64.0%
Credit	1,524,097	421,398	27.6%	33.7%
Suretyship	132,306	468,661	354.2%	152.9%
Miscellaneous financial loss	782,772	321,645	41.1%	113.3%
Legal expenses	8,077	0	0.0%	1.3%
Assistance	36,012	14,499	40.3%	58.4%
Life	513,429	94,316	18.4%	36.6%
Unit-linked life	56,376	0	–	–
Total non-life insurance	134,173,914	114,594,915	85.4%	59.5%
Total life insurance	569,805	94,316	16.6%	33.8%
Total	134,743,719	114,689,231	85.1%	59.3%

5. Administrative expenses as percentage of gross premiums written in 2008 (EUR)

Gross premiums written	Administrative expenses	%	%
1	2	2/1	2007
134.743.719	6,774,198	5.0%	4.4%

6. Acquisition costs as percentage of gross premiums written in 2008 (EUR)

Gross premiums written	Acquisition costs	%	%
1	2	2/1	2007
134.743.719	32,353,346	24.0%	24.3%

7. Net investment income as percentage of average investments in 2008

(EUR, except percenatges))	Average investments	Investment income	Investment expenses	Net investment income	2007
Liability fund	105,355,239	6,077,643	5,063,873	1.0%	4.0%
Capital fund	181,959,870	15,143,932	18,886,576	–2.1%	12.1%
Total investments	287,315,109	21,221,576	23,950,449	–1.0%	8.8%

8. Net provisions for outstanding claims as percentage of net earned premiums in 2008

(EUR, except percentages)	Net provisions for outstanding claims	Net earned premiums	%	%
		2	1/2	2007
Personal accident	6,985,614	9,576,625	72.9%	78.9%
Land vehicles casco	5,779,478	19,620,544	29.5%	36.1%
Aircraft casco	63,079	54,059	116.7%	–1004.3%
Ships hull	1,029,537	1,067,208	96.5%	116.3%
Goods in transit	1,811,448	3,442,219	52.6%	56.4%
Fire and natural forces	10,808,507	22,359,012	48.3%	42.9%
Other damage to property	11,414,565	20,750,517	55.0%	47.0%
Motor liability	33,549,821	26,470,522	126.7%	126.2%
Aircraft liability	149,552	181,541	82.4%	126.0%
Liability for ships	356,633	157,361	226.6%	164.8%
General liability	8,521,927	3,083,638	276.4%	351.4%
Credit	1,015,581	1,493,973	68.0%	47.8%
Suretyship	–228,818	82,501	–277.4%	23.1%
Miscellaneous financial loss	119,512	425,269	28.1%	47.3%
Legal expenses	126	2,611	4.8%	6.7%
Assistance	14,763	32,547	45.4%	33.9%
Life	161,772	241,984	66.9%	59.3%
Unit-linked life	0	56,376	0.0%	16.3%
Total non-life insurance	81,391,326	108,800,147	74.8%	77.9%
Total life insurance	161,772	298,361	54.2%	53.1%
Total	81,553,098	109,098,508	74.8%	77.8%

9. Gross profit/loss before tax as percentage of net premiums written in 2008 (EUR)

Profit/loss before tax	Net premiums written	%	%
1	2	1/2	2007
–9,490,069	113,856,951	–8.3%	24.2%

10. Gross profit/loss before tax as percentage of average equity in 2008 (EUR)

Profit/loss before tax	Average equity	%	%
1	2	1/2	2007
–9,490,069	149,688,798	–6.3%	17.9%

11. Gross profit/loss before tax as percentage of average assets in 2008 (EUR)

Profit/loss before tax	Average assets	%	%
1	2	1/2	2007
–9,490,069	377,926,839	–2.5%	7.2%

12. Gross profit/loss before tax per share in 2008 (EUR)

Profit/loss before tax	Number of shares		
1	2	1/2	2007
–9,490,069	9,362,519	–1.01	2.99

13. Net profit/loss for the period as percentage of average equity in 2008 (EUR)

Profit/loss for the period	Average equity	%	%
1	2	1/2	2007
–7,991,649	149,688,798	–5.3%	13.8%

14. Available solvency margin as percentage of net premiums written in 2008 (EUR)

Available solvency margin	Net premiums written	%	%
1	2	1/2	2007
76,113,141	113,856,951	66.8%	61.4%

15. Available solvency margin as percentage of required solvency margin in 2008 (EUR)

Available solvency margin	Required solvency margin	%	%
1	2	1/2	2007
76,113,141	16,227,838	469.0%	368.0%

16. Available solvency margin as percentage of technical provisions in 2008 (EUR)

Available solvency margin	Technical provisions	%	%
1	2	1/2	2007
76,113,141	159,309,008	47.8%	46.1%

17. Available solvency margin as percentage of reinsurance receivables and reinsurers' share of technical provisions in 2008 (EUR)

Available solvency margin	Receivables arising out of reinsurance and reinsurers' share of tech. prov.	%	%
1	2	1/2	2007
76,113,141	91,048,373	83.6%	109.4%

18. Net premiums written as percentage of average equity and average technical provisions in 2008 (EUR)

Net premiums written	Average equity	Average technical provisions	%	%
1	2	3	1/(2+3)	2007
113,856,951	149,688,798	144,396,425	38.7%	38.1%

19. Net premiums written as percentage of average equity in 2008 (EUR)

Net premiums written	Average equity	%	%
1	2	1/2	2007
113,856,951	149,688,798	76.1%	73.8%

20. Average technical provisions as percentage of net earned premiums in 2008 (EUR)

Average technical provisions	Net earned premiums	%	%
1	2	1/2	2007
144,396,425	109,098,508	132.4%	131.8%

21. Equity as percentage of net unearned premiums in 2008 (EUR)

Equity	Net unearned premiums	%	%
1	2	1/2	2007
153,740,161	39,218,876	392.0%	422.6%

22. Equity as percentage of liabilities and equity in 2008 (EUR)

Equity	Liabilities and equity	%	%
1	2	1/2	2007
153,740,161	399,152,651	38.5%	40.8%

23. Net technical provisions as percentage of liabilities and equity in 2008 (EUR)

Net technical provisions	Liabilities and equity	%	%
1	2	1/2	2007
121,618,337	399,152,651	30.5%	30.3%

24. Gross premiums written per regular employee in 2008 (EUR)

Gross premiums written	Number of employees		
1	2	1/2	2007
134,743,719	58	2,323,168	2,155,272

FINANCIAL STATEMENTS OF SAVA RE WITH NOTES

20 FINANCIAL STATEMENTS

20.1 Balance sheet as at 31 December 2008

(EUR)	Notes	31 December 2008	31 December 2007	Index
ASSETS		399,152,651	356,701,026	111.9
Intangible assets	**1)**	**189,498**	**162,140**	**116.9**
Property and equipment	**2)**	**1,852,158**	**1,907,468**	**97.1**
Deferred tax assets	**3)**	**5,383,818**	**131,804**	**4,084.7**
Investment property	**4)**	**1,262,310**	**728,514**	**173.3**
Investments in group companies and associates	**5)**	**80,178,379**	**72,487,296**	**110.6**
Financial investments	**6)**	**199,773,234**	**215,610,292**	**92.7**
– held to maturity		6,187,618	0	–
– available for sale		160,393,911	187,458,823	85.6
– at fair value through profit or loss		2,134,557	4,799,223	44.5
– loans and receivables		31,057,148	23,352,246	133.0
Reinsurers' share of technical provisions	**7)**	**37,690,671**	**21,473,195**	**175.5**
Receivables	**8)**	**55,604,218**	**35,484,845**	**156.7**
Receivables arising out of co-insurance and reinsurance business		53,357,702	33,094,211	161.2
Other receivables		2,246,517	2,390,634	94.0
Other assets	**9)**	**16,359,990**	**8,576,418**	**190.8**
Tax receivables		**846,920**	**0**	**–**
Cash and cash equivalents	**10)**	**11,454**	**139,054**	**8.2**
LIABILITIES AND EQUITY		399,152,651	356,701,026	111.9
Equity		**153,740,161**	**145,637,435**	**105.6**
Called-up capital	11)	39,069,099	32,809,710	119.1
Share premium	12)	33,003,752	106,162	31,088.1
Profit reserves	13)	92,238,213	55,385,397	166.5
Revaluation surplus	14)	–10,570,904	12,491,698	–284.6
Retained earnings		0	26,811,969	–
Net profit/loss for the period	15)	0	18,032,498	–
Subordinated liabilities	**16)**	**31,139,605**	**31,136,034**	**100.0**
Technical provisions	**17)**	**159,309,008**	**129,483,842**	**123.0**
Unearned premiums		41,967,178	37,577,865	111.7
Provision for outstanding claims		116,458,980	91,219,036	127.7
Other technical provisions		882,851	686,941	128.5
Other provisions	**18)**	**226,667**	**165,762**	**136.7**
Deferred tax liabilities		**0**	**3,585,825**	**–**
Financial liabilities	**19)**	**160**	**2,308**	**6.9**
Other financial liabilities		160	2,308	6.9
Other liabilities	**20)**	**54,737,049**	**36,523,792**	**149.9**
Liabilities from co-insurance and reinsurance business		42,528,378	27,267,893	156.0
Diverse liabilities		12,208,671	9,255,899	131.9
Current income tax liabilities		**0**	**10,166,029**	**–**

20.2 Income statement for the year ended 31 December 2008

(EUR)	Notes	1 January–31 December 2008	1 January–31 December 2007	Index
Net earned premiums	**21)**	**109,098,508**	**93,681,613**	**116.5**
Gross premiums written		134,743,719	118,539,939	113.7
Written premiums ceded to reinsurers and co-insurers		–20,886,767	–21,332,033	97.9
Change in unearned premiums		–4,758,444	–3,526,293	134.9
Income from investments in affiliates	**22)**	**493,864**	**1,133,600**	**43.6**
Investment income	**23)**	**22,025,312**	**26,706,893**	**82.5**
Other technical income, of this		**2,898,066**	**3,263,317**	**88.8**
– commission income	24)	2,794,945	3,134,308	89.2
Other income	**25)**	**1,314**	**30,157**	**4.4**
Net insurance claims and benefits incurred	**26)**	**–79,061,685**	**–63,085,858**	**125.3**
Gross claims and benefits paid		–114,689,231	–70,358,934	163.0
Reinsurers' and co-insurers' share of claims and benefits paid		44,293,794	11,597,218	381.9
Change in the provision for outstanding claims		–8,666,248	–4,324,142	200.4
Change in other technical provisions	**27)**	**–182,999**	**342,460**	**–253.4**
Operating expenses, of this	**28)**	**–39,127,544**	**–32,133,935**	**121.8**
– acquisition costs		–32,353,346	–26,890,969	120.3
Expenses relating to investments in affiliates		**–1,329,362**	**0**	**–**
Investment expenses	**29)**	**–23,730,466**	**–5,833,028**	**406.8**
Other technical expenses	**30)**	**–573,706**	**–567,303**	**101.1**
Other expenses	**31)**	**–1,370**	**–1,258**	**108.9**
Profit before tax		–9,490,069	23,536,658	–240.3
Current tax	**32)**	**–3,666,923**	**–7,966,107**	**46.0**
Deferred tax		**5,165,343**	**2,634,873**	**196.0**
Profit/loss for the period		–7,991,649	18,205,424	–243.9

20.3 Cash flow statement for the year ended 31 December 2008

(EUR)			1 January– 31 December 2008	1 January– 31 December 2007
A.	CASH FLOWS FROM OPERATING ACTIVITIES			
	a.)	Items of the income statement	434,451	15,356,743
		Net premiums written	113,856,952	93,681,613
		Investment income	–1,211,291	22,007,465
		Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	2,899,380	3,293,474
		Net claims and benefits paid	–70,395,437	–63,085,858
		Net operating expenses excl. depreciation and change in deferred acquisition costs	–40,458,975	–32,005,283
		Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	–575,077	–568,561
		Tax on profit and other taxes not included in operating expenses	–3,681,101	–7,966,107
	b.)	Changes in net operating assets (and in accruals/deferrals and deferred tax receivables/ liabilities) of operating items of the balance sheet	–18,765,109	10,050,337
		Change in operating receivables	–20,952,115	–913,324
		Change in short-term deferred costs and accrued income	–7,783,572	424,124
		Change in deferred tax receivables	–350,734	37,365
		Change in assets held for sale	0	3,811,863
		Change in operating liabilities	5,160,656	11,800,449
		Change in accrued costs, deferred income and provisions	8,746,481	202,672
		Change in deferred tax liabilities	–3,585,825	–5,312,812
	c.)	Net cash from/used in operating activities (a + b)	–18,330,658	25,407,080
B.	CASH FLOWS FROM INVESTING ACTIVITIES			
	a.)	Cash receipts from investing activities	476,093,456	113,932,613
		Interest received from investing activities	8,195,576	7,047,135
		Cash receipts from participation in the profit of others	176,053	1,594,724
		Proceeds from sale of property and equipment	4,917	32,897
		Proceeds from sale of financial investments	467,716,910	105,257,857
	b.)	Cash disbursements in investing activities	–499,890,398	–168,240,631
		Purchase of intangible assets	–73,260	–135,979
		Purchase of property and equipment	–60,144	–169,766
		Purchase of investment property	–548,250	0
		Purchase of financial investments in affiliated companies	–9,011,617	–25,691,564
		Purchase of financial investments	–490,197,127	–142,243,322
	c.)	Net cash from/used in investing activities (a + b)	–23,796,942	–54,308,018
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
	a.)	Cash receipts from financing activities	42,000,000	19,456,954
		Proceeds from paid-in capital	42,000,000	0
		Proceeds from long-term borrowing	0	19,456,954
	b.)	Cash disbursements in financing activities	0	2,337,100
		Interest paid	0	2,337,100
	c.)	Net cash from/used in financing activities (a + b)	42,000,000	21,794,054
D.	Cash and cash equivalents as at 31 December		11,454	139,054
	x.)	Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)	–127,600	–7,106,884
D2.	Cash and cash equivalents as at 1 January		139,054	7,245,938

The cash flow statement shows to the users the sources of cash and cash equivalents and their use by an entity. Cash and cash equivalents comprise the Company's balances in bank accounts and overnight deposits.

In 2008 again, the Company did not have liquidity problems, and paid its liabilities when due. Below are explained the more important items of the cash flow statement, broken down by operating, investing and financing activities.

Cash flows from operating activities: investment income decreased significantly compared to 2007 and was negative, mainly due to the capital market crisis that resulted in dramatic drops in the value of investments, but also to the fact that in 2007, Sava Re earned certain extraordinary capital gains. As explained in the section "Significant accounting policies", the Company changed presentation of commissions under reinsurance contracts. Commission expenses are now included under acquisition costs, while commission income is included under other technical income. Item no. 6, "net operating expenses excluding depreciation and change in deferred acquisition costs", is therefore significantly higher. Net premiums written increased 22% from 2007, while net claims paid increased less, by 12%.

Mid-year, Sava Re raised EUR 42.0 million through the initial public offering, but cash payments from investing activities still exceeded cash receipts from investing activities, as the fresh capital raised was in part used directly for investments in subsidiaries and other investments.

20.4 Statement of changes in equity for the year ended 31 December 2008

(EUR)	Called-up capital		Share premium	Profit reserves	Revaluation surplus	Retained earnings	Net profit or loss for the period	Total
	Share capital	Un-called capital						
Balance at 1 January 2008	32,809,710	0	106,162	55,385,397	12,491,698	26,811,969	18,032,498	145,637,434
Movements to equity	**6,259,389**	**0**	**32,897,590**	**0**	**499,804**	**0**	**–7,991,649**	**31,665,134**
Subscription of called-up share capital	6,259,389	0	32,897,590	0	0	0	0	39,156,979
Net profit or loss for the period	0	0	0	0	0	0	–7,991,649	–7,991,649
Equity revaluation adjustment	0	0	0	0	499,804	0		499,804
Movements within equity	**0**	**0**	**0**	**36,852,816**	**0**	**–26,811,969**	**–10,040,847**	**0**
Allocation of net profit as a component of equity by decision of the management and the supervisory board	0	0	0	346,717	0	–8,929,785	8,583,068	0
Allocation of net profit to additional reserves by resolution of the annual general meeting of shareholders	0	0	0	35,914,681	0	–35,914,681	0	0
Other reallocation of components of equity	0	0	0	591,418	0	18,032,497	–18,623,915	0
Movements from equity	**0**	**0**	**0**	**0**	**–23,562,406**	**0**	**0**	**–23,562,406**
Transfer of realised revaluation surplus to operating and financial income or expenses	0	0	0	0	–10,930,530	0	0	–10,930,530
Transfer of revaluation surplus to financial expenses (permanent impairment)	0	0	0	0	–12,631,875	0	0	–12,631,875
Balance at 31 December 2008	39,069,099	0	33,003,752	92,238,213	–10,570,904	0	0	153,740,161

20.5 Statement of changes in equity for the year ended 31 December 2007

(EUR)	Called-up capital		Share premium	Profit re-serves	Revaluation surplus	Retained earnings	Net profit or loss for the period	Total
	Share capital	Un-called capital						
Balance at 1 January 2007	32,809,710	0	106,162	44,704,197	2,957,098	33,371,512	3,975,330	117,924,009
Movements to equity	**0**	**0**	**0**	**0**	**22,436,327**	**0**	**18,205,424**	**40,641,751**
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
Movements within equity	**0**	**0**	**0**	**10,681,200**	**0**	**–6,532,943**	**–4,148,256**	**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	0
Other reallocation of components of equity	0	0	0	172,927	0	0	–172,927	0
Movements from equity	**0**	**0**	**0**	**0**	**–12,901,727**	**–26,600**	**0**	**–12,928,327**
Transfer of revaluation surplus to operating and financial income	0	0	0	0	–12,901,727	0	0	–12,901,727
Other decreases in components of equity	0	0	0	0	0	–26,600	0	–26,600
Balance at 31 December 2007	32,809,710	0	106,162	55,385,397	12,491,698	26,811,969	18,032,498	145,637,435

20.6 Statement of capital adequacy as at 31 December 2008

(EUR)		31 December 2008	31 December 2007
CORE CAPITAL			
Called-up capital	1	39,069,099	32,809,710
Share premium	2	33,003,752	106,162
Profit reserves other than reserve for treasury shares and credit risk equlization & catastrophe equlization reserves	3	86,949,039	50,687,641
Retained earnings	4	0	26,811,969
Equity revaluation surplus	5	–7,365,286	11,229,183
Treasury shares	6	1,774	1,774
Intangible assets	7	189,498	162,140
Core capital (1+2+3+4+5–6–7)	8	151,465,333	121,480,751
Minimum guarantee fund	9	5,409,279	5,409,279
Surplus over minimum guarantee fund (8–9)	10	146,056,054	116,071,472
ADDITIONAL CORE CAPITAL			
Subordinated debt	11	4,056,959	4,056,959
Additional core capital (11), but not more than 50% of the lower of core capital and minimum guarantee fund	12	4,056,959	4,056,959
CAPITAL ADEQUACY			
Core capital and additional core capital (8+12)	13	155,522,292	125,537,711
Participation pursuant to Insurance Act, Article 108, paragraph 1/1	14	76,229,802	68,845,043
Participation pursuant to Insurance Act, Article 108, paragraph 1/2	15	3,179,350	1,670,523
Available solvency margin (13–14–15)	16	76,113,141	55,022,145
Required solvency margin	17	16,227,838	16,227,838
Surplus over required solvency margin (16–17)	18	59,885,303	38,794,307

As at year-end 2008, the required solvency margin of Sava Re stood at EUR 16,227,838, the same as a year earlier.

Article 110(10) of the Insurance Act stipulates that *"if the calculated minimum capital of the insurance company for the current year is less than the calculated minimum capital for the previous year, it must be at least equal to the minimum capital for the previous year, multiplied by the ratio of the net claims provisions referred to above at the end of the current year to the net claims provisions at the end of the previous year, but not by more than 1."*

21 NOTES TO THE FINANCIAL STATEMENTS

21.1 General

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

Sava Re provides reinsurance products both in the domestic and in the international market. Under the Standard Classification of Activities of the Statistical Office of the Republic of Slovenia, its subclass code is 65.200. Under the Slovenian Companies Act ("ZGD"), it is classified as a large company.

Sava Re's financial statements were prepared in accordance with the Insurance Act ("ZZavar"), as well as with implementing regulations adopted and explanations issued by the Slovenian Insurance Supervision Agency ("AZN"), and with International Financial Reporting Standards ("IFRS").

Sava Re has its registered office at Dunajska cesta 56, Ljubljana, Slovenia.

Sava Re had 58.25 employees on average in 2008, or 58 at year-end.

Sava Re has the following governing bodies: the General Meeting, the Supervisory Board and the Management Board.

Sava Re's largest shareholder is the Slovenian Restitution Fund (SOD), which held 25% plus one share as at year-end 2008.

Sava Re is the parent company within the Sava Re Group.

In addition to Sava Re, the Sava Re Group comprises the following companies:
- Zavarovalnica Maribor d. d., Maribor – associate;
- Zavarovalnica Tilia, d. d., Novo mesto – subsidiary;
- Moja naložba, pokojninska družba, d. d., Maribor – associate;
- Sava Osiguranje a. d. o., Belgrade, Serbia – subsidiary;
- Dukagjini kompania e sigurimeve sh. p. k. Pristina, Kosovo – subsidiary;
- Akcionarsko društvo za osiguruvanje Sava Tabak a. d. o., Skopje, Macedonia – subsidiary;
- Bro-Dil AD, Skopje, Macedonia – indirect subsidiary;
- Gold Mak AD, Skopje, Macedonia – indirect associate;
- Montenegro osiguranje a. d., Podgorica, Montenegro – subsidiary;
- Sava Invest, a. d., Skopje, Macedonia – subsidiary;
- Sava životno osiguranje a. d. o., Belgrade, Serbia – subsidiary;
- Dukagjini Life sh. a., Pristina, Kosovo – subsidiary

Sava Invest, Dukagjini Life and Sava životno osiguranje were established in 2008.

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

22 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the financial statements are explained below.

22.1 Statement of compliance

Sava Re prepared both separate and consolidated financial statements for the year ended 31 December 2008. Sava Re made the transition to International Financial Reporting Standards ("IFRS") on its separate and consolidated financial statements as of 1 January 2007. The consolidated financial statements include Sava Re as parent and all subsidiaries, i.e. companies in which Sava Re holds, directly or indirectly, more than half of the voting rights. All subsidiaries were fully consolidated.

The financial statements were prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretations Committee's (IFRIC), as adopted by the European Union. They were prepared in accordance with applicable Slovenian legislation (the Companies Act, the Insurance Act) and implementing regulations, amongst them the "Decision on annual report and quarterly financial statements of insurance companies" (SKL 2007). Interested parties can obtain correct information on the results of operations and financial condition of Sava Re by consulting the separate financial statements of Sava Re together with the consolidated financial statements of the Sava Re Group.

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

Sava Re uses the accrual and going concern basis of accounting. It also assumes fluctuations in prices and euro exchange rates, but not hyperinflation, to ensure a true and fair presentation of the financial statements.

Sava Re made all the required disclosures in the notes to the financial statements. Events and items requiring disclosure under applicable regulations were not specifically mentioned if they did not occur or were not amongst the Company's financial statement items.

The Management Board of Sava Re approved the financial statements on 16 April 2009.

22.2 Functional and presentation currency

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

22.3 Translation

The financial statements are presented in euro (EUR), rounded to the nearest euro. Due to rounding, figures in tables may not add up to totals.

Assets and liabilities as at 31 December 2008 denominated in foreign currencies were translated into the euro using the mid-rate of the European Central Bank ("ECB") as at year-end 2008. On the cut-off days in 2008, they were translated using the then applicable mid-rates of the ECB. Exchange rate differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in revaluation surplus.

22.4 Premiums earned

Premiums earned 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 premiums and retrocession premiums, and unearned premiums. Together, they represent net earned premiums in the income statement. Premiums earned are calculated based on confirmed reinsurance accounts.

Upon successful completion of the initial public offering in June 2008, Sava Re became liable to reporting under the Market in Financial Instruments Act. As mentioned in the Annual Report 2007, public limited liability companies are subject to other reporting requirements as private limited companies, which must comply only with those laid down in the Companies Act and Insurance Act Sava Re used to prepare its financial statements based on reinsurance accounts, which usually came with a significant delay, even after the cut-off date. For this reason, it started using, in the middle of 2008, a new model for quarterly reinsurance accounting, which is based on estimates in the case of reinsurance accounts usually received late. Both inwards and outwards reinsurance (retrocession) business is estimated in this way. Only inwards reinsurance business transacted with subsidiaries and associates is not estimated, but accounted based on confirmed reinsurance accounts. It must be noted at this point that Sava Re's policy to record events in its books of account based on confirmed reinsurance accounts has remained unchanged: the estimates are used only to bridge the period before the cut-off date when such documents are not yet available, as this is the only way in which it can meet reporting requirements.

22.5 Claims and benefits incurred

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. The Company separately discloses gross claims paid net of subrogation and retrocession recoveries, and changes in claims provisions. Together, they represent net claims and benefits incurred in the income statement. As mentioned in the previous section, Sava Re is forced, by the short reporting deadlines, to estimate a portion of its business for which documentation usually comes late. Estimates are made also of all items representing net claims and benefits incurred.

22.6 Investment income and expenses

The Company records investment income and expenses associated with its liability fund (i.e. investments covering technical provisions) separately from income and expenses associated with its business fund. Interest income is recognised using the effective interest rate. Revaluation income and expenses arise from fair value revaluation of financial assets classified as at fair value through profit or loss, and as available for sale.

22.7 Liabilities under financial contracts

The Company only provides traditional reinsurance, the basic purpose of which is insurance risk transfer. It accordingly classified all reinsurance contracts both with cedants and retrocessionaires as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, i.e. insurance contracts. Non-proportional reinsurance contracts, which involve larger amounts in case of loss events, also qualify as insurance contracts. It follows from the foregoing that the Company does not have obligations under financial contracts.

37.8 Operating expenses

The Company classifies expenses by nature. They are recorded in Company-specific sub-accounts.

In 2008, Sava Re changed presentation of commissions under reinsurance contracts. Commission expenses are now included under acquisition costs, while commission income is included under other technical income. The change did not affect the results of operations. The table below demonstrates this.

Table 28: Effect of reclassification of acquisition costs in the income statement under the IFRS

(EUR)	Original 2007	Adjustment	Adjusted 2007
Net earned premiums	93,681,613	0	93,681,613
Gross premiums written	118,539,939	0	118,539,939
Written premiums ceded to reinsurers and co-insurers	–21,332,033	0	–21,332,033
Change in unearned premiums	–3,526,293	0	–3,526,293
Income from investments in affiliates	1,133,600	0	1,133,600
Investment income	26,706,893	0	26,706,893
Other technical income, of this	–23,627,652	26,890,969	3,263,317
– commission income	–23,756,661	26,890,969	3,134,308
Other income	30,157	0	30,157
Net insurance claims and benefits incurred	–63,085,858	0	–63,085,858
Gross claims and benefits paid	–70,358,934	0	–70,358,934
Reinsurers' and co-insurers' share of claims and benefits paid	11,597,218	0	11,597,218
Change in the provision for outstanding claims	–4,324,142	0	–4,324,142
Change in other technical provisions	342,460	0	342,460
Operating expenses, of this	–5,242,966	–26,890,969	–32,133,935
– acquisition costs	0	–26,890,969	–26,890,969
Investment expenses	–5,833,028	0	–5,833,028
Other technical expenses	–567,303	0	–567,303
Other expenses	–1,258	0	–1,258
Profit before tax	23,536,658	0	23,536,658
Current tax	–7,966,107	0	–7,966,107
Deferred tax	2,634,873	0	2,634,873
Profit for the period	18,205,424	0	18,205,424

22.9 Financial assets

Classification

The Company classifies its financial assets in the following categories:

Financial assets at fair value through profit or loss

This category consists of the following two sub-categories:

- financial assets held for trading, and
- financial assets designated as at fair value through profit or loss.

Financial assets held for trading comprise instruments that the Company acquires exclusively for the purpose of trading and realising gains in the near term. They are managed by banks and stock brokers in accordance with the relevant asset management contracts signed by the Company. Derivatives are always classified as held for trading, unless used, successfully, for hedging. Gains arising on their revaluation are not recognised in the income statement, but as revaluation surplus.

Loans and receivables

This category includes loans and bank deposits with fixed or determinable payments that are not traded 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.

Available for sale financial assets

Available for sale financial assets are assets that the Company intends to hold for an indefinite period, but may sell them to obtain the liquidity required, e.g. for claim payments, or due 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 in certain bonds that are, the same as the derivate financial instrument, classified as at fair value through profit or loss. Any gains or losses arising from re-measurement of such assets are thus recognised directly in the income statement. In 2008, the Company terminated the interest rate swap contract concluded in 2007 to hedge against interest rate risk associated with its long-term subordinated debt.

Recognition, measurement and derecognition

Financial assets other than those carried at fair value through profit or loss are initially recognised at fair value, plus transaction costs.

Acquisitions and disposals of financial assets, loans and receivables are recognised on the trade date. Financial assets at fair value through profit or loss, and financial assets available for sale are measured at fair value.

Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in equity, and transferred to the income statement upon disposal or impairment. Gains and losses arising from fair value revaluation of financial assets at fair value through profit or loss are recognised directly in the income statement. The same applies to gains and losses arising from fair value revaluation of derivative instruments that 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 cash flows pertaining to them expire.

Fair value measurement

The fair value of financial assets is based on their quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of financial assets is established using discounted cash flow models. In practice, the Company deviates slightly from this approach in the case of financial assets not quoted in an active market or of an amount considered nonmaterial. An investment is considered material or nonmaterial based on the stake of equity of the relevant issuer it represents, or based on the share of the Company's investment portfolio it represents. Investments considered nonmaterial are carried at cost.

Impairment of financial assets

A financial asset is impaired and an impairment loss incurred 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 whether objective evidence of impairment exists for each financial asset separately.

Impairment of investments

The Company regularly reviews its investment portfolio for impairment. Given that in 2008 fair values of financial assets dropped significantly, the Company considered all available facts to establish whether these should be impaired permanently.

The Management Board adopted guidelines for establishing permanent impairment, which are presented below.

Debt securities

As a rule, investments in debt securities are not impaired, provided any payments under the amortisation plan or prospectus are made when due.

Investments in debt securities are impaired only if one of the following conditions is met:

- their issuer fails to make a coupon or principal payment, and will not make it soon;
- the issuer is subject to a bankruptcy, liquidation or compulsory settlement procedure.

If the first condition is met, an impairment loss is recognised in the income statement that is the difference between the market price and the purchase price of the debt security.

If the second condition is met, the relevant investment is removed from investments and a claim from the bankruptcy or liquidation estate recognised in the balance sheet, while an impairment loss is recognised in profit or loss that is the difference between the possible payment out of the bankruptcy or liquidation estate and the purchase price of the investment. The possible payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement procedure, or, if such information is not available, based on experience or estimates made by credit rating or other financial institutions.

Only impairment losses recognised pursuant to the first indent may be reversed. An impairment loss is reversed when the issuer pays. It is reversed through profit or loss.

Equity securities

MARKETABLE SHARES

Marketable shares are impaired if their market price has been less than their purchase price for more than 12 months, or if their market price is more than 40% less than their purchase price as at the balance sheet date.

An impairment loss is recognised in profit or loss that is the difference between the market price and the purchase price of the share.

A special rule may apply in the case of shares issued by entities that, in the 12 months preceding the determination of share market value, increased their share capital by raising money from well-informed investors. In such a case, it is assumed that the increase in capital was carried out at a price determined through the issuer's appraisal.

In such a case, an impairment loss is recognised based not on the current market price of the share, but on the price at which the issuer carried out the increase in capital.

NON-MARKETABLE SHARES

Non-marketable shares are shares not quoted on organised stock exchanges, shares proven not to have an active market, and investments in subsidiaries and associates carried at cost.

In establishing whether a share has an active market or not, the following is considered:

- trading volume in the three months preceding the determination of share market value ("cut-off day");
- trading volume history in the three years preceding the cut-off day. If there is a significant drop in volume, the market is deemed inactive;
- trading volume compared to the total number of shares outstanding. If only a very small number of the total number of shares outstanding is traded, the market is deemed inactive.

Non-marketable shares are measured using either the cost or the revaluation model. The cost model is used when an investment is considered nonmaterial, be it from the aspect of the issuer (due to the stake of its equity it represents) or the holder (due the share of its portfolio it represents).

Having selected the appropriate model, an investment's fair value is assessed pursuant to a decision adopted by the Management Board.

For non-marketable investments in subsidiaries and associates, the associated goodwill must be tested for impairment during the preparation of the annual report.

Goodwill must be tested for impairment also whenever events or changes in circumstances indicate that it might be impaired.

Investments in subsidiaries and associates that do not include goodwill are tested for impairment if such entities report a loss, and in the case of significant changes in economic circumstances, as laid down in IAS 36.

As at the balance sheet date, it must be determined whether the purchase price paid for a share still represents its fair value (unless the relevant investment is considered nonmaterial). If not, an impairment loss must be recognised.

Share fair value is determined using the available P/B (price to book) ratio of comparable companies with marketable shares. Based on this ratio, the fair value of a non-marketable share is calculated using the following formula:

fair value = last published book value * average P/B of comparable companies

If there are indications that the issuer will report a loss as at the cut-off day, the last published book value of the share is corrected accordingly, unless its book value as at the cut-off day is available.

Companies pursuing the same or essentially the same activity are considered comparable. In selecting comparable companies, their currency and market are also considered.

Non-marketable shares are impaired when their fair value has been less than their purchase price as at four consecutive cut-off days on which financial statements are prepared, or when their value is more than 40% less than their purchase price as at the balance sheet date.

Investments in units of mutual funds

SPECIAL RULES APPLYING TO INVESTMENTS IN GUARANTEED MUTUAL FUNDS

Investments in guaranteed mutual funds are not impaired.

SPECIAL RULES APPLYING TO INVESTMENTS IN BOND MUTUAL FUNDS

Investments in bond mutual funds are not impaired, unless in the case of their market price being less than their purchase price for more than three years.

SPECIAL RULES APPLYING TO INVESTMENTS IN MIXED MUTUAL FUNDS

For the purposes of impairment, mixed mutual funds having less than 50% of shares in their portfolio shall be considered in the same manner as bond mutual funds.

For the purposes of impairment, mixed mutual funds having more than 50% of shares in their portfolio shall be considered in the same manner as stock mutual funds.

SPECIAL RULES APPLYING TO INVESTMENTS IN STOCK MUTUAL FUNDS

Investments in stock mutual funds are impaired when, as at the balance sheet date:

- their market price is more than 50% less than their purchase price; or
- their market price has been more than 30% less than their purchase price for more than one year; or
- their market price has been continuously less than their purchase price for more than three years.

Impairment of reinsurance receivables

As regards its main activity of reinsurance, the Company transacts business exclusively with legal entities. Before entering in a business relationship with a prospective client, especially if foreign, it carefully reviews its credit rating or else relies on recommendations by its longstanding business partners. The Company individually assesses receivables in terms of their recoverability or impairment, making allowances based on payment history of individual cedants and retrocessionaires.

The Company nevertheless reviews its reinsurance receivables on a client-by-client basis at least once a year. Up to now, in its long history, the Company has not made material write-offs.

22.10 Equity investments in subsidiaries and associates

Investments in equity of subsidiaries and associates are accounted for in the separate financial statements using the cost method. Subsidiaries are companies in which Sava Re holds more than 50% of voting rights. Associates are companies in which it holds between 20% and 50% of voting rights. Under the cost method, any profits in the form of dividends from such equity investments are recognised in the income statement. If dividends paid by a subsidiary/associate exceed the Company's share of profits, the carrying value of the relevant equity investment is reduced by the excess amount.

22.11 Intangible assets

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

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

22.12 Property and equipment

Property and equipment assets are initially recognised at cost, plus any expenses directly attributable to preparing them for their intended use. Subsequently, they are stated at cost, less accumulated depreciation and impairment losses. The Company assesses annually whether there is any indication of impairment. If there is, it assesses the asset's recoverable amount, which is the higher of the value in use and the net selling price. If the value in use exceeds the carrying value, the asset is not impaired.

Depreciation of property and equipment assets starts upon their availability for use. Depreciation is calculated individually, on a straight-line basis, Depreciation rates are designed to write off the cost of an asset over its useful life.

Table 29: Depreciation rates of tangible assets

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

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

22.13 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 to account for investment property. The depreciation rate for investment property is 1.3%. All leases where the Company acts as lessor are operating leases. Payments and/or rentals received are recognised as income on a straight-line basis over the term of the lease/rental contract.

22.14 Non-current assets held for sale

Non-current assets held for sale are 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 its sale is highly probable and when it is available for immediate sale in its present condition. The Company must be committed to the sale, and must make it within one year. Such assets are measured at the lower of the assets' carrying amount and fair value, less costs to sell.

22.15 Cash and cash equivalents

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

22.16 Taxes

In accordance with the Corporate Income Tax Act, the Company's taxable basis in 2008 was taxed at the rate of 22%.

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. The bulk of temporary differences is associated with the Company's investments in debt securities issued by a financial institution that declared bankruptcy: while the Company impaired them accordingly, they will become tax deductible only when the bankruptcy procedure is completed.

Deferred tax assets were calculated using the rate of 21%, or the rate of 20% (the applicable rate after the transitional period ending with 2010) in the case of receivables from the bankrupt's estate not expected by the Company to be paid in 2009.

22.17 Employee benefits

Employee benefits include retirement and jubilee benefits, and other benefits. Provisions for these benefits are calculated by a certified actuary.

Termination benefits

Provisions for termination benefits are calculated based on employees' personal data: date of birth, date of commencement of employment, anticipated retirement, salary. Termination 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 portion of termination benefits is fixed at EUR 4,063.

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 salary and a half and two salaries respectively pertaining to the first-tariff class (currently EUR 620.88 to EUR 1,241.76). Currently, the non-taxable portion of jubilee benefits is around 74%.

The probability of an employee staying with the Company reflects both the probability of death and the probability of employment relationship termination. Sava Re uses Slovenian mortality tables 2000–2002, M/F, as well as internal data on employee turnover since 1998, which is 2.8%, 2.5% and 1.6% in the "less than 35", "35 to 45" and "over 45" age brackets respectively. The assumed annual real growth of salaries is 2.9% (based on internal data and consumer price index), while the assumed annual nominal growth of jubilee benefits is 3.5% (based on inflation rate).

Provisions for employee benefits calculated based on the above-mentioned assumptions are discounted to the net present value at the rate of 4.56% (Bank of Slovenia's long-term interest rate under the convergence criterion, December 2008).

22.18 Pension insurance

The Company has a legal responsibility to pay pension insurance contributions on gross salaries at the rate of 8.85%. 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.

22.19 Share capital

In June 2008, Sava Re successfully completed the initial public offering, and increased equity by EUR 42 million. On 11 June 2008, its shares were floated in the standard equity market of the Ljubljana Stock Exchange.

As at year-end 2008, Sava Re's share capital was divided into 9,362,519 non-par value shares. Shares are recorded in the Central Securities Clearing Corporation (KDD) under symbol POSR. As at year-end 2008, the Company held 210 treasury shares, which represent a deductible item in equity. Two of its associates also held Sava Re's shares: Zavarovalnica Maribor held 404,485 or 4.32% of its shares, and Moja naložba held 5,342 or 0.06% of its shares.

22.20 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 sections 26 (notes 7 and 17) and 23.

22.21 Comparative data

The Company ensures comparability of current period data by restating past period data if necessary.

22.22 Segment reporting

A segment is a distinguishable component of an entity 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 Sava Re is non-life reinsurance, and its only business segment reinsurance. The Company also uses geographical segments, as it transacts business in an international environment.

Geographical segments

Gross premiums written (by market)

(EUR)	2008	2007
Slovenia	81,821,496	80,196,155
Europe	35,184,540	22,714,548
The Balkans (former Yugoslavia)	8,368,397	9,291,090
Other	9,369,286	6,338,146
Total	134,743,719	118,539,939

Gross claims paid (by market)

(EUR)	2008	2007
Slovenia	85,747,041	51,685,980
Europe	19,390,993	12,251,709
The Balkans (former Yugoslavia)	4,769,657	3,540,811
Other	4,781,540	2,869,506
Total	114,689,231	70,348,006

Investments (by market)

(EUR)	2008	2007
Slovenia	161,358,918	51,013,171
Europe	62,030,179	59,178,930
The Balkans (former Yugoslavia)	51,732,096	13,048,522
Other	6,159,783	164,856,965
Total	281,280,975	288,097,588

Investments broken down by geographical segments comprise portfolio investments, and investments in subsidiaries and associates.

22.23 Materiality

Material amounts in the balance sheet are amounts that, at the balance sheet date, exceeded 1% of total assets or EUR 3,991,526. Material amounts in the income statement are those that exceeded 0.5% of total assets or EUR 1,995,763.

22.24 Cash flow statement

Cash flows from operating activities are prepared using the indirect method; cash flows from financing and investing activities are prepared using the direct method. The cash flow statement was prepared using the indirect method based on the data from the balance sheet as at 1 January 2008 and 31 December 2008, and the income statement for 2008, and based on additional data required to make adjustments to receipts and expenditures, as well as to provide a more detailed breakdown of material items.

22.25 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, credit risk equalization reserve and catastrophe equalization reserve are included in other profit reserves.

22.26 Adjustments to new or, as at 31 December 2008, not yet applicable standards as adopted by the European Union

Certain new standards, amendments and interpretations were not yet applicable to the year ended 31 December 2008, and were therefore not applied in preparing the financial statements:

– ***IFRS 8 – Operating Segments***, introduces the concept of "management approach" into segment reporting. IFRS 8, which will have to be applied 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 Management Board, 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 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 applied in preparing the 2009 financial statements, is not expected to have an impact on the Company's financial statements.
– ***IAS 1 – Presentation of financial statements***, introduces a new term or statement, i.e. the statement of comprehensive income for the period, which presents all non-owner changes in equity. An entity may present the said changes in one statement of comprehensive income, or in two statements (a separate income statement and a statement of comprehensive income). IAS 1 is expected to have a significant impact on the Company's 2009 financial statements.
– ***Amendment to IFRS 2 – Share-based payment***, deals with vesting conditions and cancellations for and measurement of share-based payments in companies with share-based payment schemes.

23 RISK MANAGEMENT

23.1 Insolvency risk

Sava Re must have, in accordance with the law, adequate capital in view of the amount and type of reinsurance business carried out. As at 31 December 2008 (2007), its required solvency margin was EUR 16,227,838 (EUR 16,227,838), while its available solvency margin was EUR 76,113,141 (EUR 55,022,145).

As at year-end, the available solvency margin exceeded the required solvency margin by as much as EUR 59,885,303 (2007: EUR 38,794,307); therefore insolvency risk is negligible.

23.2 Underwriting risks

The risks ceded to Sava Re by its subsidiaries and other cedants are partly retroceded. For this reason, its reinsurance contracts are considered insurance contracts as defined in IFRS 4. As Sava Re has no liabilities under financial contracts, the risks arising from reinsurance contracts are disclosed in detail below, as required under IFRS 4.

Underwriting risks that are important for reinsurers comprise mainly the following: underwriting process risk, pricing risk, claims risk, net retention risk and reserving risk. Some other underwriting risks are important mainly for insurers, e.g.: product design risk, economic environment risk and policyholder behaviour risk. However, they do represent an indirect threat also to reinsurers: these can manage them by adequate underwriting and implementing an adequate retrocession programme, for which reason these risks are not dealt with herein.

Underwriting process risk

The underwriting process risk represents the risk of incurring financial losses caused by an incorrect selection and approval of risks to be reinsured. 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.

Pricing risk

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover liabilities under (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 2008 and 2007 is deemed moderate.

Claims risk

Claims risk is the risk that the number of claims or the average claim amount will be higher 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 2008 as compared to 2007.

Net retention risk

Net retention risk is the risk that higher retention of insurance loss exposures results in losses 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, measuring exposure (by aggregating sums insured) by geographic areas relating to 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 provisions.

The Company considers the net retention risk to have remained essentially the same as in 2007 in terms of retention limits and the expected number of catastrophic claims. However, the actual number of catastrophic claims (hail) occurred in 2008 was higher than expected, which adversely affected the aggregate net losses of Sava Re. The Company, however, was not seriously endangered due to its adequate retention limits and retrocession programme.

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.

Tables 30 and 31 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 2008 is calculated using the same actuarial method as in previous years, we conclude that the provisions as at 31 December 2008 are adequate.

Table 30: Adequacy test of gross technical provisions

(EUR mio)	Year ended 31 December					
Claims provision plus unearned premiums, gross of reinsurance	2003	2004	2005	2006	2007	2008
As originally estimated	96.346	104.552	119.374	116.218	128.797	158.426
Reestimated as of 1 year later	66.326	73.051	92.112	91.285	122.548	
Reestimated as of 2 year later	68.524	81.057	90.363	95.432		
Reestimated as of 3 year later	71.942	78.388	91.646			
Reestimated as of 4 year later	66.989	80.544				
Reestimated as of 5 year later	68.755					
Cumulative redundancy	27.591	24.008	27.727	20.785	6.249	
Cumulative claims paid						
1 year later	28.348	33.645	42.270	35.967	55.182	
2 years later	37.628	44.771	51.386	51.607		
3 years later	43.169	49.542	58.880			
4 years later	45.549	54.908				
5 years later	48.681					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

To illustrate how adequacy testing works, let us have a look at the above table. 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 104.6 million. 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 33.6 million 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 39.4 million (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 73.1 million. In the same way, the liabilities as at 31 December 2004 were re-estimated at the end of 2006, 2007 and 2008. Given that the cumulative amount of claims paid in 2005 to 2008 was EUR 54.9 million, the 2008 estimate relating to liabilities estimated at the end of 2004 amounts to: EUR 80.5 – 54.9 = EUR 25.6 million. 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.

Table 31: Adequacy test of net technical provisions

(EUR mio)	Year ended 31 December					
Claims provision plus unearned premiums, net of reinsurance	2003	2004	2005	2006	2007	2008
As originally estimated	82.821	85.012	92.696	99.291	107.347	120.772
Reestimated as of 1 year later	50.684	54.333	68.403	70.092	101.548	
Reestimated as of 2 year later	53.192	62.519	65.602	73.790		
Reestimated as of 3 year later	56.789	58.982	66.419			
Reestimated as of 4 year later	51.28	59.323				
Reestimated as of 5 year later	51.513					
Cumulative redundancy	31.308	25.689	26.277	25.500	5.799	
Cumulative claims paid						
1 year later	23.438	24.576	28.716	28.637	50.014	
2 years later	30.623	33.47	37.091	41.472		
3 years later	35.576	37.749	43.032			
4 years later	37.575	41.698				
5 years later	39.486					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

Sava Re's cumulative redundancy relating to the years from 2003 to 2007, as shown in the table above, represents 38%, 30%, 28%, 26% and 5% 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 and usually used almost entirely in the second year, when any excess amount is also released. Subsequent estimates, however, remain essentially the same as the second-year estimate.

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

Tables 30 and 31 also show the adequacy assessment of technical provisions as at 31 December 2007. For this, figures along the tables' main diagonal (estimates as at 31 December 2008) should be disregarded and new cumulative redundant provisions calculated. A much simpler way, however, is to compare the estimates along the tables' main diagonal with those above them.

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

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.

The Company considers its 2008 retrocession programme to be comparable with that of 2007.

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 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, as was the case in 2008, it is less likely than 0.5% which is, according to Solvency II 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 increased due to higher/lower underwriting risks by one percentage point, net profit before tax would decrease (or net loss increase) by EUR 1.1 million (EUR 0.9 million in 2007). In 2008 an additional maximum net claim of EUR 3 million would deteriorate the combined ratio by 2.7% (2007: 3.2%).

The probability that the underwriting risk may seriously undermine the Company's financial stability is deemed, according to our assessment, low in both 2008 and 2007.

23.3 Market risks

The investment policy of Sava Re must be in compliance with local legal requirements governing investment diversification, limits and valuation, as well as asset-liability matching. 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.

In its financial operations, Sava Re is exposed to market risks that comprise above all interest rate risk, equity securities risk, currency risk, concentration risk and asset-liability mismatch risk.

Table 32: Investment portfolio as at 31 December 2007 and 2008

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
Type of investment	Amount	Structure	Amount	Structure
Bond portfolio	104,761,287	38.0%	113,995,135	40.3%
Deposits and money market instruments	38,207,923	13.8%	26,571,404	9.4%
Equity securities	14,693,075	5.3%	25,142,599	8.9%
Investments in subsidiaries and associates	74,999,030	27.2%	68,816,774	24.3%
Mutual funds	29,759,367	10.8%	32,863,990	11.6%
Real estate	1,262,310	0.5%	728,514	0.3%
Other	12,223,996	4.4%	14,806,899	5.2%
Total	275,906,987	100.0%	282,925,315	100.0%

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. Investing in variable-rate bonds (i.e. using the so-called natural hedging strategy), it protects its most exposed bond portfolio. The ratio of fixed-rate bonds to variable-rate bonds in its portfolio as at year-end 2008 stood at 71.1% : 29.9% (2007: 69.7% to 30.3%).

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 Sava Re's bond portfolio was 3.81 years as at year-end 2008 (2007: 3.85 years). A sensitivity analysis assuming a 2% change in interest rates showed that the value of Sava Re's bond portfolio, which stood at EUR 105 million as at year-end, would drop by EUR 7.1 million or 6.76% (2007: EUR 7,7 million or 6.75%). 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),, we found that the same 2% change in interest rates would additionally decrease the investment portfolio by EUR 720,000 (2007: EUR 660,000).

Considering the actual movements in interest rates, the Company considers the interest rate risk in 2008 to have been lower than in 2007.

Equity securities risk

At year-end 2008, the Company held EUR 75.0 million (2007: EUR 68.8 million) of investments in shares of subsidiaries and associates, EUR 14.7 million (2007: EUR 25.1 million) of investments in shares of domestic and foreign companies, and EUR 29.8 million (2007: 32.9 million) of investments in mutual funds, of which 31.9% are equity funds, 44% mixed, 3.3% bond funds, 18.7% in guaranteed funds, and 2.1% are funds of funds (in 2007, they represented 43.0%, 33.3%, 3.1%, 17.6% and 3.0% respectively).

Sava Re seeks to maintain or increase the value of its strategic investments (investments in subsidiaries and associates) mainly by actively managing the first and by participating in the management of the latter. A 10% drop in the value of subsidiaries and associates would cause a drop in the value of Sava Re's strategic investment portfolio of EUR 7.6 million (2007: EUR 6.9 million).[24]

For mixed and guaranteed mutual funds and funds of funds, a 50/50 split between bonds and stocks is assumed. The amount of equity portfolio excluding strategic investments exposed to equity securities risk was EUR 33.8 million (2007: EUR 48.1 million). Sava Re manages this risk by issuer, industry and geographic diversification, and by monitoring and analysing global market developments.

A rough estimate of Sava Re's sensitivity to equity securities risk showed the following: a 10% drop in stock prices would cause a drop in the value of Sava Re's equity portfolio excluding strategic investments of EUR 3.4 million (2007: EUR 4.8 million). 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 6.8 million (2007: EUR 9.6 million).

The above figures relate to year-end balances: it therefore follows that the Company's exposure to equity securities risk as at year-end 2008 was lower than a year ago. This means also that, should stock prices continue to fall in 2009, the Company would be less affected than it would have been otherwise.

Currency risk

Sava Re has been increasing its foreign-sourced business, which affects the currency structure of its liabilities. Nevertheless, as at year-end, euro-denominated liabilities still represented 92.2% (2007: 93.3%). It is also in this currency alone that the Company's liability fund exceeds its liabilities significantly, by EUR 25.8 million. For comparison, for all other currencies, the asset-liability mismatch (deficit) is EUR 6.8 million.

Sava Re ensures asset-liability currency matching by directly matching the currency structure of assets and liabilities. In 2008, it even adapted its investment policy in view of its prevailing euro-denominated liabilities.

As shown in table 33, Sava Re's currency mismatch in 2008 was EUR 6.8 million (2007: EUR 2.0 million) or 4.1% (2007: 1.5%) of the sum of gross technical provisions and credit risk/catastrophe equalization reserve. Even in the case of a drastic unfavourable change in the euro exchange rate, this mismatch would not have been a problem for the Company, given that its liability fund exceeded its gross technical provisions and reserves by EUR 20.4 million (2007: EUR 20.3 million).

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24 The value of subsidiaries and associates and the value of Sava Re's strategic investment portfolio are correlated linearly. A 50% decrease in the first (which actually occurred in 2008) would result in a five-fold decrease in the latter, i.e. 5x10%=50%.

Table 33: Currency (mis)match as at 31 December 2008 (all amounts expressed in EUR)

Currency	Liability fund (LF)	Gross technical provisions (GTP)	Mismatch (GTP-LF,0)
AED	68,121	379,445	311,323
AMD	32,428	26,084	0
AUD	0	927	927
BGN	28,640	68,699	40,059
CAD	0	63	63
CHF	104,638	14,597	0
CZK	166,852	394,912	228,060
DKK	0	1,291	1,291
DOP	0	13,729	13,729
DZD	31,553	155,003	123,450
EUR	177,511,185	151,729,409	0
GBP	830,885	382,338	0
HKD	90,732	940,478	849,746
HRK	195,407	202,487	7,079
HUF	28,788	50,563	21,775
INR	28,618	95,567	66,949
JPY	333,446	386,257	52,811
KRW	504,508	588,921	84,413
LYD	28,934	44,095	15,161
MAD	0	134,388	134,388
MGA	5	293	288
MKD	157	422	265
MYR	27,078	34,003	6,924
NOK	7,827	0	0
PHP	0	28	28
PLN	12,532	101,073	88,541
RON	15,452	17,789	2,337
RSD	25,324	15,517	0
RUB	0	3,515	3,515
SEK	2,211	343,754	341,543
SKK	0	46,592	46,592
TRY	1,712,315	879,515	0
UAH	3	0	0
USD	3,126,138	7,458,822	4,332,685
XCD	0	47,864	47,864
XOF	100,514	39,745	0
Total	185,014,290	164,598,183	6,821,808

As at year-end 2008, the same as one year ago, the Company did not have provisions established for currency risk, as these were deemed unnecessary.

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 145 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.

Table 34: Bond portfolio as at 31 December 2007 and 2008 by region

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
	Amount	Structure	Amount	Structure
Slovenia	60,279,517	57.5%	61,750,306	54.2%
OECD	4,324,901	4.1%	8,977,222	7.9%
EU	40,156,869	38.3%	42,757,743	37.5%
Other	0	–	509,864	0.4%
Total	104,761,287	100.0%	113,995,135	100.0%

Equity securities are diversified by issuer, rating and region.

Table 35: Stock portfolio as at 31 December 2007 and 2008 by region

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
	Amount	Structure	Amount	Structure
Slovenia	12,292,792	83.7%	17,650,811	70.2%
OECD	211,304	1.4%	850,911	3.4%
EU	1,551,173	10.6%	2,423,320	9.6%
Other	637,805	4.3%	4,217,557	16.8%
Total	14,693,075	100.0%	25,142,599	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 onlywhen all developments in financial markets are unfavourable. This is exactly what happened in 2008. Based on the two tables above and considering only the unfavourable developments in the local financial market, it could be concluded that Sava Re's exposure to concentration risk increased in 2008, owing to the increase in the share of domestic equity securities in its equity portfolio.

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. The table below shows that as at year-end 2008, Sava Re's liability fund exceeded its gross technical and equalization provisions by EUR 20.4 million (2007: EUR 20.3 million).

Table 36: Coverage of gross technical provisions and reserves with liability fund (investments, cash and receivables) as at 31 December 2007 and 2008

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
Type of investment	Investments (liability fund)	As % of GTP	Investments (liability fund)	As % of GTP
Deposits and CDs	20,714,191	12.6	15,283,554	11.4
Government bonds	33,943,698	20.6	32,466,729	24.2
Corporate bonds	34,914,810	21.2	37,188,028	27.7
Structured products	1,689,026	1.0	1,844,239	1.4
Shares	2,709,619	1.7	3,969,069	3.0
Bond mutual funds	0	0	0	0
Other mutual funds	12,536,211	7.6	15,888,834	11.8
Loans	0	0	0	0
Land and buildings	0	0	0	0
Other	–5,407	0	15,000	0.0
Strategic shares	0	0	0	0
Receivables and cash	78,512,144	47.7	47,805,202	35.6
Total liability fund	185,014,290	112.4	154,460,654	115.1
GTP + reserves	164,598,183	100.0	134,181,599	100.0
Liability fund surplus	20,416,107	12.4	20,279,055	15.1

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

As at year-end 2008, Sava Re's liability fund exceeded its gross technical and equalization provisions by 12.4% (2007: 15.1%).

Asset/liability matching in terms of duration is at an appropriate level as the average duration of assets is 3.1 years (2007: 2.95 years), while the average duration of the majority of liabilities (gross claims provision) is 2.39 years (2007: 2.70 years). Given the large amount by which the liability fund exceeds gross technical provisions and reserves, it would be easy to single out a sub-group in the liability fund of at least the same amount and the same average duration as liabilities.

The table below shows the duration profile of Sava Re's bond portfolio as at year-end 2008. The amounts include both the liability and the capital fund.

Table 37: Bond portfolio as at 31 December 2007 and 2008 by duration

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
Maturity	Amount	Structure	Amount	Structure
0 – 1 years	10,698,430	10.2%	11,064,565	9.7%
1 – 5 years	64,127,037	61.2%	61,059,412	53.6%
Over 5 years	29,935,820	28.6%	41,871,158	36.7%
Total	104,761,287	100.0%	113,995,135	100.0%

23.4 Liquidity risk

Sava Re calculates its liquidity ratio on a weekly basis within its liquidity risk management activities. 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 addition, Sava Re concluded 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 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 minor in both 2008 and 2007.

23.5 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 Company internal rules, Sava Re invests cash surpluses only in deposits placed with first-class banks, debt securities issued by entities with an appropriate credit rating, and equity securities with sufficient market capitalisation or appropriate liquidity.

To assess credit risk, the Company monitors the structure of its investments by issuer credit rating. The table below shows the credit rating profile of Sava Re's bond portfolio.

Table 38: Bond portfolio as at 31 December 2007 and 2008 by issuer credit rating

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
As rated by Moody's/S&P's	Amount	Structure	Amount	Structure
Aaa/AAA	6,017,856	5.7%	9,319,736	8.2%
Aa/AA	36,811,088	35.1%	47,963,940	42.1%
A/A	25,896,902	24.7%	30,221,451	26.5%
Baa/BBB	8,183,321	7.8%	6,893,069	6.1%
Less than Baa/BBB	788,670	0.8%	509,864	0.4%
Not rated	27,063,450	25.8%	19,087,075	16.7%
Total	104,761,287	100.0%	113,995,135	100.0%

More than 65% of bonds have an issuer credit rating at least equal to the credit rating assigned to Sava Re. In 2007, this percentage was higher at 82%, which can be explained by the upgraded rating of the Company. Bonds rated A or better represented only slightly less than 25% of Sava Re's investment portfolio (2007: 31%). However, as the events in 2008 showed clearly, when even the best-rated issuers failed to meet their obligations, issuer credit rating alone is no longer a guarantee of non-default.

As at year-end 2008 (2007), the total receivables due from reinsurers were EUR 52.3 million (EUR 27.6 million): of this, retroceded gross technical provisions were EUR 37.7 million (EUR 21.5 million) (unearned premiums were EUR 2.7 million, claims provisions EUR 34.9 million, and other technical provisions EUR 36.5 million), and reinsurers' share of claims was EUR 14.7 million (EUR 6.1 million).

The total credit risk exposure of Sava Re arising from retrocessionaires represented 13.1% of its total assets (2007: 7.7%). The increase in exposure is explainable by the unexpectedly large number of natural disasters and the consequently higher receivables due from reinsurers. Sava Re mainly cedes its business to first-class reinsurers rated by Standard & Poor's at least A- for long-term transactions or BBB+ for short-term transactions. Considering also the sufficient diversification of its investment portfolio, Sava Re considers this risk as low and at the same level as in 2007.

23.6 Operational risk

Operational risk includes human capital risk, management control risk, IT system risk, process risk, legal risk and similar risks. According to our assessment, Sava Re is mostly exposed to risks arising from business disruptions and/or inadequate application of required procedures, internal controls and disruptions in management.

Key to operational risk management is a proper and effective internal control system. Operational risk is usually associated with other risks (underwriting risk, market risk, etc.), i.e. it usually increases them. Negligence in the underwriting process, for example, significantly increases 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 and through staff training.

Operational risk in its broad definition also includes 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 Company's overall exposure to operational risk remained the same as in 2007.

Table 39: Net carrying amounts and fair values of financial instruments

(EUR)	As at 31 December 2008		As at 31 December 2007	
	Net carrying amount	Fair value	Net carrying amount	Fair value
Investment property	1,262,310	1,262,310	728,514	728,514
Financial investments	279,951,613	279,809,723	288,097,588	288,097,588
Receivables	56,743,597	56,743,597	35,484,845	35,484,845
Subordinated debt	–31,139,605	–31,139,605	–31,136,034	–31,136,034
Financial liabilities	–160	–160	–2,308	–2,308
Other liabilities	–54,737,050	–54,737,050	–36,523,792	–36,523,792
Total	252,080,705	251,938,815	256,648,813	256,648,813

23.7 Implementing systematic risk management

Sava Re has been implementing risk management on a systematic basis, aware of the requirements to be brought about by the so-called Solvency II insurance regulations, amongst them also risk-based capital calculation. For this reason, it participated in the Quantitative Impact Study QIS4, under which it evaluated its risks and calculated its capital as at year-end 2007 based on its risk profile and other assumptions. While getting involved in the process of Solvency II implementation and preparing for the time when the new set of insurance regulations becomes effective, Sava Re, as part of its rating reviews, continues to calculate its risk exposure also based on the Standard & Poor's methodology.

24 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Insurance companies in Slovenia were legally required to make the transition to IFRS as of 1 January 2007. Accordingly, Sava Re first prepared its financial statements in accordance with IFRS for the financial year beginning 1 January 2007. The financial statements as at 1 January 2006 and 31 December 2006 had to be adjusted, mainly due to dismantling and transformation of certain technical provisions, i.e. equalization provisions not compliant with IFRS 4. One portion of equalization provisions was dismantled through retained earnings, and one was transferred to other profit reserves (credit risk and catastrophe equalization reserves).

Transition to IFRS affected the following items: equity, technical provisions and deferred tax liabilities. Prior to the transition to IFRS, Sava Re used to have equalization provisions required under the Insurance Act, as well as provisions for nuclear, earthquake and credit risks. Under IFRS, it was no longer allowed to have such provisions. It thus adjusted the financial statements as at 1 January 2006 by dismantling, through retained earnings, most of its equalization provisions, as well as its nuclear risk provisions. Credit risk and earthquake equalization provisions were transferred to profit reserves as credit risk and catastrophe reserves. As provisions dismantled through retained earnings were tax deductible on recognition, the Company had to recognise deferred tax liabilities. In accordance with the Corporate Income Tax Act, these are payable in three consecutive annual instalments of EUR 2.6 million each. Outstanding are still the instalments for 2008 and 2009. To present correctly the effect on net profit or loss, the said instalments first increase tax liabilities and then, upon payment, decrease deferred tax assets.

25 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Despite the global financial crisis, Sava Re has continued to implement its strategy of expanding the Sava Re Group to the Western Balkan markets. Early in February 2009, Sava Re obtained permission from the Croatian Financial Services Supervision Agency (HANFA) for an indirect acquisition of a qualified stake of over 50% in Velebit osiguranje, d. d., Zagreb, and Velebit životno osiguranje, d. d., Zagreb. The conditions were thus met for Sava Re to acquire from Zavarovalnica Maribor a 100% share in Velebit usluge, d. o. o., Zagreb, which in turn holds majority stakes in the two insurance companies.

26 NOTES TO THE FINANCIAL STATEMENTS – BALANCE SHEET

Sava Re makes additional disclosures for balance sheet items in excess of 1% of the balance sheet total.

1) Intangible assets

Movements in cost and accumulated amortisation of intangible assets in 2008

(EUR)	Cost		
	As at 1 January	Additions	As at 31 December
Intangible assets	297,743	73,260	371,003
Other long-term deferred costs and accrued income	4,967	4,586	9,553
Total	302,710	77,846	380,556

(EUR)	Accumulated amortization			Net book value	
	As at 1 January	Additions	As at 31 December	As at 31 December	As at 1 January
Intangible assets	140,570	50,488	191,058	179,945	157,173
Other long-term deferred costs and accrued income	0	0	0	9,553	4,967
Total	140,570	50,488	191,058	189,498	162,140

Intangible assets increased due to an acquisition of software for administering and managing investments.

Movements in cost and accumulated amortisation of intangible assets in 2007

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

(EUR)	Accumulated amortization			Net book value	
	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 deferred costs and accrued income	0	0	0	4,967	0
Total	112,574	27,996	140,570	162,140	49,190

2) Property and equipment

Movements in cost and accumulated depreciation of property and equipment in 2008

(EUR)	Cost			
	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
Equipment	1,139,366	58,201	–26,080	1,171,487
Other property, plant and equipment	81,986	1,943	0	83,929
Total	2,956,867	60,144	–26,080	2,990,931

(EUR)	Accumulated amortization				Net book value	
	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	239,011	21,211	0	260,222	1,371,344	1,392,555
Equipment	778,800	82,896	–16,263	845,433	326,054	360,566
Other property, plant and equipment	31,588	1,529		33,117	50,812	50,398
Total	1,049,399	105,636	–16,263	1,138,772	1,852,159	1,907,468

The net carrying amount of property and equipment did not change significantly compared to the prior year. There were movements in the "equipment" and "other property and equipment" items, while disposals relate mainly to company cars that were sold during the year.

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

(EUR)	Cost			
	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 other insurance activities	0	0	0	0
Equipment	1,149,806	169,766	–180,206	1,139,366
Other property, plant and equipment	125,519		–43,533	81,986
Total	3,010,840	169,766	–223,739	2,956,867

(EUR)	Accumulated amortization				Net book value	
	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 other 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

3) Deferred tax assets

In 2006, the Company recognised deferred tax assets for non-deductible allowances for receivables and investments made in 2005. As at 31 December 2007, deferred tax assets stood at EUR 131,804.

Deferred tax assets in 2008

(EUR)	As at 31 December 2008
Long-term financial assets	5,353,692
Short-term financial assets	19,787
Jubilee and termination benefits	10,340
Total	5,383,818

(EUR)	Offset balance as at 1 January 2008	Recognized in the IS	Formed in 2008 (BS)	Offset balance as at 31 December 2008
Long-term financial assets	118,436	2,592,530	2,642,726	5,353,692
Short-term financial assets	13,368	6,419	0	19,787
Jubilee and termination benefits	0	10,340	0	10,340
Total	131,804	2,598,949	2,642,726	5,383,818

In 2008, the Company recognised additional deferred tax assets associated with temporary non-deductible allowances for investments in securities, made in accordance with the policy described in the introduction in section 22.9.5., "Impairment of investments". It also recognised deferred tax assets of EUR 2,642,726 associated with losses arising from fair value revaluation of investments that are not recognised in the income statement but as revaluation deficit.

4) Investment property

Movements in cost and accumulated depreciation of investment property in 2008

(EUR)	Cost		
	As at 1 January	Additions	As at 31 December
Land	52,695	0	52,695
Buildings	792,047	548,250	1,340,297
Total	844,742	548,250	1,392,992

(EUR)	Accumulated amortization			Net book value	
	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	116,228	14,454	130,682	1,209,615	675,819
Total	116,228	14,454	130,682	1,262,310	728,514

Movements in cost and accumulated depreciation of investment property in 2007

(EUR)	Cost			
	As at 1 January	Additions	Disposals	As at 31 December
Land	52,695	0	0	52,695
Buildings	792,047	0	0	792,047
Total	844,742	0	0	844,742

(EUR)	Accumulated amortization			Net book value	
	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

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, and offices in Koper, which the Company has leased out to a subsidiary.

Payments received by the Company for the investment property leased out were EUR 120,108 in 2008, of which EUR 97,533 were from third parties and EUR 22,575 from the subsidiary.

5) Investments in Group companies and associates

Investments in shares of Group companies in 2008

(EUR)	As at 1 January		Acquisitions and capital increase	Impairment	As at 31 December
	Share (%)	Amount	Amount	Amount	Amount
Tilia	99.63%	12,340,676	1,499,830		13,840,507
Sava Osiguranje	99.99%	12,453,591	0		12,453,591
Dukagjini	51.00%	6,115,311	116,280		6,231,591
Sava Tabak	66.70%	8,499,122	153,500		8,652,622
Montenegro osiguranje	99.92%	15,280,618	0	–1,329,362	13,951,256
Sava Invest	0.00%	0	102,000		102,000
Dukagjini Life	0.00%	0	1,785,893		1,785,893
Sava Life, Belgrade	0.00%	0	3,553,666		3,553,666
Total		54,689,318	7,211,168		60,571,125

Investments in shares of associates in 2008

(EUR)	As at 1 January		Acquisitions	As at 31 December	
	Share (%)	Amount	Amount	Share (%)	Amount
Maribor	45.79%	13,416,845	0	45.79%	13,416,845
Moja naložba	20.00%	710,610	300,449	20.00%	1,011,059
Total		14,127,455	300,449		14,427,904

Investments in debt instruments of Group companies in 2008

(EUR)	Type of debt instrument	As at 31 December 2008
Tilia	bond	1,666,365
Sava Osiguranje	loan	1,500,000
Dukagjini	loan	500,000
Total		3,666,365

Investments in debt instruments of associates in 2008

(EUR)	Type of debt instrument	As at 31 December 2008
Maribor	bond	1,512,985

Bonds issued by Tilia
- type: subordinated bond; issue amount: EUR 1,666,365; principal repayment: on maturity
- interest rate: TOM (base interest rate) + 4%
- interest payment: 19 January and 19 July
- maturity: 19 July 2009

Bonds issued by Zavarovalnica Maribor
- type: subordinated bond; issue amount: EUR 7,000,000; principal repayment: on maturity
- interest rate: 7.5%
- interest payment: 25 February, 25 May, 25 August, 25 November
- maturity: 25 August 2015

Loans granted to Sava Osiguranje

1. loan in the amount of EUR 1,000,000
- principal repayment: 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
- interest rate type: variable (reviewed semi-annually), despite the interest grace period
- interest payment: 1 June and 1 December after 1 June 2009
- loan draw-down date: 21 May 2007
- maturity: 1 June 2015
- the debtor has the right to partial or full early repayment by giving a two days notice to the creditor

2. loan in the amount of EUR 500,000
- principal repayment: on maturity
- interest rate: 6-month Euribor + 105 basis points (act/360)
- loan draw-down date: 21 May 2007
- interest payment: 1 June and 1 December
- maturity: 1 June 2015
- the debtor has the right to partial or full early repayment by giving a two days notice to the creditor

Loan granted to Dukagjini

- loan amount: EUR 500,000;
- principal repayment: on maturity
- interest rate: 5% and 6% p.a. (act/360) until 29 October 2008 and until 27 January 2009 respectively
- loan draw-down date: 29 October 2007
- interest payment: on maturity
- maturity: 27 January 2009
- the debtor has the right to partial or full early repayment by giving a two days notice to the creditor

In 2008, Sava Re increased investments in Group companies by EUR 7.2 million. Of this amount, EUR 1.8 million was used to increase share capital of the existing Group companies, and EUR 5.4 million was used to establish new companies.

In 2008, Sava Re also increased the share capital of the pension company Moja naložba, thus increasing its investments in associates by EUR 0.3 million.

As regards debt instruments, Sava Re increased its investments in those issued by associates. As at 31 December 2008, investments stood at EUR 1.5 million.

6) Financial investments

Financial investments in 2008

(EUR)	Held-to-maturity		At fair value through profit or loss			Available-for-sale	Loans and receivables	Total
	Net carrying amount	Fair value	Non-derivative		Derivative			
			Held for trading	Designated as at fair value through P/L				
Long-term financial investments								
Equity and other variable income securities and mutual funds	0	0	0	0	0	43,343,621	0	43,343,621
Debt and other fixed income securities	6,187,618	6,045,728	0	0	0	99,595,591	0	105,783,209
Other loans granted	0	0	0	0	0	0	3,663	3,663
Derivatives	0	0	0	0	0	0	0	0
Bank deposits	0	0	0	0	0	0	1,992,182	1,992,182
Short-term financial investments								
Held for trading shares and interests	0	0	1,108,821	0	0	0	0	1,108,821
Held for trading securities or securities with a remaining maturity of less than one year	0	0	0	1,031,143	0	17,454,700	0	18,485,843
Bank deposits	0	0	0	0	0	0	23,754,368	23,754,368
Derivatives	0	0	0	0	–5,407	0	0	–5,407
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	0	5,306,936	5,306,936
Total	6,187,618	6,045,728	1,108,821	1,031,143	–5,407	160,393,911	31,057,149	199,773,235

Sava Re took the opportunity brought about by the amendment to IAS 39 in the second half of 2008, and reclassified certain investments (equity securities) from category 1 (financial assets at fair value through profit or loss) to category 4 (available for sale financial assets). The Company undertook this reclassification owing to the changed conditions in capital markets since the Company considered that it would not be able to sell the relevant equity securities in the near term.

Equity securities of EUR 1.0 million were reclassified from category 1 to category 4. As conditions in capital markets further deteriorated in the second half of 2008, the Company decided, at year-end, to permanently impair all of them. Reclassification thus did not affect its gross profit, but it did affect its net profit due to the tax charge for the year, as permanent impairments of category 4 financial assets, unlike revaluation losses associated with category 1 financial assets, are non-deductible until disposal of assets.

The Company established deferred tax assets relating to impairments of investments.

The Company has none of its financial assets pledged.

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 5,306,936, and were included under the "loans and receivables" item in investments.

Financial investments in 2007

(EUR)	Held-to-maturity		At fair value through profit or loss			Available-for-sale	Loans and receivables	Total
	Net carrying amount	Fair value	Non-derivative		Derivative			
			Held for trading	Designated as at fair value through P/L				
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
Derivative	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 snd interests	0	0	3,747,063	0	0	0	0	3,747,063
Held for trading securities or securities with remaining maturity 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	23,352,247	215,610,293

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 2007 and 2008

(EUR)	Symbol	As at 31 December 2008	As at 31 December 2007
Bond Abanka 6th issue	AB06	433,269	437,984
Bond Banka Domžale 1st issue	BDM1	498,332	527,131
Bond Factor banka 15th issue	FB15	854,330	838,215
Bond NLB 13th issue	NLB13	1,116,258	1,141,303
Bond NLB	NLB Float	3,877,200	4,474,800
Bond Probanka 8th issue	PRB8	2,017,902	2,017,951
Bond Zavarovalnica Tilia 1st issue	ZTI1	1,666,365	1,670,523
Bond Zavarovalnica Triglav 1st issue	ZT01	340,182	340,173
Bond ING Bank	INTNED 5 7/8 02/11	429,368	445,683
Bond Banka Celje 8th issue	BCE8	101,432	0
Bond Banka Celje 11th issue	BCE11	2,000,000	2,971,507
Bond Zavarovalnica Maribor 2nd issue	ZVM2	1,512,985	0
Total		14,847,623	14,865,271

Investments in subordinated debt instruments increased in 2008 to represent 7.43% of the Company's total investments.

In 2007, Sava Re concluded a contract on joining a venture capital fund. It thus undertook to pay in the fund up to EUR 503,000, on invitation by the fund manager. As at year-end 2008, its payments under the said contract amounted to EUR 49,138, which means that Sava Re's remaining liability associated with the fund stood at EUR 453,862.

7) Reinsurers' share of technical provisions

Reinsurers' share of technical provisions

(EUR)	As at 31 December 2008	As at 31 December 2007	Index
From unearned premiums	2,748,302	3,117,433	88.2
From mathematical provisions	0	0	–
From provisions for claims outstanding	34,905,882	18,332,186	190.4
From provisions for bonuses and rabates	0	0	–
From other technical provisions	36,487	23,576	154.8
Total	37,690,671	21,473,195	175.5

The reinsurers' share of unearned premiums usually moves in accordance with premiums under the largest proportional retrocession contracts. In 2008, however, it fell due to the change in the dynamics of payments under non-proportional contracts with foreign cedants: payments now fall due mid-year, not at year-end as before. Unearned premiums were thus recognised as at 31 December 2007, but not a year later (the effect on retroceded unearned premiums was a decrease of EUR 548,438). The significant increase in claims provisions is mainly explainable by the yet unpaid claims for summer storm losses in the Štajerska region (Slovenia). The reinsurers' share of other technical provisions comprises provisions for unexpired risks at the retroceded portfolio level. Calculation of these provisions is at the same time also adequacy testing of unearned premiums, as described in section 26 (note 17).

8) Receivables

At 31 December 2008, total receivables were 56.7% above those from a year ago. The majority were receivables under reinsurance contracts, invoiced in the fourth quarter of 2008 but falling due only in 2009. Receivables arising from reinsurers' share in claims increased significantly, by 139.1%. This increase partly relates to the 2008 catastrophe losses and is partly due to the growth in our reinsurance portfolio that resulted in an increase in the receivables for premiums.

Receivables under reinsurance contracts are not specifically secured, neither do they represent a substantial exposure.

Receivables in 2007 and 2008

(EUR)	As at 31 December 2008	As at 31 December 2007	Index
Receivables for premiums arising out of reinsurance	38,699,451	26,963,464	143.5
Receivables for shares in claims	14,658,251	6,130,747	239.1
Receivables for commission	1,199,807	1,929,796	62.2
Receivables arising out of investments	89,820	200,483	44.8
Other receivables	665,456	260,355	255.6
Long-term receivables	291,434	0	–
Total	55,604,218	35,484,845	156.7

Receivables (excluding those from Group companies) by maturity

The table shows the net carrying amounts of receivables by maturity, excluding intra-Group transactions. In contrast to 2007, in 2008 the Company had some long-term receivables related to the Lehman Brothers' bankruptcy estate.

Receivables in 2008 by maturity

(EUR)	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables for premiums arising out of reinsurance assumed	25,881,946	6,126,215	459,477	32,467,638
Receivables for reinsurers' shares in claims	12,346,389	1,524,220	787,642	14,658,251
Other short-term operating receivables	1,195,388	4,419	0	1,199,807
Short-term receivables arising out of investments	89,820	0	0	89,820
Other receivables	577,731	280	87,445	665,456
Long-term receivables	291,434	0	0	291,434
Total	40,382,708	7,655,134	1,334,564	49,372,406

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
Short-term 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

Movements in allowances for receivables

Allowances for long-term receivables (EUR 1,791,195) relate entirely to receivables from the Lehman Brothers' bankruptcy estate. The total gross receivables from this issuer based on claims filed by the Company amounted to EUR 1,990,216 as at year-end.

Movements in allowances for receivables in 2008

(EUR)	As at 1 January 2008	Released	Formed	As at 31 December 2008
Receivables for premiums arising out of reinsurance assumed	89,867	0	0	89,867
Receivables for reinsurers' shares in claims	45,757	0	0	45,757
Other short-term operating receivables	4,253	0	0	4,253
Short-term receivables arising out of investments	88	0	0	88
Other short-term receivables	0	0	17,923	17,923
Long-term receivables	0	0	1,791,195	1,791,195
Total	139,965	0	1,809,118	1,949,083

Movements in allowances for receivables in 2007

(EUR)	As at 1 January 2007	Released	Formed	As at 31 December 2007
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
Short-term receivables arising out of investments	88	0	0	88
Total	158,967	19,291	289	139,965

9) Other assets

The most important item of other assets is the deferred commission from inwards reinsurance, invoiced in 2008 but relating to 2009.

Other assets

(EUR)	As at 31 December 2008	As at 31 December 2007	Index
Deferred commission from inwards reinsurance in Slovenia and abroad	10,350,920	9,019,489	114.8
Deferred commission from outwards reinsurance in Slovenia and abroad	–698,761	–550,004	127.0
Prepayments for investments	6,012,148	0	–
Other assets	695,683	106,933	650.6
Total	16,359,990	8,576,418	190.8

Other assets comprise also an advance payment of EUR 6 million made by the Company at the end of 2008 under the agreement to acquire a 100% share in Velebit usluge, Zagreb.

10) Cash and cash equivalents

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

11) Called-up capital

The General Meeting held in August 2007 amended the Articles of Association of Sava Re to introduce non-par value shares.

In June 2008, Sava Re increased its share capital through the process of initial public offering by EUR ,259,389 to EUR 39,069,099.

Eventually, 1,500,000 new shares were issued, and the Company's share capital as at year-end 2008 was thus divided into 9,362,519 shares (31 December 2007: 7,862,519 shares). All shares are ordinary and of the same class, as well as registered. Their holders are entitled to participate in the Company's control and profit (dividends).

As at year-end 2008, the Company had 5,678 shareholders, 5,657 more than a year ago.

Pursuant to a resolution of the General Meeting, Sava Re did not pay dividends in 2008.

12) Share premium

Through the initial public offering completed in June 2008, Sava Re increased its share premium by EUR 35,740,610. The increase in share premium was recognised net of costs directly attributable to the initial public offering of EUR 2,843,020. As at 31 December 2008, the Company's share premium was EUR 33,003,752.

13) Profit reserves

Reserves provided for by the Articles of Association amounted to EUR 11,475,547 as at year-end 2008. They reached the prescribed amount already in 2006. Legal reserves amounted to EUR 3,510,978, the same as in 2007.

Reserves provided for by the Articles of Association are used for:
- covering net losses that cannot be (completely) covered from retained earnings and other profit reserves (additional protection of equity);
- increasing share capital from own sources;
- supporting the dividend policy.

In accordance with IFRS, Sava Re does not have equalization provisions. However, pursuant to the Insurance Act, it is obliged to have credit risk and catastrophe (earthquake) equalization reserves. In accordance with the law, these reserves are included in profit reserves, and are formed out of profit, allocated under a decision of the Management Board. Credit risk reserves are calculated in accordance with the Insurance Act and implementing regulations, while earthquake reserves are calculated in accordance with the internal rules on technical provisions.

Net loss reported by Sava Re in its income statement for 2008 was EUR 7,991,649. This amount, as shown in the balance sheet, was increased by provisions (reserves) for catastrophic losses (EUR 1,207,028) and reduced by the dismantled credit risk provisions (reserves) (EUR 615,609) The net effect of statutory reserves on net loss shown in the balance sheet was thus EUR 591,419.

Net loss shown in the balance sheet was EUR 8,583,068, and was covered from other profit reserves, in accordance with a decision of the Management Board of 16 April 2009.

Profit reserves in 2007 and 2008

(EUR)	As at 31 December 2008	As at 31 December 2007	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	3,053,943	3,669,552	83.2
Catastrophe equalization reserve	2,235,231	1,028,204	217.4
Other profit reserve	71,962,514	35,701,116	201.6
Total	92,238,213	55,385,397	166.5

Treasury shares bought back

In 2008, Sava Re did not make any transactions with treasury shares. As at 31 December 2008, it held 210 treasury shares.

14) Revaluation surplus

Revaluation surplus comprises only the effects of fair value revaluation of financial assets available for sale.

Revaluation surplus

(EUR)	2008	2007
As at 1 January	12,491,698	2,957,098
Increase due to fair value increase	499,804	22,436,327
Transfer of revaluation surplus to operating and financial income on disposal	–10,930,530	–12,901,727
Transfer of revaluation surplus to expenses (permanent impairment)	–12,631,875	0
As at 31 December	–10,570,904	12,491,698

The table shows movements in revaluation surplus, which is an equity component.

15) Net profit/loss for the period

Net profit/loss per share

(EUR)	As at 31 December 2008	As at 31 December 2007
Net earnings	–7,991,649	18,205,424
Weighted number of shares	8,785,596	7,862,519
Net earnings per share	–0.91	2.32

The weighted average number of shares outstanding in the accounting period was 8,785,596.

Accumulated loss for 2008

In 2008, pursuant to the Insurance Act, Sava Re established catastrophe risk reserves of EUR 1,207,027, and dismantled credit risk equalization reserves of EUR 615,609. This increased its net loss shown in the balance sheet by EUR 591,418, as compared to its net loss reported in the income statement.

16) Subordinated liabilities

At the end of 2006 and at the beginning of 2007, Sava Re raised two subordinated loans in the total amount of EUR 32 million, and drew down 97% of their principal amounts.

Maturity of the subordinated loans is 20 years, with the possibility of early repayment after 10 years without cancellation charges. Principals are due at maturity. The applicable interest rate is the same for both loans, a 3-month Euribor + 3.35%, with interest payable on a quarterly basis.

Subordinated liabilities as at 31 December 2008

Outstanding debt at effective interest rate as at 31 December 2008	31.139.605
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 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

In 2008, the Company paid EUR 2,676,532 of interest on the subordinated debt (2007: EUR 2,337,100), and EUR 141,654 of taxes on the subordinated debt, net of interest paid.

17) Technical provisions

Development of gross technical provisions in 2008

(EUR)	As at 1 January	Additions	Uses	As at 31 December
Gross unearned premiums	37,577,865	41,967,178	37,577,865	41,967,178
Gross provision for claims	91,219,036	80,421,825	55,181,881	116,458,980
Gross provision for bonuses, rebates and cancellations	195,280	309,973	195,280	309,973
Other gross technical provisions	491,661	572,879	491,661	572,879
Total	129,483,842	123,271,855	93,446,687	159,309,008

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
Mathematical provision	0	0	0	0
Gross provision for claims	83,383,909	43,802,300	35,967,173	91,219,036
Gross provision for bonuses, rebates and cancellations	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

Movements in technical provisions are further explained in section 13, “Reinsurance business”.

Unearned premiums represent short-term provisions for the unexpired portions 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 comprise provisions 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.

Liability adequacy testing of 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, and vice versa. 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 Insurance Act.

The table below summarises the calculation of gross provisions for unexpired risks by insurance class, both for 2007 and 2008.

(EUR)	2008		2007	
	Expected combined ratio	Provision for unexpired risk	Expected combined ratio	Provision for unexpired risk
Personal accident	57.8%	0	58.0%	0
Land vehicles casco	103.6%	231,067	104.1%	252,078
Aircraft casco	46.4%	0	43.2%	0
Ships hull	97.6%	0	109.3%	11,077
Goods in transit	87.7%	0	64.8%	0
Fire and natural forces	102.9%	173,133	93.5%	0
Other damage to property	87.4%	0	89.9%	0
Motor liability	93.8%	0	89.4%	0
Aircraft liability	31.0%	0	31.8%	0
Liability for ships	70.8%	0	20.2%	0
General liability	110.0%	67,086	133.0%	183,104
Credit	69.6%	0	92.8%	0
Suretyship	252.6%	101,592	145.9%	16,192
Miscellaneous financial loss	98.7%	0	151.9%	29,210
Legal expenses	3.7%	0	3.6%	0
Assistance	76.7%	0	44.8%	0
Life	26.1%	0	15.3%	0
Unit-linked life	5.3%	0	6.5%	0
Total	92.6%	572,879	92.6%	491,661

Provision for claims incurred but not reported (IBNR)

Sava Re like other reinsurance undertakings establishes the IBNR provision following three procedures. In the first procedure, the Company assumes a portion of the IBNR provision as calculated by cedants based on relevant reinsurance contract's provisions. This relates to business segments were invoices are received timely. With the introduction of premium and claims estimates for business segments where invoices are not received timely, in the second procedure the claims provision is estimated relating to the estimated reinsurance premium and is then added to the IBNR provision, as it has not been reported. In the third procedure, the IBNR provision is calculated as part of the liability adequacy test using the triangular method at the reinsurer's own portfolio data. This calculation too is made separately for gross and retroceded data at insurance class level. Using loss development triangles of cumulative claim 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 actuarial methods, for which reason its calculation is at the same time also the test of its liability adequacy.

The table below shows the sum total of the IBNR provision for claims as reported by cedants, as estimated, and as calculated using triangles at reinsurance portfolio level.

IBNR provision for claims as reported by cedants

(EUR)	As at 31 December 2008	As at 31 December 2007
1. Net IBNR	36,951,080	32,179,989
– gross provision	40,676,434	32,810,075
– reinsurers' share	–3,725,354	–630,086
2. Net RBNS	44,602,018	40,706,862
– gross provision	75,782,546	58,408,962
– reinsurers' share	–31,180,528	–17,702,100
Net claims provision (1+2)	81,553,098	72,886,851
Total gross claims provision	116,458,980	91,219,036
Total reinsurers' share	–34,905,882	–18,332,185
IBNR as % of gross claims provision	34.9%	36.0%
IBNR as % of net claims provision	45.3%	44.2%

The gross provision for claims outstanding is included under liabilities, while reinsurers' shares of the claims provision are included under assets.

18) Other provisions

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

Movements in other provisions in 2008

(EUR)	As at 1 January	Additions	Uses	Releases	As at 31 December
Provision for pensions	144,440	97,138	37,761	796	203,021
Provision for jubilee benefits	21,322	6,266	3,424	518	23,646
Total	165,762	103,404	41,185	1,314	226,667

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	191,801	2,210	14,780	13,469	165,762

19) Financial liabilities

Financial liabilities comprise the Company's short-term financial liabilities to other companies of EUR 160.

20) Other liabilities and current 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 and clients, as well as to other short-term liabilities. They relate to amounts invoiced in the fourth quarter of 2008 but falling due only in 2009.

Other liabilities and current income tax liabilities in 2008

(EUR)	Secured	Maturity			
		Over 5 years	Over 1 year	Up to 1 year	Total
Liabilities for reinsurance premiums	0	0	0	6,550,752	6,550,752
Liabilities for shares in reinsurance claims	0	0	0	35,977,626	35,977,626
Other short-term liabilities	0	0	0	11,899,838	11,899,838
Tax liabilities	0	0	0	0	0
Accruals and deferred income	0	0	0	308,834	308,834
Total	0	0	0	54,737,050	54,737,049

Other liabilities and current 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	8.245.665	8.245.665
Tax liabilities	0	0	5.344.477	4.821.552	10.166.029
Accruals and deferred income	0	0	0	1.010.234	1.010.234
Total	0	0	5.344.477	41.345.344	46.689.821

Movements in short-term provisions in 2008

(EUR)	As at 1 January 2008	Additions	Uses	As at 31 December 2008
Short-term accrued costs	18,000	34,063	18,000	34,063
– Auditing costs	18,000	34,063	18,000	34,063
Other accruals and deferred income	992,234	2,457,583	3,175,046	274,771
– Liabilities for deposits	992,234	2,457,583	3,175,046	274,771
Total	1,010,234	2,491,647	3,193,046	308,834

Movements in short-term provisions in 2007

(EUR)	As at 1 January 2007	Additions	Uses	As at 31 December 2007
Short-term accrued 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

Off-balance sheet items

Off-balance sheet items amounted to EUR 3,965,753 as at year-end 2008. They comprised contingent receivables associated with the tax paid following an inspection by the Tax Administration. Sava Re 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 1.9 million), and additionally assessed income tax for 1998 and 1999 associated with allowances for investments (EUR 2.0 million).

27 NOTES TO THE FINANCIAL STATEMENTS – INCOME STATEMENT

21) Net earned premiums

Net earned premiums in 2007 and 2008

(EUR)	Net earned premiums 2008	Net earned premiums 2007
Personal accident	9,576,625	8,996,130
Land vehicles casco	19,620,544	18,144,085
Aircraft casco	54,059	–2,549
Ships hull	1,067,208	766,237
Goods in transit	3,442,219	1,548,325
Fire and natural forces	22,359,012	14,942,867
Other damage to property	20,750,517	19,054,042
Motor liability	26,470,522	25,422,475
Aircraft liability	181,541	181,528
Liability for ships	157,361	103,882
General liability	3,083,638	2,455,433
Credit	1,493,973	1,306,884
Suretyship	82,501	72,005
Miscellaneous financial loss	425,269	382,995
Legal expenses	2,611	1,894
Assistance	32,547	48,483
Life	241,984	220,071
Unit-linked life	56,376	36,826
Total	109,098,508	93,681,613

The above table shows net (re)insurance premiums earned by insurance class. Net earned premiums are net of the change in unearned premiums, which in 2008, amounted to EUR 4,758,444. Sava Re has been growing its business: in 2008, its net premiums earned increased by 16.5%. Its retroceded reinsurance premiums, however, decreased compared to 2007, by 2.1%.

22) Income from investments in affiliates

In 2008, Sava Re earned from its subsidiaries interest on bonds and interest on loans and rentals. From one of its associates, it earned dividends.

(EUR)	2008	2007
Interest on bonds	203,907	115,666
Interest on loans	113,882	56,427
Dividends	153,500	961,507
Rent	22,575	0
Total	493,864	1,133,600

Income from investments in subsidiaries and associates was EUR 0.5 million in 2008 or EUR 0.6 million less than in 2007. The decrease is explainable by the decrease in dividends from subsidiaries and associates.

23) Investment income

(EUR)	Liability fund 2008	Liability fund 2007	Index
Income from shares and interests	70,693	170,926	41.4
Income from land and buildings	0	0	0.0
Interest income	4,259,673	3,879,414	109.8
Financial income from revaluation	1,842,363	316,264	582.5
Other financial income	0	0	0.0
Value adjustments on investments	0	0	0.0
Gains on disposals of investments	1,095,823	1,431,008	76.6
Total investment income – liability fund	7,268,553	5,797,612	125.4
(EUR)	Capital fund 2008	Capital fund 2007	Index
Income from shares and interests	105,360	462,291	22.8
Income from land and buildings	97,533	98,955	98.6
Interest income	3,935,903	2,995,628	131.4
Financial income from revaluation	1,273,317	28,189	4,517.1
Other financial income	0	0	0.0
Value adjustments on investments	0	0	0.0
Gains on disposals of investments	9,344,648	17,324,218	53.9
Total investment income – capital fund	14,756,760	20,909,281	70.6
Total investment income	22,025,313	26,706,893	82.5

Investment income by IFRS categories in 2008

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Interest income	192,576	0	70,005	365,369	5,966,451	1,601,174	0	0	8,195,576
Dividend income	0	72,817	0	0	103,237	0	0	0	176,053
Gains on disposal of investments	0	205,189	0	0	10,235,282	0	0	0	10,440,471
Income from land and buildings	0	0	0	0	0	0	97,533	0	97,533
Financial income from revaluation	0	124,298	15,607	1,276,655	498,056	1,201,065	0	0	3,115,680
Total	192,576	402,304	85,612	1,642,024	16,803,026	2,802,238	97,533	0	22,025,313

Investment income by IFRS categories in 2007

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Interest income	0	0	70,186	171,445	5,136,326	1,243,614	0	0	6,621,572
Dividend income	0	34,937	0	0	598,280	0	0	0	633,217
Gains on disposal of investments	0	593,392	0	0	14,558,739	0	0	0	15,152,132
Income from land and buildings	0	0	0	0	0	0	2,568,520	0	2,568,520
Financial income from revaluation	0	13,106	0	1,399,175	5,513	313,659	0	0	1,731,453
Total	0	641,435	70,186	1,570,620	20,298,859	1,557,273	2,568,520	0	26,706,893

The Company keeps separate records for investment income from its liability fund and investment income from its capital fund.

Income from other investments was EUR 22.0 million in 2008 or EUR 4.7 million less than in 2007. The decrease is attributable to the decrease in gains on disposal of investments. Performance of capital markets in 2008 was poor, for which reason the Company was not in a position to earn gains on disposal of investments from its portfolio.

24) Other technical income

This item includes reinsurance commission income.

Commission income net of deferred acquisition costs attributable to reinsurers, in 2007 and 2008

(EUR)	2008	2007	Index
Personal accident	930	1,457	63.8
Land vehicles casco	157,788	55,248	285.6
Aircraft casco	2,583	31,875	8.1
Ships hull	6,483	8,588	75.5
Goods in transit	13,255	27,720	47.8
Fire and natural forces	1,288,918	1,608,637	80.1
Other damage to property	987,311	1,103,091	89.5
Motor liability	133,774	32,720	408.9
Aircraft liability	17,594	41,433	42.5
Liability for ships	482	1,836	26.3
General liability	68,683	71,018	96.7
Miscellaneous financial loss	39,617	78,907	50.2
Total non-life	2,717,418	3,062,531	88.7
Life	77,527	71,777	108.0
Total life	77,527	71,777	108.0
Total	2,794,945	3,134,308	89.2

25) Other income

In 2008, this item comprised only income of EUR 1,314 from dismantling of retirement and jubilee benefits (2007: EUR 11,259).

26) Net insurance claims and benefits incurred

Net insurance claims and benefits incurred in 2007 and 2008

(EUR)	Net claims and benefits incurred 2008	Net claims and benefits incurred 2007
Personal accident	3,699,575	3,574,090
Land vehicles casco	15,986,109	15,835,472
Aircraft casco	33,102	4,598
Ships hull	996,987	599,516
Goods in transit	2,765,846	1,121,750
Fire and natural forces	16,904,363	10,359,877
Other damage to property	18,341,034	11,916,580
Motor liability	16,590,788	23,123,503
Aircraft liability	22,361	–59,189
Liability for ships	210,712	–3,989
General liability	2,219,978	–2,764,245
Credit	812,025	–644,317
Suretyship	223,177	52,917
Miscellaneous financial loss	154,955	85,681
Legal expenses	0	–47
Assistance	12,841	–69,490
Life	93,833	–48,332
Unit-linked life	–5,999	1,483
Total	79,061,685	63,085,858

The above table shows gross claims and benefits paid, net of gross subrogation and retrocession recoveries. The amount of net claims incurred includes the change in provisions for outstanding claims, which, in 2008, resulted in an increase of net claims incurred by EUR 8.7 million.

In 2007, gross claims and benefits paid were almost the same as in 2006. Retrocession recoveries, however, decreased significantly, by as much as 40%, but this was offset by the increase in provisions for outstanding claims, which was 36%.

27) Change in other technical provisions

In 2008, other technical provisions of EUR 182,999 were established, while in 2007, other technical provisions of EUR 342,460 were dismantled. Both changes relate to provisions for bonuses, rebates and cancellations, and reversal of provisions for unexpired risks.

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28) Operating expenses

The Company classifies operating expenses by nature. Compared to 2007, they increased by 21.8%.

Operating expenses in 2007 and 2008

(EUR)	2008	2007	Index
1. Acquisition costs (commissions)	33,684,777	28,837,572	116.8
2. Change in deferred acquisition costs	–1,331,431	–1,946,603	68.4
3. Depreciation of operating assets	154,831	128,652	120.3
4. Labour costs	4,880,026	4,028,366	121.1
– salaries and wages	3,238,920	2,660,394	121.7
– social and pension insurance costs	642,726	510,134	126.0
– other labour costs	998,380	857,838	116.4
5. Costs of serices by natural persons not performing business, incl. of contributions	139,892	98,925	141.4
6. Other operating costs	1,599,449	987,023	162.0
– entertainment, advertising, exhibition costs	131,966	119,666	110.3
– material and energy costs	153,304	165,284	92.8
– maintenance costs	17,134	11,634	147.3
– reimbursement of work-related costs	229,449	157,177	146.0
– professional services costs	361,323	179,922	200.8
– taxes, levies and charges independent of profit or loss, except for insurance	178,040	78,176	227.7
– transport and communication costs	62,230	54,421	114.3
– insurance premium costs	91,857	34,358	267.4
– bank fees	49,981	36,423	137.2
– rentals and leases	9,267	2,585	358.5
– training costs	21,488	21,381	100.5
– other service costs	293,411	125,996	232.9
Total	39,127,544	32,133,935	121.8

As already mentioned in section 22.8, “Significant accounting policies”, Sava Re changed the presentation of commission under reinsurance contracts. Commission expenses are now included under acquisition costs, while commission income is included under other technical income. Other operating expenses, net of acquisition costs (commissions) and changes in deferred acquisition costs (commissions), represented 5.03% of gross premium written in 2008 (2007: 4.4%). The increase is mainly attributable to labour costs related to the Company’s expansion to new markets.

In 2008, the costs of auditing were EUR 56,772.

Acquisition costs in 2007 and 2008

(EUR)	2008	2007	Index
Personal accident	3,139,982	3,065,360	102.4
Land vehicles casco	5,503,628	4,655,762	118.2
Aircraft casco	18,688	21,050	88.8
Ships hull	213,510	128,850	165.7
Goods in transit	750,588	362,535	207.0
Fire and natural forces	8,657,793	6,491,783	133.4
Other damage to property	7,217,281	6,230,979	115.8
Motor liability	6,231,883	6,198,740	100.5
Aircraft liability	90,781	97,512	93.1
Liability for ships	49,684	31,569	157.4
General liability	969,422	795,438	121.9
Credit	409,356	388,024	105.5
Suretyship	37,886	12,056	314.2
Miscellaneous financial loss	213,381	199,613	106.9
Legal expenses	2,100	1,603	131.0
Assistance	12,645	12,284	102.9
Total non-life	33,518,608	28,693,159	116.8
Life	158,270	139,494	113.5
Unit-linked life	7,899	4,919	160.6
Total life	166,169	144,413	115.1
Total	33,684,777	28,837,572	116.8

Change in deferred acquisition costs in 2007 and 2008

(v EUR)	2008	2007	Index
Personal accident	3,341	–159,969	–2.1
Land vehicles casco	–104,136	–330,243	31.5
Aircraft casco	–2,608	–3,728	70.0
Ships hull	–16,207	–14,022	115.6
Goods in transit	–67,809	–47,197	143.7
Fire and natural forces	–569,289	–615,636	92.5
Other damage to property	–581,789	–454,096	128.1
Motor liability	82,756	–138,463	–59.8
Aircraft liability	996	–1,124	–88.6
Liability for ships	–10,560	–4,969	212.5
General liability	–42,094	–63,357	66.4
Credit	1,960	–99,989	–2.0
Suretyship	–15,174	1,495	–1,015.0
Miscellaneous financial loss	–7,613	–13,835	55.0
Legal expenses	–1,421	–1,111	127.9
Assistance	–2,428	–219	1,107.6
Total non-life	–1,332,077	–1,946,462	68.4
Life	645	–141	–458.2
Total life	645	–141	–458.2
Total	–1,331,431	–1,946,603	68.4

Remuneration paid to members of the Management Board, the Supervisory Board and to employees with individual employment contracts in 2007 and 2008

(EUR)	2008	2007
Management board members	887,827	810,417
Supervisory boards/bodies of subsidiaries	61,586	58,527
Employees with individual contracts	1,638,278	1,283,300
Auditing committee	4,826	0
Total	2,592,517	2,152,244

Remuneration paid to Management Board members in 2008

(EUR)	Gross salary – fixed amount	Gross salary – variable amount	Other benefits	Total
Dušan Čeč	212,636	100,646	338,720	652,002
Mag. Zvonko Ivanušič	171,543	55,707	8,575	235,825
Total	384,179	156,353	347,295	887,827

Remuneration paid to members of the Supervisory Board and the Auditing Committee in 2008

(EUR)	Attendance fees	Expenses reimbursed	Total
Supervisory Board members			
Mag. Marko Pogačnik	12,698	14	12,713
Dr. Timotej Jagrič	9,768	1,462	11,230
Dr. Edo Pirkmajer	8,316	38	8,354
Anton Sagadin	9,768	1,306	11,074
Nada Zidar	8,448	0	8,448
Mag. Aleš Mirnik	9,768	0	9,768
Supervisory board members – total	58,766	2,820	61,586
Auditing Committee members			
Dr. Edo Pirkmajer	1,716	0	1,716
Dr. Timotej Jagrič	1,320	235	1,555
Mag. Blanka Vezjak	1,320	235	1,555
Auditing committee members – total	4,356	470	4,826

Number of employees by degree of formal education attained as at 31 December 2007 and 2008

Degree of education	2008	2007
Primary and lower secondary (I–IV)	1	1
Secondary (V)	15	15
Higher (VI)	5	5
University (VII)	27	26
Post-graduate (VIII)	10	8
Total	58	55

29) Investment expenses

Investment expenses

(EUR)	Liability fund 2008	Liability fund 2007	Index
Depreciation of investments not necessary for operations	0	0	–
Asset management expenses, interest expenses and other financial expenses	54,364	1,248,384	4.4
Financial expenses from revaluation	4,858,338	43,370	11202.1
Losses on disposal of investments	1,133,980	501,134	226.3
Total investment expenses of liability fund	6,046,682	1,792,888	337.3
(EUR)	Capital fund 2008	Capital fund 2007	Index
Depreciation of investments not necessary for operations	15,748	39,577	39.8
Asset management expenses, interest expenses and other financial expenses	2,981,497	2,588,018	115.2
Financial expenses from revaluation	13,233,578	49,906	26517.0
Losses on disposal of investments	1,452,963	1,362,639	106.6
Total investment expenses of capital fund	17,683,786	4,040,140	437.7
Total investment expenses	23,730,468	5,833,028	406.8

Investment expenses by IFRS categories in 2008

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Losses on disposal of investments	0	1,418,800	0	0	1,168,143	0	0	0	2,586,943
Expenses from land and buildings	0	0	0	0	0	0	15,748	0	15,748
Financial expenses from revaluation	0	84,765	21,624	3,602,507	438,810	1,312,335	0	0	5,460,040
Other financial expenses	0	5,724	0	136	211,651	163	0	2,818,186	3,035,861
Permanent impairment	0	0	0	0	12,631,875	0	0	0	12,631,875
Total	0	1,509,289	21,624	3,602,643	14,450,479	1,312,498	15,748	2,818,186	23,730,467

Investment expenses by IFRS categories in 2007

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Losses on disposal of investments	0	564,733	0	0	827,040	0	0	0	1,391,773
Expenses from land and buildings	0	0	0	0	0	0	40,121	0	40,121
Financial expenses from revaluation	0	159,227	38,240	476,730	365,240	694,657	0	0	1,734,094
Other financial expenses	0	30,751	0	0	116,513	9,587	0	2,510,188	2,667,040
Total	0	754,710	38,240	476,730	1,308,794	704,244	40,121	2,510,188	5,833,028

Investment expenses in 2008 were EUR 23.7 million or EUR 17.9 million more than in 2007. The increase is attributable to permanent investment impairment of EUR 12.6 million, recognised in accordance with IAS 39, but also to revaluation financial expenses, which increased EUR 3.7 million as a result of negative trends in capital markets.

Permanent impairment of financial investments

(EUR)	As at 31 December 2008	As at 31 December 2007
Bonds	2,477,556	0
Shares	3,862,950	0
Mutual funds	6,291,369	0
Total	12,631,875	0

Permanent impairments of long-term investment relate also to shares issued by Nova Kreditna Banka Maribor (EUR 2,675,897), and units of Publikum Balkan mutual fund (EUR 2,241,245).

It was established that goodwill in Montenegro osiguranje must be impaired by EUR 1,329,361.

30) Other technical expenses

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

31) Other expenses

Other expenses comprise expenses that cannot be classified as technical expenses. In 2008, they amounted to EUR 1,370.

32) Corporate income tax

Due to the gross loss reported by Sava Re in 2008, it is not possible to compare the 2008 and 2007 corporate income tax. Its amount in 2008, however, was affected by payment of the second and pre-last instalment (of EUR 2.6 million) of tax payable due to the increase in retained earnings upon transition to IFRS. Despite the gross loss reported in 2008, Sava Re still had to account for non-deductible expenses arising on impairment of available for sale financial assets (category 4 under IFRS). It thus recognised deferred tax assets for temporary non-deductible investment impairments, and for 50% of provisions for retirement and jubilee benefits. Given the 1 percentage point reduction (from 22% to 21%) in the applicable tax rate used in the calculation of deferred tax assets, these were EUR 5,427 less than they would have been otherwise.

Income tax in 2007 and 2008

(EUR)	2008	2007
Accounting income	134,517,064	122,023,732
Adjustment – exemption of income due to past non-deductability	–177,352	–1,402,267
Recognized income	134,339,712	120,621,465
Accounting expenses	144,007,133	98,487,074
Adjustment of expenses	–14,294,845	–415,335
Increase in expenses due to payment of non-deductible expenses	0	0
Recognised expenses	129,712,288	98,071,739
Recognised income less recognised expenses	4,627,424	22,549,726
Increase in tax due to transition to IFRS	12,192,852	12,072,513
Increase in tax base	8,802	67,572
Tax incentives	–161,247	–54,561
Tax base	16,667,831	34,635,250
Tax	3,666,923	7,966,107
Deferred tax	–5,165,343	–2,634,873
Income tax	–1,498,420	5,331,234

The effective tax rate (calculated as the ratio of corporate income tax to tax base) was 23% in 2007. It would not make sense to calculate it for 2008, given the gross loss reported by Sava Re.

28 TRANSACTIONS WITH GROUP COMPANIES

Investments in Group companies and amounts due from Group companies

(EUR)		Tilia	Sava Osig-uranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Debt securities and loans to Group companies	gross	1,666,365	1,500,000	500,000	0	0
	value adjustment	0	0	0	0	0
	net	1,666,365	1,500,000	500,000	0	0
Receivables for reinsur-ance premiums	gross	4,182,856	0	300,643	1,600,630	237,548
	value adjustment	0	0	0	0	0
	net	4,182,856	0	300,643	1,600,630	237,548
Other short-term re-ceivables from insurance business	gross	0	2,143	0	0	0
	value adjustment	0	0	0	0	0
	net	0	2,143	0	0	0
Long-term receivables	gross	0	92,412	83	0	0
	value adjustment	0	0	0	0	0
	net	0	92,412	83	0	0
Total		5,849,221	1,594,555	800,726	1,600,630	237,548

Investments in Group companies and amounts due from Group companies in 2007

(EUR)		Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Debt securities and loans to Group companies	gross	1,670,523	1,500,000	500,000	0	0
	value adjustment	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 adjustment	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 adjustment	0	0	0	0	0
	net	0	2,492	4,444	0	0
Long-term receivables	gross	0	35,308	0	0	0
	value adjustment	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

Liabilities to Group companies

Liabilities to Group companies in 2008

(EUR)	Tilia	Dukagjini	Sava Tabak	Montenegro osiguranje
Liabilities for reinsurance shares in claims	3,203,265	31,299	457,071	69,441
Other short-term liabilities	1,090,077	38,355	298,979	25,758
Total (excluding provisions)	4,293,342	69,654	756,050	95,199

Liabilities to Group companies in 2007

(EUR)	Tilia	Dukagjini	Sava Tabak	Montenegro osiguranje
Liabilities for reinsurance shares in claims	2,209,725	5,782	582,642	0
Other short-term liabilities	1,340,989	19,205	710,697	5,213
Total (excluding provisions)	3,550,714	24,987	1,293,339	5,213

Liabilities to Group companies by maturity

Liabilities to Group companies by maturity in 2008

(EUR)	Secured liabilities	Maturity			
		Over 5 years	Over 1 year	Up to 1 year	Total
Liabilities for reinsurance shares in claims	0	0	0	3,761,076	3,761,076
– to group companies	0	0	0	3,761,076	3,761,076
Other short-term liabilities	0	0	0	1,453,169	1,453,169
– to group companies	0	0	0	1,453,169	1,453,169

Liabilities to Group companies by maturity in 2007

(EUR)	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

Income and expenses from transactions with Group companies

Income and expenses from transactions with Group companies in 2008

(EUR)	Tilia	Sava Osig-uranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Gross premiums written	19,482,129	0	377,971	1,959,018	604,004
Gross claims paid	11,341,558	0	88,729	965,774	116,773
Other operating costs	38,300	0	0	0	0
Income from land and bulidings	22,575	0	0	0	0
Interest income	162,171	86,646	27,236	0	0
Reinsurance commissions	4,914,936	0	65,920	381,397	45,340

Income and expenses from transactions with Group companies in 2007

(EUR)	Tilia	Dukagjini	Sava Tabak
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

29 ADDITIONAL INFORMATION TO THE INCOME STATMENT

Gross profit/loss by class of insurance for Group companies in 2008

Maribor

(EUR)	Premiums	Claims	Commission	Gross profit/loss
Personal accident	5,457,974	2,138,522	1,412,441	1,907,011
Health	0	0	0	0
Land vehicles casco	14,896,561	15,463,100	3,551,023	–4,117,562
Railway rolling stock	0	0	0	0
Aircraft casco	13,737	875	4,848	8,014
Ships hull	102,592	94,481	21,887	–13,775
Goods in transit	420,145	164,106	69,918	186,121
Fire and natural forces	5,670,109	14,539,445	1,213,603	–10,082,939
Other damage to property	9,159,716	24,765,318	2,054,731	–17,660,334
Motor liability	18,499,024	10,688,531	4,737,470	3,073,023
Aircraft liability	42,622	371	4,263	37,988
Liability for ships	52,813	951	13,275	38,586
General liability	1,961,335	1,776,649	405,835	–221,149
Credit	564,232	–38,855	146,700	456,386
Suretyship	31,906	428,860	7,044	–403,999
Miscellaneous financial loss	383,810	136,209	86,836	160,766
Legal expenses	8,077	0	2,100	5,977
Assistance	13,111	0	3,933	9,178
Life	51,300	0	4,423	46,877
Wedding and childbirth insurance	0	0	0	0
Unit-linked life	0	0	0	0
Tontine	0	0	0	0
Capital redemption	0	0	0	0
Income protection (accident and illness)	0	0	0	0
Total	57,329,062	70,158,563	13,740,330	–26,569,831

Tilia

(EUR)	Premiums	Claims	Commission	Gross profit/loss
Personal accident	2,500,542	1,057,115	1,053,690	389,737
Health	0	0	0	0
Land vehicles casco	4,482,141	3,253,763	905,343	323,035
Railway rolling stock	0	0	0	0
Aircraft casco	3,039	1,034	394	1,611
Ships hull	4,348	1,452	321	2,575
Goods in transit	162,825	106,276	39,767	16,782
Fire and natural forces	2,616,830	1,081,582	794,189	741,059
Other damage to property	1,768,296	922,989	664,669	180,638
Motor liability	6,529,650	3,712,596	1,002,557	1,814,497
Aircraft liability	8,381	0	855	7,526
Liability for ships	4,862	0	1,136	3,726
General liability	711,825	354,237	304,207	53,381
Credit	539,398	319,139	106,907	113,352
Suretyship	40,581	39,787	8,043	–7,249
Miscellaneous financial loss	57,436	83,497	24,163	–50,224
Legal expenses	0	0	0	0
Assistance	7,870	0	3,863	4,008
Life	5,932	0	1,030	4,903
Wedding and childbirth insurance	0	0	0	0
Unit-linked life	38,171	0	3,802	34,368
Tontine	0	0	0	0
Capital redemption	0	0	0	0
Income protection (accident and illness)	0	0	0	0
Total	19,482,129	10,933,468	4,914,936	3,633,724

Dukagjini

(EUR)	Premiums	Claims	Commission	Gross profit/loss
Personal accident	49,365	4,074	10,860	34,431
Health	0	0	0	0
Land vehicles casco	74,775	42,379	16,450	15,946
Railway rolling stock	0	0	0	0
Aircraft casco	0	0	0	0
Ships hull	0	0	0	0
Goods in transit	2,856	0	78	2,778
Fire and natural forces	177,745	40,872	37,694	99,179
Other damage to property	14,001	1,405	837	11,759
Motor liability	52,075	0	0	52,075
Aircraft liability	0	0	0	0
Liability for ships	0	0	0	0
General liability	4,555	0	0	4,555
Credit	0	0	0	0
Suretyship	2,600	0	0	2,600
Miscellaneous financial loss	0	0	0	0
Legal expenses	0	0	0	0
Assistance	0	0	0	0
Life	0	0	0	0
Wedding and childbirth insurance	0	0	0	0
Unit-linked life	0	0	0	0
Tontine	0	0	0	0
Capital redemption	0	0	0	0
Income protection (accident and illness)	0	0	0	0
Total	377,971	88,729	65,920	223,322

Sava Tabak

(EUR)	Premiums	Claims	Commission	Gross profit/loss
Personal accident	0	0	0	0
Health	0	0	0	0
Land vehicles casco	0	0	0	0
Railway rolling stock	0	0	0	0
Aircraft casco	0	0	0	0
Ships hull	0	0	0	0
Goods in transit	0	0	0	0
Fire and natural forces	445,926	236,232	119,188	90,506
Other damage to property	1,240,427	729,542	262,209	248,677
Motor liability	264,613	0	0	264,613
Aircraft liability	0	0	0	0
Liability for ships	0	0	0	0
General liability	8,051	0	0	8,051
Credit	0	0	0	0
Suretyship	0	0	0	0
Miscellaneous financial loss	0	0	0	0
Legal expenses	0	0	0	0
Assistance	0	0	0	0
Life	0	0	0	0
Wedding and childbirth insurance	0	0	0	0
Unit-linked life	0	0	0	0
Tontine	0	0	0	0
Capital redemption	0	0	0	0
Income protection (accident and illness)	0	0	0	0
Total	1,959,017	965,774	381,397	611,846

Montenegro osiguranje

(EUR)	Premiums	Claims	Commission	Gross profit/loss
Personal accident	0	0	0	0
Health	0	0	0	0
Land vehicles casco	123,726	51,814	0	71,912
Railway rolling stock	0	0	0	0
Aircraft casco	0	0	0	0
Ships hull	0	0	0	0
Goods in transit	4,140	0	1,035	3,105
Fire and natural forces	57,505	0	14,048	43,456
Other damage to property	104,398	0	20,465	83,932
Motor liability	274,706	64,959	0	209,747
Aircraft liability	0	0	0	0
Liability for ships	37,696	0	9,424	28,272
General liability	0	0	0	0
Credit	0	0	0	0
Suretyship	0	0	0	0
Miscellaneous financial loss	1,834	0	367	1,467
Legal expenses	0	0	0	0
Assistance	0	0	0	0
Life	0	0	0	0
Wedding and childbirth insurance	0	0	0	0
Unit-linked life	0	0	0	0
Tontine	0	0	0	0
Capital redemption	0	0	0	0
Income protection (accident and illness)	0	0	0	0
Total	604,004	116,773	45,340	441,892

Net profit from reinsurance business

(EUR)	Net reinsurance premiums	Net reinsurance claims	Net profit 2008	Net profit 2007
Personal accident	9,554,163	3,811,729	5,742,434	5,490,968
Health	0	0	0	0
Land vehicles casco	19,850,307	16,749,051	3,101,256	4,495,987
Railway rolling stock	0	0	0	0
Aircraft casco	98,620	–4,375	102,995	–30,042
Ships hull	1,227,160	858,292	368,868	304,037
Goods in transit	3,740,643	1,828,209	1,912,434	1,103,077
Fire and natural forces	24,920,066	12,502,175	12,417,891	5,916,108
Other damage to property	22,467,025	15,890,337	6,576,688	8,522,633
Motor liability	25,970,393	15,124,320	10,846,072	10,599,959
Aircraft liability	179,389	101,458	77,932	132,949
Liability for ships	188,331	25,315	163,016	108,541
General liability	3,256,104	2,325,261	930,843	482,233
Credit	1,524,097	421,398	1,102,699	1,021,656
Suretyship	132,306	468,661	–336,355	–43,561
Miscellaneous financial loss	405,373	216,573	188,799	131,368
Legal expenses	8,077	0	8,077	6,086
Assistance	36,012	14,499	21,514	17,807
Life	242,510	62,534	179,975	151,041
Wedding and childbirth insurance	0	0	0	0
Unit-linked life	56,376	0	56,376	35,343
Tontine	0	0	0	0
Capital redemption	0	0	0	0
Income protection (accident and illness)	0	0	0	0
Total	113,856,951	70,395,437	43,461,514	38,446,191

Net profit from reinsurance business including commission

(EUR)	Net reinsurance premiums	Net reinsurance claims	Net reinsurance commission	Net profit 2008	Net profit 2007
Personal accident	9,554,163	3,811,729	3,138,894	2,603,539	2,427,143
Health	0	0	0	0	0
Land vehicles casco	19,850,307	16,749,051	5,323,450	–2,222,194	–58,457
Railway rolling stock	0	0	0	0	0
Aircraft casco	98,620	–4,375	19,376	83,619	–15,946
Ships hull	1,227,160	858,292	206,560	162,309	182,442
Goods in transit	3,740,643	1,828,209	737,542	1,174,892	767,533
Fire and natural forces	24,920,066	12,502,175	7,266,143	5,151,749	1,074,869
Other damage to property	22,467,025	15,890,337	6,298,952	277,736	3,498,014
Motor liability	25,970,393	15,124,320	6,017,320	4,828,752	4,433,255
Aircraft liability	179,389	101,458	73,584	4,347	77,590
Liability for ships	188,331	25,315	49,617	113,399	78,703
General liability	3,256,104	2,325,261	897,057	33,786	–245,371
Credit	1,524,097	421,398	409,356	693,343	633,632
Suretyship	132,306	468,661	37,886	–374,241	–55,617
Miscellaneous financial loss	405,373	216,573	161,920	26,879	11,349
Legal expenses	8,077	0	2,100	5,977	4,483
Assistance	36,012	14,499	12,645	8,869	5,523
Life	242,510	62,534	80,585	99,390	82,227
Wedding and childbirth insurance	0	0	0	0	0
Unit-linked life	56,376	0	7,899	48,477	30,424
Tontine	0	0	0	0	0
Capital redemption	0	0	0	0	0
Income protection (accident and illness)	0	0	0	0	0
Total	113,856,951	70,395,437	30,740,884	12,720,630	12,931,794

Profit from outward retrocession business including commission

(EUR)	Retrocession premiums	Retrocession claims	Retrocession commission	Premiums – claims	Premiums – claims – commission
	1	2	3	4=1–2	5=1–2–3
Personal accident	42,303	28,191	1,087	14,112	13,025
Health	0	0	0	0	0
Land vehicles casco	3,435,314	6,142,852	180,179	–2,707,538	–2,887,717
Railway rolling stock	0	0	0	0	0
Aircraft casco	–991	23,932	–688	–24,923	–24,235
Ships hull	102,649	17,641	6,951	85,007	78,056
Goods in transit	197,768	0	13,047	197,768	184,722
Fire and natural forces	8,534,958	17,212,841	1,391,650	–8,677,883	–10,069,533
Other damage to property	5,673,710	19,387,296	918,329	–13,713,585	–14,631,914
Motor liability	1,602,912	1,260,497	214,563	342,415	127,852
Aircraft liability	79,972	16,019	17,197	63,952	46,756
Liability for ships	3,403	0	67	3,403	3,337
General liability	566,450	67,671	72,366	498,779	426,414
Credit	0	0	0	0	0
Suretyship	0	0	0	0	0
Miscellaneous financial loss	377,399	105,072	51,461	272,327	220,866
Legal expenses	0	0	0	0	0
Assistance	0	0	0	0	0
Life	270,919	31,782	77,685	239,138	161,453
Wedding and childbirth insurance	0	0	0	0	0
Unit-linked life	0	0	0	0	0
Tontine	0	0	0	0	0
Capital redemption	0	0	0	0	0
Income protection (accident and illness)	0	0	0	0	0
Total	20,886,767	44,293,794	2,943,893	–23,407,027	–26,350,919

SAVA RE GROUP BUSINESS REPORT

30 REINSURANCE BUSINESS

Table 40: Key financial data for the Sava Re Group in 2007 and 2008

(EUR)	2008	2007	Index
Gross premiums written	229,606,927	188,637,037	121.7
Investment income	29,357,293	33,552,102	87.5
Gross claims paid	155,131,483	99,422,356	156.0
Operating expenses including reinsurance commissions	70,841,502	53,377,118	132.7
Investment expenses	33,239,644	6,405,090	519.0
Profit for the period	–8,472,644	20,845,254	–240.1

Gross (re)insurance premiums written

In 2008, consolidated gross (re)insurance premiums written increased 21.7%, to EUR 229.6 million, while in 2007 they were EUR 188.6 million. The reasons that mainly contributed to this were the following: the first full consolidation of the insurer Montenegro osiguranje (28.2%), the increase in foreign-sourced reinsurance premiums (35.6%), and the increase in premiums from Zavarovalnica Tilia (24.7%). Other Group insurers also experienced solid premium growth, but contributed less due to their smaller volume of business.

Investment income

Investment income in 2008 dropped 12.5% due to the lower investment income earned by the parent, which, in 2007, realised high capital gains.

Gross (re)insurance claims paid

Gross (re)insurance claims paid increased 56.0% from 2007. This is mainly explainable by the increase in gross claims recorded by the parent due to storms that hit Slovenia in the summer 2008. They contributed EUR 55 million or almost 80% to the consolidated increase in gross (re)insurance claims paid. The first full consolidation of Montenegro osiguranje contributed another 11%.

Operating expenses net of reinsurance commission income

Operating expenses net of reinsurance commission income increased 32.7% from 2007. This is mainly explainable by the increase in the volume of business. Commissions paid by Sava Re to foreign cedants for the business placed with it contributed almost 42%. The first full consolidation of Montenegro osiguranje contributed slightly more than 25%, while Zavarovalnica Tilia, due to the significant increase in its volume of business, contributed 17.2%. Other Group companies also saw their operating expenses increase, mainly due to their expansion of agency networks.

Investment expenses

Investment expenses increased slightly more than 400% in 2008 due to permanent investment impairment by the parent (which contributed 70%). Other Group companies also permanently impaired their investments, in accordance with Sava Re's permanent impairment policy, which explains the remaining 30% of the consolidated increase.

Net profit or loss

The consolidated net loss reported in 2008 by the Sava Re Group was EUR 8.5 million, which is mainly explainable by the parent's loss (due to storms and permanent investment impairment), and loss of EUR 2.3 million reported by Montenegro osiguranje, which was fully consolidated for the first time. Other Group members reported profits in 2008.

Table 41: Summary of key performance indicators of the Sava Re Group

	2008	2007
Loss ratio, net of reinsurance	62.8%	62.0%
Cost ratio, net of reinsurance	36.5%	33.8%
Combined ratio, net of reinsurance	99.3%	95.8%
Return on investment	–0.2%	9.0%
Return on equity	–4.9%	13.7%

Net loss ratio (net claims incurred / net premiums earned)

In 2008, the net loss ratio increased 0.8 percentage points from 2007, from 62.0% to 62.8%. The loss ratio deteriorated in Sava Re (where it increased by 5.2 percentage points to 72.5%) and in Sava Osiguranje (where it increased by 7.1 percentage points to 49.9%). The consolidated deterioration is attributable also to the first full consolidation of Montenegro osiguranje, where after improving the quality of its portfolio, the loss ratio increased to 69.5%, extremely high for the company.

Net expense ratio (operating expenses net of reinsurance commission income / net premiums earned)

In 2008, the net expense ratio increased by 2.7 percentage points to 36.5%. The reason for this is above all the first full consolidation of Montenegro osiguranje. The newly acquired subsidiaries have net expense ratios higher than the Group average. This is mainly explainable by their substantially higher acquisition costs due to strong competitive pressure from new entrants and existing players in the markets where they operate. The consolidated increase is also attributable to the increase in the expense ratio of Sava Re, which received less retrocession commissions due to the increase in retroceded premiums under non-proportional contracts.

Net combined ratio (net loss ratio + net expense ratio)

In 2008, the net combined ratio increased by 3.5 percentage points from 2007, from 95.8% to 99.3%. The consolidated deterioration is attributable to the deterioration of the net expense ratio explained above.

Return on investment (net investment income / average investments in the period)

In 2008, return on investments decreased by 9.2 percentage points to 0.3%. In 2007, return on investments was high mainly due to the extraordinary income from capital gains realised by the parent on disposal of certain shares and real property, while in 2008, it was affected by permanent investment impairment (mainly by the parent).

Net return on equity (net profit or loss / average equity in the period)

In 2008, net return on equity decreased by 18.5 percentage points to –4.9%.

30.1 Consolidated gross (re)insurance premiums by segments

Table 42: Consolidated premiums written in 2007 and 2008

(EUR)	2008	2007	Index
Gross premiums written	229,606,926	188,637,037	121.7
Net premiums written	205,987,030	165,072,544	124.8
Net earned premiums	194,113,773	157,735,900	123.1

Table 43: Geographical split of consolidated gross premiums written in 2007 and 2008

(EUR)	2008	Structure 2008	2007	Structure 2007	Index
Slovenia	130,613,994	56.9%	121,416,497	64.4%	107.6
International	98,992,932	43.1%	67,220,540	35.6%	147.3
Total	229,606,926	100.0%	188,637,037	100.0%	121.7

Group companies experienced solid premium growth in 2008, some of them, Tilia established in Slovenia and Group companies established in the Western Balkan markets, even above-average growth. Consolidated gross premiums collected abroad increased 47.3%, which was also due to the first full consolidation of Montenegro osiguranje. The Montenegrin insurer alone collected premiums of EUR 11.5 million or 5.0% of the total consolidated gross (re)insurance premiums.[25]

Consolidated gross premiums written in Slovenia accounted for 56.9%. They lost 7.6 percentage points to the consolidated gross premiums from abroad (these increased due to solid growth rates in both insurance and reinsurance portfolios, as well as due to the first full consolidation of the Montenegrin insurer).

Table 44: Consolidated gross premiums written by segment in 2007 and 2008

(EUR)	2008	Structure 2008	2007	Structure 2007	Index
Reinsurance	112,320,597	48.9%	98,294,254	52.1%	114.3
Non-life insurance	106,412,572	46.3%	80,834,887	42.9%	131.6
Life insurance	10,873,757	4.7%	9,507,896	5.0%	114.4
Total	229,606,926	100.0%	188,637,037	100.0%	121.7

Consolidated gross premiums in the non-life segment increased 31.6% from 2007, reflecting solid premium growth in both domestic and foreign insurance portfolios. In the life segment, they increased 14.4% on account of growth in Tilia's portfolio. The increase in the reinsurance segment[26] of 14.3% reflects mainly the increase in the foreign reinsurance portfolio (38.0%).

30.2 Consolidated gross (re)insurance claims by segments

In 2008, consolidated gross (re)insurance claims recorded by the Sava Re Group were EUR 155.1 million, up 56.0% from 2007.

Table 45: Consolidated claims in 2007 and 2008

(EUR)	2008	2007	Index
Gross claims paid	155,131,483	99,422,356	156.0
Net claims paid	109,790,349	87,183,052	125.9
Net insurance claims incurred	121,848,431	97,852,916	124.5

Table 46: Geographical split of consolidated gross claims in 2007 and 2008

(EUR)	2008	Structure 2008	2007	Structure 2007	Index
Slovenia	109,107,572	70.3%	72,469,289	72.9%	150.6
International	46,023,911	29.7%	26,953,067	27.1%	170.8
Total	155,131,483	100.0%	99,422,356	100.0%	156.0

Consolidated gross (re)insurance claims written in Slovenia increased 50.6%. The high increase is mainly attributable to storms that hit Slovenia in the summer 2008.

Consolidated gross (re)insurance claims from abroad also increased, by 70.8% from the prior year. This is attributable to the increase in reinsurance (55.1%) and insurance claims recorded by the Group companies operating outside Slovenia. Reinsurance claims increased due to a couple of large losses suffered by the foreign-sourced reinsurance portfolio (losses on large risks, Emma and Paula storms, several smaller losses). Insurance claims increased due to the improvements made in the portfolio of subsidiaries, claims inflation,

25 The company was included only in the consolidated balance sheet as at 31 December 2007.
26 Consolidated reinsurance premium (gross premium less premium recived by Sava Re from its subsidiaries).

and the first full consolidation of Montenegro osiguranje (the subsidiary recorded gross claims of EUR 6.0 million, which represents 3.9% of the total consolidated gross (re)insurance claims).

Table 47: Consolidated gross claims by segment in 2007 and 2008

(EUR)	2008	Structure 2008	2007	Structure 2007	Index
Reinsurance	102,584,487	66.1%	58,555,012	58.9%	175.2
Non-life insurance	51,051,029	32.9%	39,028,335	39.3%	130.8
Life insurance	1,495,967	1.0%	1,839,009	1.8%	81.3
Total	155,131,483	100.0%	99,422,356	100.0%	156.0

Consolidated gross claims in the non-life segment increased by 30.8%, in the life segment they decreased 18.7%, and in the reinsurance segment they increased by 75.2%.

30.3 Movements in consolidated net technical provisions

Table 48: Net technical provisions as at 31 December 2007 and 31 December 2008

(EUR)	As at 31 December 2008	As at 31 December 2007	Index
Net unearned premiums	75,407,848	63,141,714	119.4
Net provisions for outstanding claims	128,566,501	116,790,159	110.1
Net mathematical provisions	10,280,311	9,294,329	110.6
Unit-linked life provision	10,748,184	11,112,839	96.7
Other net technical provisions	1,911,834	1,348,614	141.8
Total	226,914,678	201,687,655	112.5

Consolidated net technical provisions increased by 12.5% in 2008. Of this, net unearned premiums increased by 19.4% (due to the increase in consolidated premiums earned), while net claims provisions increased by 10.1%. Other technical provisions that comprise also provisions for bonuses and rebates increased by 41.8%, which in absolute terms translates into EUR 0.6 million only. Consolidated net mathematical provisions relating to both traditional and unit-linked life insurance increased by 3.0%.

31 INVESTMENTS

In 2008, the Sava Re's investment portfolio could not escape the negative trends in capital markets due to the global financial crisis. It decreased by EUR 11.5 million or 3.6% from 2007.

Table 49: Structure of investments as at 31 December 2007 and 31 December 2008

(EUR, except percentages)	Investments as at 31 December 2008	Structure as at 31 December 2008	Investments as at 31 December 2007	Structure as at 31 December 2007	Index
Deposits and CDs	73,288,274	24.1%	62,981,986	19.9%	116.4
Government bonds	71,243,900	23.4%	72,580,348	23.0%	98.2
Corporate bonds	57,775,899	19.0%	63,303,223	20.0%	91.3
Structured products	10,911,536	3.6%	13,173,848	4.2%	82.8
Shares	17,171,723	5.6%	29,026,688	9.2%	59.2
Other mutual funds	35,299,560	11.6%	41,268,152	13.1%	85.5
Loans	202,995	0.1%	213,682	0.1%	95.0
Land and buildings	5,243,407	1.7%	1,320,834	0.4%	397.0
Other	402,098	0.1%	906,718	0.3%	44.3
Strategic shares	32,773,009	10.8%	31,000,183	9.8%	105.7
Total	304,312,400	100.0%	315,775,662	100.0%	96.4

In 2008, the structure of the investment portfolio changed slightly. The change was the response to capital market conditions. Investments in deposits increased 16.4% partly because the Group was looking for fixed income that would ensure liquidity. The slightly riskier investments (corporate bonds, structured products, shares and mutual funds) decreased by EUR 25.6 million (17.4%). This was partly due to the maturity profile and disposals of these investments, and partly due to their downward fair value revaluation. A major change happened in the "land and buildings" item when Sava Tabak, in exchange for extinguishing its receivables, obtained a building worth EUR 3.4 million, and when Sava Re purchased an office building in Koper worth EUR 0.5 million.

31.1 Return on investments

The financial crisis affected also the return on the Group's investment portfolio. Below, return on investments in 2008 is shown by investment type and compared against the 2007 return on investments.

Table 50: Return on investments in 2007 and 2008

	As at 31 December 2008	As at 31 December 2007
Deposits and CDs	6.5%	4.4%
Government bonds	5.3%	4.0%
Corporate bonds	1.0%	4.4%
Structured products	–7.0%	–3.0%
Shares	13.5%	69.2%
Other mutual funds	–14.8%	4.6%
Loans	3.4%	9.9%
Land and buildings	4.1%	120.6%
Other	–282.2%	197.9%
Strategic shares	0.0%	3.2%
Total	0.3%	9.0%

To calculate return on investments, the Group uses the arithmetic average of the total investment amount as at the end of two consecutive years. Return on investments is then calculated as income from investments, expressed as percentage of the average investment amount in the year.

Return on the entire investment portfolio of the Sava Re Group was 0.3% in 2008, down 8.7 percentage points from 2007. The decrease is mainly attributable to permanent investment impairment of EUR 14.5 million due to the drop in market prices in capital markets in 2008.

The equity portfolio earned the highest return, mainly on the account of disposal of shares of Zavarovalnica Triglav.

Deposits and government bonds also earned higher returns than in 2007. Deposits earned higher returns due to higher interest rates, while government bonds earned higher returns due to disposal of certain bonds. Corporate bonds earned lower returns mainly due to permanent investment impairment associated with the bankruptcy of Lehman Brothers.

Investments in mutual funds earned negative returns due to permanent investment impairment of EUR 7.3 million.

Investments in land and buildings also earned lower returns, but this was expected as the high returns earned in 2007 resulted from disposal of property in Slovenia, while in 2008 income from buildings and land only comprised rentals.

The "other investments" item earned high negative returns due to loss of EUR 1.9 million realised on disposal of a derivative instrument. Sava Re sold this instrument (bought to hedge against interest rate risk associated with its subordinated debt) in order to avoid an even greater negative effect on the Group's consolidated results.

Strategic holdings of (associates') shares earned no dividends, i.e. no return in 2008.

32 PROFIT/LOSS FOR THE PERIOD BY CLASS OF INSURANCE

Table 51: Profit for the period by class of insurance in 2008

(EUR)	Net earned premiums	Net claims incurred	Change in other technical provisions	Operating expenses	Commission expenses	Investment income – expenses	Other expenses – income	Profit/loss
Personal accident	16,635,765	7,417,365	5,592	5,596,879	930	–351,443	–443,239	2,833,362
Health	860,379	61,075	0	361,464	0	–10,479	–22,924	404,437
Land vehicles casco	38,393,189	27,891,001	–223,405	14,081,587	240,507	–803,507	–1,022,937	–5,388,743
Railway rolling stock	0	0	0	0	0	–16	0	–16
Aircraft casco	58,911	35,513	–18	80,106	2,583	–613	–1,570	–56,325
Ships hull	1,120,324	1,000,003	10,787	349,006	6,483	–21,011	–29,850	–262,276
Goods in transit	3,920,909	3,041,739	–137,094	1,155,263	13,255	–61,477	–104,468	–565,876
Fire and natural forces	25,200,982	18,254,304	–24,870	11,857,410	1,370,312	–464,447	–671,448	–4,701,185
Other damage to property	28,702,659	21,103,903	7,383	11,718,912	1,055,018	–599,430	–764,746	–4,421,931
Motor liability	59,239,195	36,715,981	–10,752	20,193,889	133,774	–1,164,169	–1,578,353	–290,175
Aircraft liability	182,840	22,361	4	199,034	17,594	–3,986	–4,872	–29,814
Liability for ships	179,698	210,785	–67,070	130,768	482	–3,306	–4,788	–236,537
General liability	4,555,789	3,006,709	268,507	1,578,348	68,683	–90,884	–121,383	95,654
Credit	2,324,155	887,500	–353,769	663,230	0	–54,776	–61,924	302,956
Suretyship	110,549	308,618	15,381	145,276	0	–3,102	–2,945	–334,011
Miscellaneous financial loss	535,161	179,679	1,066	363,815	39,617	–10,971	–14,259	7,120
Legal expenses	84,829	–54	0	105,884	0	–1,699	–2,260	–24,960
Assistance	771,550	52,979	–336	369,992	0	–13,418	–20,557	314,268
Life	2,382,402	1,106,143	–954,130	980,423	77,533	–50,223	–63,476	–694,460
Wedding and childbirth insurance	0	0	0	0	0	0	0	0
Unit-linked life	8,854,488	552,828	299,395	3,936,987	0	–173,394	–235,916	4,254,758
Tontine	0	0	0	0	0	0	0	0
Capital redemption	0	0	0	0	0	0	0	0
Total	194,113,774	121,848,431	–1,163,331	73,868,273	3,026,771	–3,882,351	–5,171,913	–8,793,754
Current tax								5,051,983
Deferred tax								–5,373,093
Profit/loss for the period								–8,472,644

33 RISK MANAGEMENT

Risk Management in Sava Re is explained in more detail in the Company's business report in section 23 . Risk management in subsidiaries is primarily carried out as part of other business processes. Underwriting and market risks, for example, are managed by underwriting and finance departments by having appropriate underwriting and other processes in place.

As regards the establishment of technical provisions, subsidiaries comply with the requirements of local legislations, which, however, are less stringent than Slovenian regulations. Sava Re aims at introducing a uniform approach to technical provisions based on actuarial principles. This resulted in an increase in subsidiaries' technical provisions in 2008.

Risk management in subsidiaries is also carried out within advisory service provided to them in relation to risk assumption, retention limits, etc.

34 ORGANISATION, EMPLOYEES AND KNOWLEDGE

Employees: number and the highest level of education achieved

Table 52: Personnel records as at 31 December 2008

	Total	Sava Re	Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje	Sava Life, Belgrade	Dukagjini Life	Sava Invest	Bro-Dil
Head office	921	58	438	168	111	52	73	8	4	4	5
Sales staff, management, advertising, public relations, administration	483	9	265	104	72	14	16	1	2	0	0
Business units	232	0	0	148	14	48	19	3	0	0	0
Sales staff, management, advertising, public relations, administration	232	0	0	148	14	48	19	3	0	0	0
Total	1153	58	438	316	125	100	92	11	4	4	5

As at year-end 2008, the Sava Re Group, which comprised the parent with its nine subsidiaries, had 1,153 employees. Of these, as many as 715 or 62.0% were employed in sales. Compared to year-end 2007, when the Sava Re Group comprised the parent with its five subsidiaries (Zavarovalnica Tilia, Sava Osiguranje, Dukagjini, Sava Tabak, Bro-Dil and Montenegro osiguranje), the number of employees increased by 169 or 17.2%.

The Group is employing a professional who is in charge of facilitating the marketing of insurance products on Group level. In other areas, however, the parent offers support and co-ordinates training activities in subsidiaries.

35 BUSINESS PROCESSES AND IT SUPPORT

In 2008, Group companies continued to draw synergies from their combined expertise in the field of process and information technology. Life insurance software was implemented in Zavarovalnica Tilia and in the two newly established life insurance companies, Sava životno osiguranje in Belgrade and Dukagjini Life in Kosovo. In 2009, software should be implemented in a non-life insurer in Macedonia, too.

As support to its finance and accounting functions, Sava Re has been using for years the Navision system. Being satisfied with it, Sava Re is now planning to implement it in all Group companies. Several steps towards this have already been made, amongst them the upgrading in 2008 of the Navision system with various modules to make it compliant with the legal requirements of the jurisdictions in which Group companies operate, and its translation into Serbian and Macedonian. The Serbian and Macedonian subsidiary currently use modules that support their finance and accounting functions, using terminals connected to the central location in Sava Re, Ljubljana.

Sava Osiguranje, Belgrade, implemented software for insurance policy administration, developed by a local software developer with experience in Slovenian insurance companies with advanced IT support. So far, the Company has had but positive experience with it, and the software should now be implemented by other Group members, the Macedonian Sava Tabak and the Montenegrin Montenegro osiguranje amongst the first.

The year 2008 found the Montenegrin subsidiary with very obsolete hardware, which was modernised in the course of the year. The brand new server and communication infrastructure represent a sound basis for the company's operations and its connectivity with other Group members.

36 PERFORMANCE INDICATORS

Gross premiums written in 2008

(EUR)	2008	2007	Index
Gross premiums written	229,606,927	188,637,037	121.7

Net premiums written as percentage of gross premiums written in 2008

(EUR)	Gross premiums written	Net premiums written	%
2008	229,606,927	205,987,031	89.7%
2007	188,637,037	165,072,544	87.5%

Gross claims paid in 2008

(EUR)	2008	2007	Index
Gross claims paid	155,131,483	99,422,356	156.0

Loss ratio in 2008

(EUR)	Gross premiums written	Gross claims paid	%
2008	229,606,927	155,131,483	67.6%
2007	188,637,037	99,422,356	52.7%

Administrative expenses as percentage of gross premiums written in 2008

(EUR)	Gross premiums written	Administrative expenses	%
2008	229,606,927	35,730,191	15.6%
2007	188,637,037	26,372,905	14.0%

Acquisition costs as percentage of gross premiums written in 2008

(EUR)	Gross premiums written	Acquisition costs	%
2008	229,606,927	38,138,082	16.6%
2007	188,637,037	30,275,317	16.0%

Net investment income as percentage of average investments in 2008

(EUR)	Average investments	Investment income	Investment expenses	%
2008	310,044,031	25,501,789	24,562,959	0.3%
2007	285,979,277	31,242,266	5,462,904	9.0%

Net provisions for outstanding claims as percentage of net earned premiums in 2008

(EUR)	Net provisions for outstanding claims	Net earned premiums	%
2008	128,566,501	194,113,774	66.2%
2007	116,790,159	157,735,900	74.0%

Profit/loss before tax as percentage of net premiums written in 2008

(EUR)	Profit/loss before tax	Net premiums written	%
2008	–8,793,754	205,987,031	–4.3%
2007	27,192,080	165,072,544	16.5%

Profit/loss before tax as percentage of average equity in 2008

(EUR)	Profit/loss before tax	Average equity	%
2008	–8,793,754	171,319,257	–5.1%
2007	27,192,080	152,523,724	17.8%

Profit/loss before tax as percentage of average assets in 2008

(EUR)	Profit/loss before tax	Average assets	%
2008	–8,793,754	507,153,546	–1.7%
2007	27,192,080	307,728,233	8.8%

Profit/loss before tax per share in 2008

(EUR)	Profit/loss before tax	Number of shares	EUR
2008	–8,793,754	9,362,519	–0.9
2007	27,192,080	7,862,519	3.5

Profit/loss for the period as percentage of average equity in 2008

(EUR)	Profit/loss for the period	Average equity	%
2008	–8,472,644	171,319,257	–4.9%
2007	20,845,254	152,523,724	13.7%

Net premiums written as percentage of average equity and average technical provisions in 2008

(EUR)	Net premiums written	Average equity	Average technical provisions	%
2008	205,987,031	171,319,257	245,582,261	49.4%
2007	165,072,544	152,523,724	204,112,501	46.3%

Net premiums written as percentage of average equity in 2008

(EUR)	Net premiums written	Average equity	%
2008	205,987,031	171,319,257	120.2%
2007	165,072,544	152,523,724	108.2%

Average technical provisions as percentage of net earned premiums in 2008

(EUR)	Average technical provisions	Net earned premiums	%
2008	245,582,261	194,113,774	126.5%
2007	204,112,501	157,735,900	129.4%

Equity as percentage of net unearned premiums in 2008

(EUR)	Equity	Net unearned premiums	%
2008	174,087,055	75,407,848	230.9%
2007	168,551,461	63,141,714	266.9%

Equity as percentage of liabilities and equity in 2008

(EUR)	Equity	Liabilities and equity	%
2008	174,087,055	535,346,611	32.5%
2007	168,551,461	478,960,480	35.2%

Net technical provisions as percentage of liabilities and equity in 2008

(EUR)	Net technical provisions	Liabilities and equity	%
2008	226,914,678	535,346,611	42.4%
2007	201,687,655	478,960,480	42.1%

Gross premiums written per employee in 2008

(EUR)	Gross premiums written	Number of employees	EUR
2008	229,606,927	1,153	199,139
2007	188,637,037	985	191,510

FINANCIAL STATEMENTS OF SAVA RE GROUP WITH NOTES

37 CONSOLIDATED FINANCIAL STATEMENTS

37.1 Consolidated balance sheet as at 31 December 2008

(EUR)	Notes	31 December 2008	31 December 2007	Index
ASSETS		535,346,611	478,960,480	111.8
Intangible assets	**1)**	**24,794,625**	**25,393,041**	**97.6**
Property and equipment	**2)**	**22,232,413**	**20,943,727**	**106.2**
Non-current assets held for sale		**1,196,451**	**1,422,509**	**84.1**
Deferred tax assets	**3)**	**5,860,267**	**342,453**	**1,711.3**
Investment property	**4)**	**5,243,407**	**1,320,833**	**397.0**
Investments in group companies and associates	**5)**	**33,093,963**	**31,004,948**	**106.7**
Financial investments	**6)**	**280,667,606**	**299,929,526**	**93.6**
– held to maturity		6,809,764	2,016,636	337.7
– available for sale		193,771,276	213,229,310	90.9
– at fair value through profit or loss		13,749,737	15,449,472	89.0
– loans and receivables		66,336,829	69,234,108	95.8
Reinsurers' share of technical provisions	**7)**	**40,141,021**	**22,421,167**	**179.0**
Inventories		**263,416**	**128,684**	**204.7**
Receivables	**8)**	**83,940,441**	**57,630,105**	**145.7**
Receivables arising out of primary insurance business		27,587,500	20,117,564	137.1
Receivables arising out of co-insurance and reinsurance business		47,670,957	27,663,707	172.3
Other receivables		8,681,984	9,848,834	88.2
Other assets	**9)**	**22,827,652**	**13,740,448**	**166.1**
Tax receivables	**10)**	**956,382**	**101,386**	**943.3**
Cash and cash equivalents		**14,128,967**	**4,581,653**	**308.4**
LIABILITIES AND EQUITY		535,346,611	478,960,480	111.8
Equity		**174,087,055**	**168,551,461**	**103.3**
Called-up capital	11)	39,069,099	32,809,710	119.1
Share premium	12)	33,003,756	106,162	31,088.1
Profit reserves	13)	92,496,487	55,914,286	165.4
Revaluation surplus	14)	–10,452,519	16,011,444	–265.3
Retained earnings		14,793,688	39,413,115	37.5
Net profit/loss for the period	15)	–823,359	20,041,044	–4.1
Foreign currency translation adjustment		–1,004,335	–371,822	270.1
Minority interest in equity		7,004,238	4,627,522	151.4
Subordinated liabilities	**16)**	**31,139,605**	**31,136,034**	**100.0**
Technical provisions	**17)**	**267,055,699**	**224,108,822**	**119.2**
Unearned premiums		78,620,515	66,259,147	118.7
Mathematical provision		10,280,389	9,294,535	110.6
Provision for outstanding claims		164,740,856	135,741,158	121.4
Technical provision for the benefit of life insurance policyholders who bear the investment risk		10,748,184	11,112,839	96.7
Other technical provisions		2,665,755	1,701,143	156.7
Other provisions	**18)**	**777,616**	**628,707**	**123.7**
Deferred tax liabilities		**60,746**	**4,068,866**	**1.5**
Financial liabilities	**19)**	**600,160**	**37,211**	**1,612.9**
Other financial liabilities		600,160	37,211	1,612.9
Other liabilities	**20)**	**61,305,265**	**40,044,752**	**153.1**
Liabilities from primary insurance business		6,111,275	1,995,277	306.3
Liabilities from co-insurance and reinsurance business		39,411,061	25,163,430	156.6
Diverse liabilities		15,782,929	12,886,045	122.5
Current income tax liabilities		**320,465**	**10,384,627**	**3.1**

37.2 Consolidated income statement for the year ended 31 December 2008

(EUR)	Notes	1 January– 31 December 2008	1 January– 31 December 2007	Index
Net earned premiums	**21)**	**194,113,774**	**157,735,900**	**123.1**
Gross premiums written		229,606,927	188,637,037	121.7
Written premiums ceded to reinsurers and co-insurers		–23,619,896	–23,564,493	100.2
Change in unearned premiums		–11,873,257	–7,336,644	161.8
Income from investments in affiliates	**22)**	**1,392,002**	**1,655,883**	**84.1**
Investment income	**23)**	**27,965,291**	**31,896,219**	**87.7**
Other technical income, of this	**24)**	**4,157,752**	**4,269,539**	**97.4**
– commission income		3,026,771	3,271,104	92.5
Other income	**25)**	**1,345,365**	**2,470,099**	**54.5**
Net insurance claims and benefits incurred	**26)**	**–121,848,431**	**–97,852,916**	**124.5**
Gross claims and benefits paid		–155,131,483	–99,422,356	156.0
Reinsurers' and co-insurers' share of claims and benefits paid		45,341,134	12,239,304	370.5
Change in the provision for outstanding claims		–12,058,082	–10,669,864	113.0
Change in other technical provisions	**27)**	**–1,163,331**	**–4,363,895**	**26.7**
Bonuses and rebates		**–594,472**	**–1,307,780**	**45.5**
Operating expenses, of this	**28)**	**–73,868,273**	**–56,648,222**	**130.4**
– acquisition costs		–38,138,082	–30,275,317	126.0
Investment expenses	**29)**	**–33,239,644**	**–6,405,090**	**519.0**
Other technical expenses	**30)**	**–3,989,886**	**–2,927,236**	**136.3**
Other expenses	**31)**	**–3,063,901**	**–1,330,421**	**230.3**
Profit before tax		–8,793,754	27,192,080	–232.3
Current tax	**32)**	**–5,051,983**	**–8,961,318**	**56.4**
Deferred tax		**5,373,093**	**2,614,492**	**205.5**
Profit for the period		–8,472,644	20,845,254	–240.6
Profit for the period attributable to equity holders of the company		**–8,902,709**	**20,218,468**	**–244.0**
Profit for the period attributable to minority interest		**430,065**	**626,786**	**68.6**

37.3 Consolidated cash flow statement for the year ended 31 December 2008

(EUR)			2008	2007
A.	CASH FLOWS FROM OPERATING ACTIVITIES			
	a.)	Items of the income statement	15,000,260	19,746,066
		Net premiums written	205,987,031	163,084,553
		Investment income	–2,537,127	15,594,733
		Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables	4,157,752	3,989,513
		Net claims and benefits paid	–109,790,349	–91,953,122
		Expenses arising out of liabilities relating to insurance contracts	–1,902,409	–1,790,659
		Net operating expenses excl. depreciation and change in deferred acquisition costs	–75,101,868	–48,704,415
		Other operating expenses excl. depreciation (other than for revaluation and excl. additions to provisions)	–6,134,578	–11,061,716
		Tax on profit and other taxes not included in operating expenses	321,808	–9,412,821
	b.)	Changes in net operating assets (and in accruals/deferrals and deferred tax receivables/liabilities) of operating items of the balance sheet	–34,401,723	16,688,039
		Change in operating receivables	–26,951,225	–4,063,596
		Change in short-term deferred costs and accrued income	–9,086,562	588,448
		Change in deferred tax receivables	–5,517,814	57,929
		Change in assets held for sale	226,058	0
		Change in inventories	–134,732	–92,382
		Change in operating liabilities	12,285,184	11,414,367
		Change in accrued costs, deferred income and provisions	–1,214,512	3,155,113
		Change in deferred tax liabilities	–4,008,120	5,628,160
	c.)	Net cash from/used in operating activities (a + b)	–19,401,463	36,434,105
B.	CASH FLOWS FROM INVESTING ACTIVITIES			
	a.)	Cash receipts from investing activities	565,156,470	190,361,740
		Interest received from investing activities	12,119,598	9,096,608
		Cash receipts from participation in the profit of others	473,801	1,680,085
		Proceeds from sale of property and equipment	147,415	195,570
		Proceeds from sale of investment property	0	6,906,521
		Proceeds from sale of investments in affiliated companies	16,371	16,293
		Proceeds from sale of financial investments	552,399,284	172,466,663
	b.)	Cash disbursements in investing activities	–579,637,639	–259,426,867
		Purchase of intangible assets	–1,098,989	–477,853
		Purchase of property and equipment	–4,283,559	–10,279,914
		Purchase of investment property	–675,420	0
		Purchase of financial investments in affiliated companies	–9,537,109	–25,486,582
		Purchase of financial investments	–564,042,562	–223,182,518
	c.)	Net cash from/used in investing activities (a + b)	–14,481,169	–69,065,127
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
	a.)	Cash receipts from financing activities	43,692,538	23,381,330
		Proceeds from paid-in capital	42,000,000	1,934,373
		Proceeds from long-term borrowing	0	20,946,957
		Proceeds from short-term borrowing	1,692,538	500,000
	b.)	Cash disbursements in financing activities	–262,592	2,153,937
		Interest paid	–212,431	2,216,469
		Repayment of long-term financial liabilities	0	–62,532
		Repayment of short-term financial liabilities	–39,155	0
		Dividends and other profit participations paid	–11,006	0
	c.)	Net cash from/used in financing activities (a + b)	43,429,946	25,535,267
D.	Cash and cash equivalents as at 31 December		14,128,967	4,581,657
	x.)	Net increase/decrease in cash and cash equivalents for the period (sum of Ac, Bc in Cc)	9,547,314	–7,095,755
D2.	Cash and cash equivalents as at 1 January			11,677,412

The cash flow statement shows to the users the sources of cash and cash equivalents and their use by an entity. Cash and cash equivalents comprise the Group's balances in bank accounts and overnight deposits.

In 2008 again, the Group did not have liquidity problems, and paid its liabilities when due. Below are explained the more important items of the cash flow statement, broken down by operating, investing and financing activities.

Cash flows from operating activities: investment income decreased significantly compared to 2007 and was negative, mainly due to the capital market crisis that resulted in dramatic drops in the value of investments, but also to the fact that in 2007, the Group earned certain extraordinary capital gains. As explained in the section "Significant accounting policies", the parent changed the presentation of commissions under reinsurance contracts. Commission expenses are now included under acquisition costs, while commission income is included under other technical income. The "net operating expenses excluding depreciation and change in deferred acquisition costs" item is therefore significantly higher.

Cash receipts from financing activities relate to the initial public offering through which the parent obtained EUR 42.0 million of fresh capital.

37.4 Consolidated statement of changes in equity for the year ended 31 December 2008

(EUR)	Called-up capital		Share premium	Profit reserves	Revaluation surplus	Retained earnings	Net profit or loss for the period	Foreign currency translation adjustment	Total equity of the Group	Minority interest in equity	Total
	Share capital	Uncalled capital									
Balance at 1 January 2008	32,809,710	0	106,162	55,914,286	16,011,444	39,413,114	20,041,044	–371,822	163,923,938	4,627,522	168,551,460
Movements to equity	**6,259,389**	**0**	**32,897,594**	**0**	**–2,370,749**	**0**	**–8,902,709**	**0**	**27,883,525**	**2,336,728**	**30,220,253**
Subscription of called-up share capital	6,259,389	0	32,897,594	0	0	0	0	0	39,156,983	1,936,061	41,093,044
Net profit or loss for the period	0	0	0	0	0	0	–8,902,709	0	–8,902,709	430,065	–8,472,644
Equity revaluation adjustment	0	0	0	0	–2,371,413	0	0	0	–2,371,413	–28,734	–2,400,147
Increase due to acquisition of additional shares in subsidiaries	0	0	0	0	664	0	0	0	664	–664	0
Movements within equity	**0**	**0**	**0**	**36,582,201**	**0**	**–24,619,426**	**–11,961,695**	**0**	**1,080**	**–1,080**	**0**
Allocation of net profit as a component of equity by decision of the management and the supervisory board	0	0	0	346,717	0	–8,929,785	8,583,068	0	0	0	0
Allocation of net profit to additional reserves by resolution of the annual general meeting of shareholders	0	0	0	35,914,681	0	–35,914,681	0	0	0	0	0
Other reallocation of components of equity	0	0	0	320,803	0	20,225,040	–20,544,763	0	1,080	–1,080	0
Movements from equity	**0**	**0**	**0**	**0**	**–24,093,214**	**0**	**0**	**–632,513**	**–24,725,727**	**41,068**	**–24,684,659**
Transfer of revaluation surplus to operating and financial income	0	0	0	0	–24,093,214	0	0	0	–24,093,214	–1,704	–24,094,918
Foreign exchange losses	0	0	0	0	0	0	0	–632,513	–632,513	42,772	–589,741
Balance at 31 December 2008	39,069,099	0	33,003,756	92,496,487	–10,452,519	14,793,688	–823,360	–1,004,335	167,082,816	7,004,238	174,087,054

37.5 Consolidated statement of changes in equity for the year ended 31 December 2007

(v EUR)	Called-up capital		Share premium	Profit reserves	Revaluation surplus	Retained earnings	Net profit or loss for the period	Foreign currency translation adjustment	Equity attributable to the equity holders of the group	Minority interest in equity	Total
	Share capital	Uncalled capital									
Balance at 1 January 2007	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
Changes in accounting policies	0	0	0	0	0	–677,328	0	0	–677,328	0	–677,328
Balance at 1 January 2007 after changes	32,809,710	0	106,162	45,228,433	6,690,972	42,638,727	7,282,816	0	134,756,820	1,061,838	135,818,658
Movements to equity	**0**	**0**	**0**	**0**	**24,192,819**	**0**	**20,218,468**	**0**	**44,411,287**	**3,565,684**	**47,976,971**
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 due to acquisition of additional shares in subsidiaries	0	0	0	0	0	0	0	0	0	2,938,898	2,938,898
Movements within equity	**0**	**0**	**0**	**10,685,853**	**0**	**–3,225,613**	**–7,460,240**	**0**	**0**	**0**	**0**
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	–10,508,273	0	0	0	0	0
Other reallocation of components of equity	0	0	0	177,580	0	0	–177,580	0	0	0	0
Movements from equity	**0**	**0**	**0**	**0**	**–14,872,347**	**0**	**0**	**–371,822**	**–15,244,169**	**0**	**–15,244,169**
Transfer of revaluation surplus to operating and financial income	0	0	0	0	–14,872,347	0	0	0	–14,872,347	0	–14,872,347
Foreign exchange losses	0	0	0	0	0	0	0	–371,822	–371,822	0	–371,822
Balance at 31 December 2007	32,809,710	0	106,162	55,914,286	16,011,444	39,413,114	20,041,044	–371,822	163,923,938	4,627,522	168,551,460

38 REPORTING BY SEGMENT

38.1 Accounts by segments

Balance sheet as at 31 December 2008

(EUR)	Reinsurance	Primary insurance		Consolidation	Total
	Non-life	Non-life	Life		
ASSETS	399,152,652	164,849,363	33,428,914	–62,084,318	535,346,611
Intangible assets	**189,498**	**2,094,205**	**182,475**	**22,328,447**	**24,794,625**
Property and equipment	**1,852,159**	**18,792,562**	**1,587,692**	**0**	**22,232,413**
Non-current assets held for sale	**0**	**1,196,451**	**0**	**0**	**1,196,451**
Deferred tax assets	**5,383,818**	**446,232**	**30,217**	**0**	**5,860,267**
Investment property	**1,262,310**	**3,981,097**	**0**	**0**	**5,243,407**
Investments in associates	**80,178,379**	**2,625,283**	**0**	**–49,709,699**	**33,093,963**
Financial investments	**199,773,234**	**55,948,588**	**24,945,784**	**0**	**280,667,606**
– held to maturity	6,187,618	622,146	0	0	6,809,764
– available for sale	160,393,911	24,495,651	8,881,714	0	193,771,276
– at fair value through profit or loss	2,134,557	1,037,508	10,577,672	0	13,749,737
– loans and receivables	31,057,148	29,793,283	5,486,398	0	66,336,829
Reinsurers' share of technical provisions	**37,690,671**	**26,180,193**	**1,933**	**–23,731,776**	**40,141,021**
Inventories	**0**	**148,707**	**114,709**	**0**	**263,416**
Receivables	**55,604,219**	**38,580,901**	**726,611**	**–10,971,290**	**83,940,441**
Receivables arising out of primary insurance business	0	27,162,286	425,430	–216	27,587,500
Receivables arising out of co-insurance and reinsurance business	53,357,702	5,179,162	4,835	–10,870,742	47,670,957
Other receivables	2,246,517	6,239,453	296,346	–100,332	8,681,984
Other assets	**16,359,990**	**6,202,019**	**265,643**	**0**	**22,827,652**
Tax receivables	**846,920**	**109,462**	**0**	**0**	**956,382**
Cash and cash equivalents	**11,454**	**8,543,663**	**5,573,850**	**0**	**14,128,967**
LIABILITIES AND EQUITY	399,152,652	164,849,363	33,428,914	–62,084,318	535,346,611
Equity	**153,740,161**	**32,986,239**	**11,100,963**	**–23,740,308**	**174,087,055**
Called-up capital	39,069,099	25,577,912	12,180,628	–37,758,540	39,069,099
Share premium	33,003,752	28,495	56	–28,547	33,003,756
Profit reserves	92,238,213	4,683,596	0	–4,425,322	92,496,487
Revaluation surplus	–10,570,904	1,177,132	–98,927	–959,820	–10,452,519
Retained earnings	0	2,169,677	–31,919	12,655,930	14,793,688
Net profit/loss for the period	0	119,438	–948,875	6,078	–823,359
Foreign currency translation adjustment	0	–770,011	0	–234,325	–1,004,335
Minority interest in equity	0	0	0	7,004,238	7,004,238
Subordinated liabilities	**31,139,605**	**0**	**0**	**0**	**31,139,605**
Technical provisions	**159,309,009**	**110,120,107**	**21,358,359**	**–23,731,776**	**267,055,699**
Unearned premiums	41,967,178	44,647,066	204,063	–8,197,792	78,620,515
Mathematical provision	0	0	10,280,389	0	10,280,389
Provision for outstanding claims	116,458,980	63,522,687	125,723	–15,366,534	164,740,856
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	10,748,184	0	10,748,184
Other technical provisions	882,851	1,950,354	0	–167,450	2,665,755
Other provisions	**226,667**	**488,558**	**62,391**	**0**	**777,616**
Deferred tax liabilities	**0**	**60,746**	**0**	**0**	**60,746**
Financial liabilities	**160**	**2,844,469**	**0**	**–2,244,469**	**600,160**
Other financial liabilities	160	2,844,469	0	–2,244,469	600,160
Other liabilities	**54,737,050**	**18,030,352**	**905,628**	**–12,367,765**	**61,305,265**
Liabilities from primary insurance business	0	6,079,447	31,828	0	6,111,275
Liabilities from co-insurance and reinsurance business	42,528,378	6,257,970	44,120	–9,419,407	39,411,061
Diverse liabilities	12,208,672	5,692,935	829,680	–2,948,358	15,782,929
Current income tax liabilities	**0**	**318,892**	**1,573**	**0**	**320,465**

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
Intangible assets	**162,140**	**1,470,083**	**103,009**	**23,657,809**	**25,393,041**
Property and equipment	**1,907,468**	**17,248,763**	**1,787,496**	**0**	**20,943,727**
Non-current assets held for sale	**0**	**1,422,509**	**0**	**0**	**1,422,509**
Deferred tax assets	**131,804**	**207,637**	**3,012**	**0**	**342,453**
Investment property	**728,514**	**592,319**	**0**	**0**	**1,320,833**
Investments in associates	**72,487,296**	**2,084,664**	**0**	**–43,567,012**	**31,004,948**
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
Reinsurers' share of technical provisions	**21,473,195**	**18,539,115**	**1,507**	**–17,592,650**	**22,421,167**
Inventories	**0**	**115,182**	**13,502**	**0**	**128,684**
Receivables	**35,484,845**	**31,862,190**	**486,016**	**–10,202,946**	**57,630,105**
Receivables arising out of primary insurance business	0	19,697,827	419,737	0	20,117,564
Receivables arising out of co-insurance and reinsurance business	33,094,211	4,727,307	2,891	–10,160,702	27,663,707
Other receivables	2,390,634	7,437,056	63,388	–42,244	9,848,834
Other assets	**8,576,418**	**5,531,164**	**739,264**	**–1,106,398**	**13,740,448**
Tax receivables	**0**	**101,386**	**0**	**0**	**101,386**
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
Equity	**145,637,434**	**35,232,354**	**3,920,353**	**–16,238,680**	**168,551,461**
Called-up capital	32,809,710	32,366,296	5,842,096	–38,208,392	32,809,710
Share premium	106,162	28,495	30	–28,525	106,162
Profit reserves	55,385,397	4,123,693	0	–3,594,804	55,914,286
Revaluation surplus	12,491,698	3,231,696	52,821	235,229	16,011,444
Retained earnings	26,811,969	–6,423,880	–1,707,903	20,732,929	39,413,115
Net profit/loss for the period	18,032,498	2,287,284	–266,691	–12,047	20,041,044
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
Subordinated liabilities	**31,136,034**	**0**	**0**	**0**	**31,136,034**
Technical provisions	**129,483,842**	**92,619,464**	**20,704,564**	**–18,699,048**	**224,108,822**
Unearned premiums	37,577,865	35,570,504	210,593	–7,099,815	66,259,147
Mathematical provision	0	0	9,294,535	0	9,294,535
Provision for outstanding claims	91,219,036	55,890,015	86,597	–11,454,490	135,741,158
Technical provision for the benefit of life insurance policyholders who bear the investment risk	0	0	11,112,839	0	11,112,839
Other technical provisions	686,941	1,158,945	0	–144,743	1,701,143
Other provisions	**165,762**	**396,909**	**66,036**	**0**	**628,707**
Deferred tax liabilities	**3,585,825**	**467,133**	**15,908**	**0**	**4,068,866**
Financial liabilities	**2,308**	**3,619,139**	**0**	**–3,584,236**	**37,211**
Other financial liabilities	2,308	3,619,139	0	–3,584,236	37,211
Other liabilities	**36,523,792**	**13,004,577**	**780,870**	**–10,264,487**	**40,044,752**
Liabilities from primary insurance business	0	1,943,804	51,473	0	1,995,277
Liabilities from co-insurance and reinsurance business	27,267,893	6,026,085	32,851	–8,163,399	25,163,430
Diverse liabilities	9,255,899	5,034,688	696,546	–2,101,088	12,886,045
Current income tax liabilities	**10,166,029**	**243,344**	**0**	**–24,746**	**10,384,627**

Income statement for the year ended 31 December 2008

(EUR)	Reinsurance	Primary insurance		Consolidation	Total
	Non-life	Non-life	Life		
Net earned premiums	**109,098,509**	**74,115,969**	**10,938,510**	**–39,214**	**194,113,774**
Gross premiums written	134,743,720	106,452,791	10,874,387	–22,463,971	229,606,927
Written premiums ceded to reinsurers and co-insurers	–20,886,767	–25,113,766	–44,120	22,424,757	–23,619,896
Change in unearned premiums	–4,758,444	–7,223,056	108,243	0	–11,873,257
Income from investments in affiliates	**493,864**	**5,086**	**0**	**893,052**	**1,392,002**
Investment income	**22,025,313**	**4,955,871**	**984,107**	**0**	**27,965,291**
Other technical income, of this	**2,898,066**	**6,637,453**	**12,590**	**–5,390,357**	**4,157,752**
– commission income	2,794,945	5,604,608	4,835	–5,377,617	3,026,771
Other income	**1,314**	**1,354,051**	**0**	**–10,000**	**1,345,365**
Net insurance claims and benefits incurred	**–79,061,685**	**–41,212,188**	**–1,571,138**	**–3,420**	**–121,848,431**
Gross claims and benefits paid	–114,689,231	–51,051,030	–1,495,967	12,104,745	–155,131,483
Reinsurers' and co-insurers' share of claims and benefits paid	44,293,794	13,155,505	0	–12,108,165	45,341,134
Change in the provision for outstanding claims	–8,666,248	–3,316,663	–75,171	0	–12,058,082
Change in other technical provisions	**–182,999**	**–302,891**	**–654,735**	**–22,706**	**–1,163,331**
Bonuses and rebates	**0**	**–617,178**	**0**	**22,706**	**–594,472**
Operating expenses, of this	**–39,127,544**	**–35,252,284**	**–4,736,570**	**5,248,125**	**–73,868,273**
– acquisition costs	–32,353,346	–9,481,048	–1,471,180	5,167,492	–38,138,082
Expenses relating to investments in affiliates	**0**	**–314,213**	**0**	**314,213**	**0**
Investment expenses	**–25,059,828**	**–2,281,715**	**–5,898,101**	**0**	**–33,239,644**
Other technical expenses	**–573,706**	**–3,399,749**	**–16,431**	**0**	**–3,989,886**
Other expenses	**–1,370**	**–2,474,199**	**0**	**–588,332**	**–3,063,901**
Profit before tax	–9,490,069	1,214,013	–941,768	424,067	–8,793,754
Current tax	**–3,666,923**	**–1,383,473**	**–1,587**	**0**	**–5,051,983**
Deferred tax	**5,165,343**	**208,448**	**–698**	**0**	**5,373,093**
Profit/loss for the period	–7,991,649	38,988	–944,053	424,067	–8,472,644
Profit for the period attributable to equity holders of the company	**–8,397,299**	**40,967**	**–991,972**	**445,592**	**–8,902,709**
Profit for the period attributable to minority interest	**405,650**	**–1,979**	**47,919**	**–21,525**	**430,065**

Income statement for the year ended 31 December 2007

(EUR)	Reinsurance	Primary insurance		Consolidation	Total
	Non-life	Non-life	Life		
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
Income from investments in affiliates	**1,133,600**	**11,904**	**0**	**510,379**	**1,655,883**
Investment income	**26,706,893**	**3,694,041**	**1,495,285**	**0**	**31,896,219**
Other technical income, of this	**3,263,317**	**6,002,060**	**21,084**	**–5,016,922**	**4,269,539**
– commission income	3,134,308	5,156,609	–2,891	–5,016,922	3,271,104
Other income	**30,157**	**2,439,942**	**0**	**0**	**2,470,099**
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
Change in other technical provisions	**342,460**	**143,265**	**–4,849,620**	**0**	**–4,363,895**
Bonuses and rebates	**0**	**–1,307,780**	**0**	**0**	**–1,307,780**
Operating expenses, of this	**–32,133,935**	**–25,658,922**	**–3,878,557**	**5,023,192**	**–56,648,222**
– acquisition costs	–26,890,969	–6,934,271	–1,472,197	5,022,120	–30,275,317
Expenses relating to investments in affiliates	**0**	**–115,616**	**0**	**115,616**	**0**
Investment expenses	**–5,833,028**	**–194,477**	**–377,585**	**0**	**–6,405,090**
Other technical expenses	**–567,303**	**–2,247,465**	**–112,468**		**–2,927,236**
Other expenses	**–1,258**	**–1,272,151**	**0**	**–57,012**	**–1,330,421**
Profit before tax	23,536,658	3,297,025	–267,063	625,460	27,192,080
Current tax	**–7,966,107**	**–995,211**	**0**	**0**	**–8,961,318**
Deferred tax	**2,634,873**	**–20,751**	**370**	**0**	**2,614,492**
Profit/loss 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**

A segment is a distinguishable component of an entity 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 Group's financial information is reported for both business segments and geographical segments. Group segment reporting is based on business segments, determined based on the Group's management and 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, loans granted and raised and related costs, and corporate tax assets and liabilities, as well as tax liabilities.

39 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39.1 General

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

Sava Re provides reinsurance products both in the domestic and in the international market. Under the Standard Classification of Activities of the Statistical Office of the Republic of Slovenia, its subclass code is 65.200. Under the Slovenian Companies Act ("ZGD"), it is classified as a large company.

Sava Re's financial statements were prepared in accordance with the Insurance Act ("ZZavar"), as well as with implementing regulations adopted and explanations issued by the Slovenian Insurance Supervision Agency ("AZN"), and with International Financial Reporting Standards ("IFRS").

Sava Re has its registered office at Dunajska cesta 56, Ljubljana, Slovenia.

The Sava Re Group had 1,109 employees on average in 2008, or 1,153 as at year-end. In 2007, it had 964 employees on average.

Sava Re has the following governing bodies: the General Meeting, the Supervisory Board and the Management Board.

Sava Re's largest shareholder is the Slovenian Restitution Fund (SOD), which held 25% plus one share as at year-end 2008.

39.2 Consolidated companies

Sava Re is the parent company within the Sava Re Group.

In addition to Sava Re, the Sava Re Group comprises the following companies:

- Zavarovalnica Maribor d. d., Maribor – associate;
- Zavarovalnica Tilia, d. d., Novo mesto – subsidiary;
- Moja naložba, pokojninska družba, d. d., Maribor – associate;
- Sava Osiguranje a. d. o., Belgrade, Serbia – subsidiary;
- Dukagjini kompania e sigurimeve sh. p. k. Pristina, Kosovo – subsidiary;
- Akcionarsko društvo za osiguruvanje Sava Tabak a. d. o., Skopje, Macedonia – subsidiary;
- Bro-Dil AD, Skopje, Macedonia – indirect subsidiary;
- Gold Mak AD, Skopje, Macedonia – indirect associate;
- Montenegro osiguranje a. d., Podgorica, Montenegro – subsidiary;
- Sava Invest, a. d., Skopje, Macedonia – subsidiary;
- Sava životno osiguranje a. d. o., Belgrade, Serbia – subsidiary;
- Dukagjini Life sh. a., Pristina, Kosovo – subsidiary

Sava Invest, Dukagjini Life and Sava životno osiguranje were established in 2008.

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 significant.

39.3 Consolidation principles

The balance sheet date of Sava Re's subsidiaries is 31 December. Subsidiaries are consolidated if the parent or Group holds the majority of their voting rights. Acquisitions are accounted for by applying the purchase method. To determine the net assets of the acquired entity at the time of first consolidation, subsidiaries' assets and liabilities are measured at fair value. Any excess of the acquisition cost over the share of the fair value of the acquired identifiable assets, liabilities and contingent liabilities is capitalised as goodwill.

Profits earned by subsidiaries are included in Group equity. Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated in full.

Associates

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

39.4 Functional and presentation currency

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

39.5 Translation

The consolidated financial statements are presented in euro (EUR), rounded to the nearest euro. Due to rounding, figures in tables may not add up to totals.

Assets and liabilities as at 31 December 2008 denominated in foreign currencies were translated into the euro using the mid-rate of the European Central Bank ("ECB") as at 31 December 2008. On the cut-off days in 2008, they were translated using the applicable mid-rate of the ECB. Exchange rate differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in revaluation surplus.

40 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the consolidated financial statements are explained below.

40.1 Statement of compliance

Sava Re prepared both the separate and the consolidated financial statements for the year ended 31 December 2008. Sava Re made the transition to International Financial Reporting Standards ("IFRS") on its separate and consolidated financial statements as of 1 January 2007. The consolidated financial statements include Sava Re as parent and all of its subsidiaries, i.e. companies in which Sava Re holds, directly or indirectly, more than half of the voting rights. All subsidiaries were fully consolidated.

The consolidated financial statements were prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretations Committee's (IFRIC), as adopted by the European Union. They were prepared in accordance with applicable Slovenian legislation (the Companies Act, the Insurance Act) and implementing regulations, amongst them the "Decision on annual report and quarterly financial statements of insurance companies" (SKL 2007). Interested parties can obtain correct information on the results of operations and financial condition of Sava Re by consulting the separate financial statements of Sava Re together with the consolidated financial statements of the Sava Re Group.

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

Sava Re uses the accrual and going concern basis of accounting. It also assumes fluctuations in prices and euro exchange rates, but not hyperinflation, to ensure a true and fair presentation of the financial statements.

Sava Re made all the required disclosures in the notes to the financial statements. Events and items requiring disclosure under applicable regulations were not specifically mentioned if they did not occur or were not amongst the consolidated financial statement items.

The Management Board of Sava Re approved the consolidated financial statements on 16 April 2009.

40.2 Materiality

Material amounts in the balance sheet are amounts that, at the balance sheet date, exceeded 1% of total assets or EUR 5,353,466. Material amounts in the income statement are those that exceeded 0.5% of total assets or EUR 2,676,331.

40.3 Comparative data

Sava Re ensures comparability of current period data by restating past period data if necessary.

40.4 Cash flow statement

Cash flows from operating activities are prepared using the indirect method; cash flows from financing and investing activities are prepared using the direct method. The cash flow statement was prepared using the indirect method based on the data from the balance sheet as at 1 January 2008 and 31 December 2008, and the income statement for 2008, and based on additional data required to make adjustments to receipts and expenditures, as well as to provide a more detailed breakdown of material items.

40.5 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, credit risk equalization reserve and catastrophe equalization reserve are included in other profit reserves.

40.6 Intangible assets

Acquisitions are accounted for by applying the purchase method, in accordance with IFRS 3. Upon acquisition, the Group recognises goodwill at cost, which represents the excess of the acquisition cost over the share of the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

For the purpose of impairment testing, the goodwill acquired is, from the acquisition date, allocated to the acquirer's cash-generating units expected to 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 goodwill, with the recoverable amount of the unit.

40.7 Property and equipment

Property and equipment assets are initially recognised at cost, plus any expenses directly attributable to preparing them for their intended use. Subsequently, they are stated at cost, less accumulated depreciation and impairment losses. The Group assesses annually whether there is any indication of impairment. If there is, it assesses the asset's recoverable amount, which is the higher of the value in use and the net selling price. If the value in use exceeds the carrying value, the asset is not impaired.

Depreciation of property and equipment assets starts upon their availability for use. Depreciation is calculated individually, on a straight-line basis. Depreciation rates are designed to write off the cost of an asset over its useful life.

Table 53: Depreciation rates of tangible assets

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

Gains and losses on disposal of property and equipment, being the difference between the sales proceeds and the carrying amount, affect the operating profit in the income statement. The costs of maintenance and repairs of property and equipment are recognised in profit or loss in the financial period in which they are incurred. Investments in property and equipment that increase future economic benefits are recognised in the carrying amount of property and equipment.

40.8 Non-current assets held for sale

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

40.9 Taxes

The Group's taxable profits are determined in accordance with the requirements of local legislations.

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. The bulk of temporary differences is associated with the parent's impairment of investments in securities. Operating expenses so arising will become tax deductible only on disposal.

Deferred tax assets were calculated using the rate of 21%, or the rate of 20% in the case of Sava Re's receivables from a bankrupt's estate not expected to be paid in 2009.

40.10 Investment property

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

40.11 Equity investments in subsidiaries and associates

Investments in equity of subsidiaries and associates are accounted for in the separate financial statements using the cost method. Subsidiaries are companies in which Sava Re holds more than 50% of voting rights. Associates are companies in which it holds between 20% and 50% of voting rights. Under the cost method, any profits in the form of dividends from such equity investments are recognised in the income statement.

40.12 Financial assets

Classification

The Group classifies its financial assets in the following categories:

Financial assets at fair value through profit or loss

This category consists of the following two sub-categories:
– financial assets held for trading, and
– financial assets designated as at fair value through profit or loss.

Financial assets held for trading comprise instruments that the Group acquires exclusively for the purpose of trading and realising gains in the near term. They also comprise financial assets associated with life insurance products under which policyholders bear the investment risk. Derivatives are always classified as held for trading, unless used, successfully, for hedging. Gains arising on their revaluation are not recognised in the income statement, but as revaluation surplus.

Loans and receivables

This category includes loans and bank deposits with fixed or determinable payments that are not traded 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 Group can, and intends to, hold to maturity.

Available for sale financial assets

Available for sale financial assets are assets that the Group intends to hold for an indefinite period, but may sell them to obtain the liquidity required, e.g. for claim payments, or due to changes in interest rates, foreign exchange rates or prices.

Derivative financial instruments

The parent concluded an interest rate swap contract to hedge against fair value changes in certain bonds that are, the same as the derivate financial instrument, classified as at fair value through profit or loss. Any gains or losses arising from their re-measurement are thus recognised directly in the income statement. In 2008, the parent terminated the interest rate swap contract concluded in 2007 to hedge against interest rate risk associated with its long-term subordinated liabilities.

Recognition, measurement and derecognition

Financial assets other than those carried at fair value through profit or loss are initially recognised at fair value, plus transaction costs.

Acquisitions and disposals of financial assets, loans and receivables are recognised on the trade date. Financial assets at fair value through profit or loss, and financial assets available for sale are measured at fair value.

Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in equity, and transferred to the income statement upon disposal or impairment. Gains and losses arising from fair value revaluation of financial assets at fair value through profit or loss are recognised directly in the income statement. The same applies to gains and losses arising from fair value revaluation of derivative instruments that 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 cash flows pertaining to them expire.

Fair value measurement

The fair value of financial assets is based on their quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of financial assets is established using discounted cash flow models. In practice, the Group deviates slightly from this approach in the case of financial assets not quoted in an active market or of an amount considered nonmaterial. An investment is considered material or nonmaterial based on the stake of equity of the relevant issuer it represents, or based on the share of the Group's investment portfolio it represents. Investments considered nonmaterial are carried at cost.

Impairment of financial assets

A financial asset is impaired and an impairment loss incurred 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 whether objective evidence of impairment exists for each financial asset separately.

Impairment of investments

The Group regularly reviews its investment portfolio for impairment, and does not increase its risk exposure by acquiring low-rated securities. Given that in 2008 fair values of financial assets dropped significantly, the Group considered all available facts to establish whether these should be impaired permanently.

The Group adopted guidelines for establishing permanent impairment, which are presented below.

Debt securities

As a rule, investments in debt securities are not impaired, provided any payments under the amortisation plan or prospectus are made when due.

Investments in debt securities are impaired only if one of the following conditions is met:
- their issuer fails to make a coupon or principal payment, and will not make it soon;
- the issuer is subject to a bankruptcy, liquidation or compulsory settlement procedure.

If the first condition is met, an impairment loss is recognised in the income statement that is the difference between the market price and the purchase price of the debt security.

If the second condition is met, the relevant investment is removed from investments and a claim from the bankruptcy or liquidation estate recognised in the balance sheet, while an impairment loss is recognised in profit or loss that is the difference between the possible payment out of the bankruptcy or liquidation estate and the purchase price of the investment. The possible payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement procedure, or, if such information is not available, based on experience or estimates made by credit rating or other financial institutions.

Only impairment losses recognised pursuant to the first indent above may be reversed. An impairment loss is reversed when the issuer pays. It is reversed through profit or loss.

Equity securities

MARKETABLE SHARES

Marketable shares are impaired if their market price has been less than their purchase price for more than 12 months, or if their market price is more than 40% less than their purchase price as at the balance sheet date.

An impairment loss is recognised in profit or loss that is the difference between the market price and the purchase price of the share.

A special rule may apply in the case of shares issued by entities that, in the 12 months preceding the determination of share market value, increased their share capital by raising money from well-informed investors. In such a case, it is assumed that the increase in capital was carried out at a price determined through the issuer's appraisal.

In such a case, an impairment loss is recognised based not on the current market price of the share, but on the price at which the issuer carried out the increase in capital.

NON-MARKETABLE SHARES

Non-marketable shares are shares not quoted on organised stock exchanges, shares proven not to have an active market, and investments in subsidiaries and associates carried at cost.

In establishing whether a share has an active market or not, the following is considered:

- trading volume in the three months preceding the determination of the share market value ("cut-off day");
- trading volume history in the three years preceding the cut-off day. If there is a significant drop in volume, the market is deemed inactive;
- trading volume compared to the total number of shares outstanding. If only a very small number of the total number of shares outstanding is traded, the market is deemed inactive.

Non-marketable shares are measured using either the cost or the revaluation model. The cost model is used when an investment is considered non-material, be it from the aspect of the issuer (due to the share of its capital it represents) or the Group (due the share of its portfolio it represents).

Having selected the appropriate model, an investment's fair value is assessed pursuant to a decision adopted by the Management Board.

For non-marketable investments in subsidiaries and associates, the associated goodwill must be tested for impairment during the preparation of the annual report.

Goodwill must be tested for impairment also whenever events or changes in circumstances indicate that it might be impaired.

Investments in subsidiaries and associates that do not include goodwill are tested for impairment if such entities report a loss, and in the case of significant changes in economic circumstances, as laid down in IAS 36.

As at the balance sheet date, it must be determined whether the purchase price paid for a share still represents its fair value (unless the relevant investment is considered nonmaterial). If not, an impairment loss must be recognised.

Share fair value is determined using the available P/B (price to book) ratio of comparable companies with marketable shares. Based on this ratio, the fair value of a non-marketable share is calculated using the following formula:

fair value = last published book value * average P/B of comparable companies

If there are indications that the issuer will report a loss as at the cut-off day, the last published book value of the share is corrected accordingly, unless its book value as at the cut-off day is available.

Companies pursuing the same or essentially the same activity are considered comparable. In selecting comparable companies, their currency and market are also considered.

Non-marketable shares are impaired when their fair value has been less than their purchase price as at four consecutive cut-off days on which financial statements are prepared, or when their value is more than 40% less than their purchase price as at the balance sheet date.

Investments in units of mutual funds

SPECIAL RULES APPLYING TO INVESTMENTS IN GUARANTEED MUTUAL FUNDS

Investments in guaranteed mutual funds are not impaired.

SPECIAL RULES APPLYING TO INVESTMENTS IN BOND MUTUAL FUNDS

Investments in bond mutual funds are not impaired, except in the case of their market price being less than their purchase price for more than three years.

SPECIAL RULES APPLYING TO INVESTMENTS IN MIXED MUTUAL FUNDS

For the purposes of impairment, mixed mutual funds having less than 50% of shares in their portfolio shall be considered in the same manner as bond mutual funds.

For the purposes of impairment, mixed mutual funds having more than 50% of shares in their portfolio shall be considered in the same manner as stock mutual funds.

SPECIAL RULES APPLYING TO INVESTMENTS IN STOCK MUTUAL FUNDS

Investments in stock mutual funds are impaired when, as at the balance sheet date:

- their market price is more than 50% less than their purchase price; or
- their market price has been more than 30% less than their purchase price for more than one year; or
- their market price has been continuously less than their purchase price for more than three years.

Impairment of (re)insurance receivables

As regards its main activity of reinsurance, the parent transacts business exclusively with legal entities. Before entering a new business relationship with a prospective client, especially if foreign, it carefully reviews its credit rating or else relies on recommendations by its longstanding business partners. The parent individually assesses receivables in terms of their recoverability or impairment, making allowances based on payment history of individual cedants and retrocessionaires. The parent nevertheless reviews its reinsurance receivables on a client-by-client basis at least once a year.

Insurance companies members of the Group make allowances for receivables based on their recoverability. Allowances are made based on a methodology adopted at Group level, considering the appropriate recoverability or impairment factors. Allowances are calculated quarterly and recognised in profit or loss for the current year. Following submission of a recourse claim, recourse receivables are recognised as assets only if an appropriate legal basis exist (a final order of attachment, a written agreement with or payments by the policyholder or debtor, or subrogation for credit risk insurance). In the case of subrogation too recourse receivables are recognised only after the debtor's existence and contactability have been verified. Recognition of principal amounts to which recourse receivables relate decreases claims paid.

40.13 Inventories

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

40.14 Receivables

Receivables of the Group relating to reinsurance contracts are not specifically secured, neither do they represent a substantial exposure. Provisions for receivables are made based on their age. In case of larger clients, they are made individually, considering the client's payment history and available information on its financial condition.

40.15 Other assets

Other assets include capitalised short-term deferred costs and accrued income. Short-term deferred costs comprise stamps and prepayments to partners of unearned commissions.

Short-term accrued income comprises interest accrued on investments in the current year.

A special form of this item are short-term deferred acquisition costs.

40.16 Cash and cash equivalents

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

40.17 Share capital

In June 2008, the parent increased its share capital through the process of initial public offering. Altogether, it raised EUR 42.0 million. On 11 June 2008, its shares were floated in the standard equity market of the Ljubljana Stock Exchange.

As at year-end 2008, Sava Re's share capital was divided into 9,362,519 non-par value shares. Shares are recorded in the Central Securities Clearing Corporation (KDD) under the symbol POSR. As at year-end 2008, the Company held 210 treasury shares, which represent a deductible item in equity. Two of its associates also held Sava Re shares: Zavarovalnica Maribor held 404,485 or 4.32% of its shares, and Moja naložba held 5,342 or 0.06% of its shares.

40.18 Subordinated liabilities

Subordinated debt represents a long-term liability of the parent issued to meet capital adequacy requirements as defined by Standard and Poor's.

40.19 Technical provisions

Technical provisions are calculated by the certified actuary of the parent, in accordance with the actuary rules set out in the Rules on Technical Provisions and in the Insurance Act, as well as by subsidiaries' actuaries. Movements in technical provisions and management of associated risks are presented in greater detail in section 23.2.5.

Technical provisions are shown gross in the balance sheet. The share of gross technical provisions for the business ceded by the Group is shown in the balance sheet under item "reinsurers' share of technical provisions". It is calculated at reinsurance contract level based on actuarial calculations (see relevant notes to the balance sheet). Technical provisions for each Group company are confirmed by its appointed certified actuary. The main principles used in the calculation of technical provisions are described below.

Unearned premiums are premiums written but pertaining to periods after the accounting period. Unearned premiums for primary insurance are calculated on the *pro rata temporis* basis at insurance policy level. Unearned premiums for reinsurance are calculated in the same manner, unless there is insufficient information: in such cases, they are calculated based on nominal percentages at reinsurance account level.

Mathematical provisions for life insurance contracts represent the actuarial value of obligations arising from policyholders' guaranteed entitlements. In most cases, they are calculated using the prospective net method, i.e. by determining the difference between the present value of future benefits and future net premiums. The actuarial assumptions used for their calculation are the same as those used for premium calculation. Net premiums so calculated are increased by acquisition costs. The guaranteed interest rate is between 2.75% and 4%, while mortality is obtained from Slovenian mortality tables 1993–1995. For with-profits policies, profits are calculated annually using the same assumptions as for the underlying policy, and allocated to policyholders as a reversionary bonus. Provisions for bonuses form an integral part of mathematical provisions.

Provisions for outstanding claims are established for incurred but not settled claims under primary insurance contracts and reinsurance contracts. The part relating to incurred and reported claims is calculated based on case estimates, while the part relating to incurred but not reported claims is calculated based on actuarial projection methods, mainly using development triangles. Future liabilities are generally not discounted, with the exception of a relatively small part relating to annuities under certain liability insurance contracts. In such cases, the related provisions are established based on the net present value of future liabilities.

Technical provisions for life insurance policies where the investment risk is borne by policyholders (provisions for investment life insurance policies) are equal to the value of units under all policies. The market value of units was determined as at 31 December 2008.

Other technical provisions include provisions for unexpired risk and provisions for bonuses, rebates and cancellations. Provisions for unexpired risks are established based on adequacy testing of unearned premium liabilities, described in the notes to the balance sheet. Provisions for bonuses, rebates and cancellations mainly relate to non-life insurance policies. If these are cancelled, a proportional part of gross premium must be refunded. These provisions are established for the already incurred costs.

Adequacy testing of liabilities is regularly carried out for unearned premiums in accordance with IRFS 4. Any shortfalls identified are recognised within other technical provisions as unexpired risks provisions. The method of calculation is based on expected combined ratios at insurance class level. If the expected combined ratio exceeds 100%, this means that there is a shortfall in unearned premium provisions equal to the product of the combined ratio above 100% and unearned premiums (see also the notes to the balance sheet). Mathematical provisions are also regularly tested for adequacy by comparing the main initial actuarial assumptions used for their calculation (e.g. the guaranteed interest rate, mortality tables, costs) against the expected future values. Technical provisions for life insurance policies where the investment risk is borne by policyholders are tested in a similar way.

40.20 Other provisions

Employee benefits

Employee benefits include termination, jubilee and other benefits. Provisions for these benefits were calculated by the certified actuaries of Sava Re and Tilia.

Provisions for termination benefits are calculated based on employees' personal data: date of birth, date of commencement of employment, anticipated retirement, salary, and in accordance with local legislations. In the case of benefits exceeding the non-taxable amounts, any taxes to be borne by the employer are also considered.

The probability of an employee staying with the employer reflects both the probability of death and the probability of employment relationship termination.

Provisions for employee benefits are the net present value of future liabilities (calculated based on the above assumptions) proportionate to the years of service in the Group (the projected unit credit method).

Assumptions relating to future increases in salaries, termination and jubilee benefits, as well as those relating to employee turnover depend on developments in the Group and in the markets where it operates. The table below shows these assumptions, however only for the Group companies that are required under local legislations to calculate provisions for employee benefits.

The table below shows the assumptions used by Group companies to calculate provisions for employee benefits.

Table 54: Provisions as per IAS 19

	Sava Re	Tilia	Sava Osiguranje	Sava Tabak, Bro-Dil	Montenegro osiguranje	Dukagjini
Currency	EUR	EUR	RSD	MKD	EUR	EUR
Termination benefit	Twice the amount of the last salary*	Twice 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	–
Jubilee benefits – 10 years (currency)	621	460	–	18,416	100	–
Jubilee benefits – 20 years (currency)	931	689	–	36,831	200	–
Jubilee benefits – 30 years (currency)	1,242	919	–	55,247	300	–
Jubilee benefits – 40 years (currency)		919			400	
Discount rate	4.6%	4.7%	13.7%	6.5%	4.6%	–
Growth in termination benefit	6.5%	5.0%	17.2%	10.0%	6.0%	–
Growth in jubilee benefit	3.5%	3.0%	–	10.0%	6.0%	–
Fluctuation up to age 35	2.8%	8.0%	16.3%	5.0%	5.0%	–
Fluctuation between age 35 and 45	2.5%	5.0%	12.2%	4.0%	4.0%	–
Fluctuation after age 45	1.6%	2.2%	11.3%	3.0%	3.0%	–

**or average salary in the country if greater*

The Group has a legal responsibility to pay pension insurance contributions on gross salaries. The parent and a subsidiary also concluded a contract on establishment of a pension insurance scheme within the voluntary pillar of the pension system, and have been making monthly contributions to it since then.

40.21 Other liabilities

Liabilities are initially recognised at amounts recorded in the relevant documents. Subsequently, they are increased/decreased based on the relevant documents or payments. Other liabilities comprise: unpaid claims under insurance policies and inwards reinsurance contracts, outwards retrocession premiums, retained deposits, amounts due to employees, trade payables and other short-term liabilities.

40.22 Premiums earned

Premiums earned 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 Group separately discloses gross (re)insurance premiums, co-insurance and (retro)cession premiums, and unearned premiums. Together, they represent net premiums earned in the income statement.

Upon successful completion of the initial public offering in June 2008, Sava Re became liable to reporting under the Market in Financial Instruments Act. As mentioned in the Annual Report 2007, public limited companies are subject to other reporting requirements as private limited companies that must comply only with those laid down in the Companies Act and Insurance Act. Sava Re used to prepare its financial statements based on reinsurance accounts, which usually came with a significant delay, even after the cut-off date. For this reason, it started using, in the middle of 2008, a new model for quarterly reinsurance accounting, which is based on estimates in the case of reinsurance accounts usually received late. Both inwards and outwards reinsurance (retrocession) business is estimated in this way. Only inwards reinsurance business transacted with subsidiaries and associates is not estimated, but recorded based on confirmed reinsurance accounts. It must be noted at this point that Sava Re's policy to record events in its books of account based on confirmed reinsurance accounts has remained unchanged: the estimates are used only to bridge the period before the cut-off date when such documents are not yet available, as this is the only way in which it can meet reporting requirements.

40.23 Investment income and expenses

The Group records investment income and expenses associated with its liability fund (i.e. investments covering technical provisions) separately from income and expenses associated with its business fund. Interest income is recognised using the effective interest rate. Revaluation income and expenses arise from fair value revaluation of financial assets classified as at fair value through profit or loss, and as available for sale.

40.24 Claims and benefits incurred

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. The Group separately discloses gross claims paid net of subrogation and retrocession recoveries, and changes in claims provisions. Together, they represent net claims and benefits incurred in the income statement. As mentioned in the previous section, Sava Re is forced, by the short reporting deadlines, to estimate a portion of its business for which documentation usually comes late. Estimates are made not only of premiums earned, but also of all the items representing net claims and benefits incurred.

40.25 Liabilities under financial contracts

The Group provides non-life and life insurance, as well as reinsurance; all its contracts are classified as insurance contracts.

All stand-alone insurance products meet the insurance risk transfer criterion set out in IFRS 4. The only exception are annuities under life insurance policies, which, however, are as a rule sold in combination with other insurance products. The majority of life insurance policies, for which the Group forms mathematical provisions out of the savings component, provide for discretionary profit participation. Profits are allocated to them if policies have been in existence for over three years as at January 1 and account for90% of the total profits in this insurance class.

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 and are therefore also classified as insurance contracts.

The Group has therefore no liabilities from investment contracts.

40.26 Operating expenses

The Group classifies expenses by nature. They are recorded in Group-specific sub-accounts.

In 2008, Sava Re changed the presentation of commissions under reinsurance contracts. Commission expenses are now included under acquisition costs, while commission income is included under other technical income. The change did not affect the results of operations.

Table 55: Effect of reclassification of acquisition costs in the income statement under the IFRS

(EUR)	Original 2007	Adjustment	Adjusted 2007
Net earned premiums	157,735,900	0	157,735,900
Gross premiums written	188,637,037	0	188,637,037
Written premiums ceded to reinsurers and co-insurers	–23,564,493	0	–23,564,493
Change in unearned premiums	–7,336,644	0	–7,336,644
Income from investments in affiliates	1,655,883	0	1,655,883
Investment income	31,896,219	0	31,896,219
Other technical income, of this	–17,599,310	21,868,849	4,269,539
– commission income	–18,594,854	21,865,958	3,271,104
Other income	2,470,099	0	2,470,099
Net insurance claims and benefits incurred	–97,852,916	0	–97,852,916
Gross claims and benefits paid	–99,422,356	0	–99,422,356
Reinsurers' and co-insurers' share of claims and benefits paid	12,239,304	0	12,239,304
Change in the provision for outstanding claims	–10,669,864	0	–10,669,864
Change in other technical provisions	–4,363,895	0	–4,363,895
Bonuses and rebates	–1,307,780	0	–1,307,780
Operating expenses, of this	–34,779,373	–21,868,849	–56,648,222
– acquisition costs	–8,300,207	–21,975,110	–30,275,317
Investment expenses	–6,405,090	0	–6,405,090
Other technical expenses	–2,927,236	0	–2,927,236
Other expenses	–1,330,421	0	–1,330,421
Profit before tax	27,192,080	0	27,192,080
Current tax	–8,961,318	0	–8,961,318
Deferred tax	2,614,492	0	2,614,492
Profit for the period	20,845,254	0	20,845,254

41 CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS

Other than the change in presentation of reinsurance commissions, which, however, did not affect the Group's results of operations, there were no other significant changes in the Group's accounting policies.

42 FUTURE CHANGES IN ACCOUNTING POLICIES

Certain new standards, amendments and interpretations were not yet applicable to the year ended 31 December 2008, and were therefore not applied in preparing the consolidated financial statements:

– ***IFRS 8 – Operating Segments****, introduces the concept of "management approach" into segment reporting.* IFRS 8, which will have to be applied 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 Management Board, in order to assess individual segment performance and allocate funds accordingly. Currently, the Group presents segment information only by geographical segment.

- 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 2009 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 applied in preparing the 2009 financial statements, is not expected to have an impact on the financial statements.
- ***IAS 1 – Presentation of financial statements***, introduces a new term or statement, i.e. the statement of comprehensive income for the period, which presents all non-owner changes in equity. An entity may present the said changes in one statement of comprehensive income, or in two statements (a separate income statement and a statement of comprehensive income). IAS 1 is expected to have a significant impact on the 2009 financial statements.
- ***Amendment to IFRS 2 – Share-based payment***, deals with vesting conditions and cancellations for and measurement of share-based payments in companies with share-based payment schemes.

43 RISK MANAGEMENT

43.1 Insolvency risk

The Group must have, in accordance with the law, adequate capital in view of the amount and type of (re)insurance businesses carried out. As at 31 December 2008, its available solvency margin was EUR 145,217,329. As at year-end, the available solvency margin highly exceeded the required solvency margin, despite the fact that when calculating its adjusted solvency, the Group reduces the available solvency margin by the required solvency margin of the parent and by subsidiaries' proportionate shares of required solvency margins (but not by equity investments in subsidiaries). Compared to 2007, the available solvency margin increased by 28.6%.

43.2 Underwriting risks

The majority of subsidiaries write only traditional non-life insurance. Life business is also written by Zavarovalnica Tilia and the newly established Dukagjini Life and Sava životno osiguranje. The basic purpose of both non-life and life insurance is the assumption of underwriting risk from policyholders. Sava Re too assumes only underwriting risk from its subsidiaries and other cedants, which is partly retroceded. For this reason, all Group's (re)insurance contracts are considered insurance contracts as defined in IFRS 4. As the Group does not have liabilities under financial contracts, the risks arising from (re)insurance contracts are disclosed in detail below, as required under 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.

Below, we first discuss the underwriting risks associated with non-life insurance, and then the underwriting risks associated with life insurance.

Underwriting process risk

The underwriting process risk represents the risk of incurring financial losses caused by an incorrect selection 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 guidelines and instructions as well as with the system of authorisations;
- appropriate pricing;
- following an adequate reinsurance policy, and
- 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 loss ratios in a timely manner.

Sava Re's underwriting experts are involved also in underwriting of large 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.

In addition, Sava Re mitigates underwriting process risk assumed from its subsidiaries, and that assumed from other cedants , by transferring it in part to retrocessionaires .

The underwriting process risk did not change substantially from 2007.

Pricing risk

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re)insurance contracts. For most of Sava Re's subsidiaries operating outside Slovenia, premium rates are set higher than those deemed acceptable by actuaries, resulting in relatively low loss ratios. Conversely, premium rates charged by Tilia are in line with those of their Slovenian competitors and are deemed to be adequate.

The pricing risk within the Group is mainly monitored by conducting actuarial analyses of loss ratios and 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 by 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. These competitors have underreserved claims provisions, so we assume, which makes their loss ratios look favourable and leaves them enough room for paying the very high commissions. Certain foreign subsidiaries are exposed to additional pricing risk as their governments regulate premiums for compulsory motor third party liability insurance and adjust them only with a significant time lag. 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.

With proportional reinsurance contracts, reinsurance premiums depend on insurance premiums that are as a rule fixed by cedants. In this case, Sava Re reduces the pricing risk by having a proper underwriting process in place. With non-proportional reinsurance contracts, the pricing risk is reduced in the same manner, as well as by determining the premium based on reinsurance market conditions and cedants' claims experience. The Group considers the pricing risk to have been moderate both in 2008 and 2007.

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 2008 and 2007 is deemed moderate.

Claims risk

Claims risk is the risk that more claims occur than expected or that the average claim amount will be higher 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, new human and animal diseases, increasing public awareness of the rights attached to insurance contracts and macroeconomic changes.

The claims risk 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 exceeds Sava Re's estimate. The probability of this is low and it is fortuitous by nature, and in case of natural disasters may be caused by inappropriate human impacts in 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 through adequate reinsurance and retrocession programmes.

The Group considers the claims risk to have remained essentially the same as in 2007. At this point, it must be noted that losses associated with the unexpected large number of natural disasters (catastrophic hail) in 2008 are dealt with under net retention risk.

Net retention risk

This is the risk that higher retention of insurance loss exposures results in losses 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 (e.g. 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 especially by appropriately defining the maximum net retention limits and designing appropriate reinsurance programmes.

Sava Re manages this risk in a similar way, and additionally by establishing appropriate retrocession programmes and adopting a conservative approach in setting the level of technical provisions.

The Group considers the net retention risk to have remained essentially the same as in 2007 in terms of retention limits and the expected number of catastrophic losses. However, the actual number of catastrophic losses (hail) that occurred in 2008 was higher than expected, which had an adverse effect on the aggregate net claims incurred by the Group. Nevertheless, the Group (the parent) was not seriously impacted thanks to its appropriate retention limits and retrocession programme.

Reserving risk

Reserving risk is the risk that technical provisions are inadequate. This risk is deemed to be medium 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 yet to reach EU standards, particularly in relation to actuarial matters. In addition, non-Slovenian subsidiaries lack actuaries with adequate qualification and experience gained outside their local (underdeveloped) 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. For this reason, the Group considers its subsidiaries not to differ much from the market average: they are not below it, but they are also not above it, as their small size prevents them from developing certain functions.

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 those used by the subsidiaries prior to the acquisition. In addition, the local regulatory framework is developing as well as criteria and qualifications of local regulators, which is gradually leading towards harmonisation with EU standards. 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.

Up until the end of 2006, none of the subsidiaries – except for Tilia – had estimated the claims provision on the basis of recognized actuarial methods (e.g. 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. This methods were then used also in 2008. 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.

Insurers use paid claims triangles based on accident year data for actuarialestimations. 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 reinsurance practice, Sava Re analyses data about claims paid by underwriting year 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 56 and 57 show the adequacy tests of the claims provision with unearned premiums added on. Such tests can only 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 2008 is calculated using the same actuarial method as in previous years, we conclude that the provisions as at December 31, 2008 are adequate.

Table 56: Adequacy test of gross technical provisions

(EUR mio)	Year ended 31 December					
Claims provision plus unearned premiums, gross of reinsurance	2003	2004	2005	2006	2007	2008
As originally estimated	96.346	104.552	119.374	116.218	128.797	158.426
Reestimated as of 1 year later	66.326	73.051	92.112	91.285	122.548	
Reestimated as of 2 year later	68.524	81.057	90.363	95.432		
Reestimated as of 3 year later	71.942	78.388	91.646			
Reestimated as of 4 year later	66.989	80.544				
Reestimated as of 5 year later	68.755					
Cumulative redundancy	27.591	24.008	27.727	20.785	6.249	
Cumulative claims paid						
1 year later	28.348	33.645	42.270	35.967	55.182	
2 years later	37.628	44.771	51.386	51.607		
3 years later	43.169	49.542	58.880			
4 years later	45.549	54.908				
5 years later	48.681					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

To illustrate how adequacy testing works, let us have a look at the above table. 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 104.6 million. 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 33.6 million 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 39.4 million (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 73.1 million. In the same way, the liabilities as at 31 December 2004 were re-estimated at the end of 2006, 2007 and 2008. Given that the cumulative amount of claims paid in 2005 to 2008 was EUR 54.9 million, the 2008 estimate relating to liabilities estimated at the end of 2004 amounts to: EUR 80.5 – 54.9 = EUR 25.6 million. 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.

Table 57: Adequacy test of net technical provisions

(EUR mio)	Year ended 31 December					
Claims provision plus unearned premiums, net of reinsurance	2003	2004	2005	2006	2007	2008
As originally estimated	82.821	85.012	92.696	99.291	107.347	120.772
Reestimated as of 1 year later	50.684	54.333	68.403	70.092	101.548	
Reestimated as of 2 year later	53.192	62.519	65.602	73.790		
Reestimated as of 3 year later	56.789	58.982	66.419			
Reestimated as of 4 year later	51.280	59.323				
Reestimated as of 5 year later	51.513					
Cumulative redundancy	31.308	25.689	26.277	25.500	5.799	
Cumulative claims paid						
1 year later	23.438	24.576	28.716	28.637	50.014	
2 years later	30.623	33.470	37.091	41.472		
3 years later	35.576	37.749	43.032			
4 years later	37.575	41.698				
5 years later	39.486					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

Sava Re's cumulative redundancy relating to the years from 2003 to 2007, as shown in the table above, represents 38%, 30%, 28%, 26% and 5% 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 and usually used almost entirely in the second year, when any excess amount is also released. Subsequent estimates, however, remain essentially the same as the second-year estimate.

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 to foreign subsidiaries for the pre-acquisition period, 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 31,2008 based on historical differences between estimated and actual liabilities would not be appropriate.

Tables 58 and 59 show adequacy test of gross and net claims provisions in Zavarovalnica Tilia.

Table 58: Adequacy test of gross technical provisions

(EUR mio)	Year ended 31 December					
Claims provision, gross of reinsurance	2003	2004	2005	2006	2007	2008
As originally estimated	24.840	28.085	32.698	39.263	39.108	42.966
Reestimated as of 1 year later	23.401	27.040	29.160	35.353	34.407	
Reestimated as of 2 year later	24.355	26.429	29.920	33.441		
Reestimated as of 3 year later	24.110	27.609	28.329			
Reestimated as of 4 year later	24.999	26.366				
Reestimated as of 5 year later	24.107					
Cumulative redundancy	0.733	1.719	4.370	5.821	4.701	
Cumulative claims paid						
1 year later	10.252	10.673	10.849	14.429	13.140	
2 years later	13.159	14.566	15.094	18.721		
3 years later	15.432	16.861	17.784			
4 years later	16.820	18.181				
5 years later	17.700					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

Table 59: Adequacy test of net technical provisions

(EUR mio)	Year ended 31 December					
Claims provision, gross of reinsurance	2003	2004	2005	2006	2007	2008
As originally estimated	17.321	19.470	22.544	26.454	28.929	29.457
Reestimated as of 1 year later	18.146	22.333	23.198	26.881	26.149	
Reestimated as of 2 year later	18.869	21.328	21.781	26.252		
Reestimated as of 3 year later	18.450	19.869	21.416			
Reestimated as of 4 year later	17.758	21.093				
Reestimated as of 5 year later	17.357					
Cumulative redundancy	–0.036	–1.623	1.128	0.202	2.780	
Cumulative claims paid						
1 year later	6.211	7.414	6.352	9.617	9.617	
2 years later	8.239	8.972	9.409	9.409		
3 years later	8.794	10.718	10.718			
4 years later	9.954	9.954				
5 years later	9.950					

Note: Amounts originally denominated in tolars were translated into euros at the rate of EUR 1 = SIT 239.64.

Sava Re's (reinsurer's) share of the claims provisions of Zavarovalnica Tilia is organised by underwriting year in both entities. For this reason, data on the reinsurer's share of the claims provision and of claims paid relating to individual accident years, estimated based on underwriting year data. Due to this approximation method applied, table 59 is less reliable than table 58.

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 premiums, 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 legislation. In addition, given their relatively low loss 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 56 and 57 also show the adequacy assessment of technical provisions (or claims provisions) for the year end of 2007 relating to Sava Re and Tilia. The main diagonal comprising estimates as at December 31, 2008 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 and Tilia, redundancies are stable both for the gross and net claims provision. In respect of other subsidiaries, due to stricter rules for calculating the claims provision, the reserving risk at the end of 2008 is smaller than the reserving risk at the end of 2007, which is also true at the Group level.

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.

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 as largest amount set out in the tables of maximum retentions are used only exceptionally with 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 prudently selected non-proportional reinsurance programmes.

We consider that that the reinsurance programmes of the Group have not changed substantially from 2007 to 2008.

Estimated exposure to underwriting risks

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 Group's combined ratio increased/decreased by 1 percentage point, its net profit before taxes would decrease (increase) by EUR 1.9 million (2007: EUR 1.6 million). The effect of the change in net loss ratio is greater in 2008 due to increased premiums.

Group members transfer underwriting risks to Sava Re if they exceed their retention limits. The retention limit is set at EUR 1 million for the majority of non-life classes of insurance, except for fire, natural disaster and other damage to property classes, for which it is set at EUR 2 million. Retention limits applying to life insurance contracts are significantly 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. Although it is possible that several events of a catastrophe occur in the same year, as was the case in 2008, it is less likely than 0.5% which is, according to Solvency II 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.

The risk that the underwriting risk may seriously undermine the Group's financial stability is deemed, according to our assessment, low and there are no significant differences between 2008 and 2007.

Underwriting risks in life insurance

In the Sava Re Group, the only companies that provide life insurance are Zavarovalnica Tilia and the newly established Dukagjini Life and Sava životno osiguranje. The newly established insurance companies have written a small number of policies up to now, for which reason their exposure to underwriting risks is insignificant. For this reason, only life insurance (life insurance covering death risk, pure endowment, annuity insurance and investment-linked insurance) of Tilia is discussed below. Practically all life insurance policies of Zavarovalnica Tilia are euro-denominated.

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 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 1994.

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, 2008 is used in the calculation.

Tilia carries out a liability adequacy test for life-insurance mathematical provisions on an 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 compared to other parameters is negligible, 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 2008 is 526, whilst the number of actual deaths was 210. 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 (e.g. 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, 50% mortality under the Slovenian mortality tables 1993–1995 in respect of pure endowment 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 2008, it compared them against the average annual yield of 10-year government bonds. The average yield of the liability fund was 5.98% in 2008. This is higher than the interest rates used in the calculation of provisions. If the average annual yield rate declined by 1 percentage points, the investment income on the liability fund would decrease by EUR 110,000 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 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.

The exposure to underwriting risks in life insurance is considered to have remained the same as in 2007.

43.3 Market risks

In their investment activities, insurers and reinsurers are subject to legal requirements relating to diversification, restrictions, valuation, and asset-liability matching. In addition to ensuring liquidity, some of the Group companies also managed their investments so as to comply with other legal requirements concerning asset-liability currency matching and liability fund structure.

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

Table 60: Investment portfolio of the Sava Re Group as at 31 December 2007 and 2008

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
Type of investment	Amount	Structure	Amount	Structure
Bond portfolio	129,019,797	42.6%	135,883,563	43.0%
Deposits and money market instruments	73,288,274	24.2%	62,981,986	19.9%
Equity securities	17,422,816	5.7%	29,214,145	9.3%
Investments in subsidiaries and associates	31,329,886	10.3%	30,812,726	9.8%
Mutual funds	35,299,560	11.6%	41,268,152	13.1%
Real estate	5,243,407	1.7%	1,320,834	0.4%
Other	11,516,628	3.8%	14,294,257	4.5%
Total	303,120,369	100.0%	315,775,663	100.0%

Amounts shown do not include investments with cedants made by Sava Re under its reinsurance contracts, and investments made for the benefit of policyholders who bear the investment risk.

Interest rate risk

In the Sava Re Group, the only companies that provide life insurance are Zavarovalnica Tilia and the two newly established life insurers Dukagjini Life and Sava životno osiguranje. The newly established life insurers have only written a small number of policies so far, which is why their exposure to interest rate risk (the risk of a change in interest rates increasing their liabilities) is insignificant. Except for Zavarovalnica Tilia, no other Group company guarantees returns on policyholder investments, neither do they have interest rate sensitive mathematical provisions. For this reason, they are not exposed to the conventional interest rate risk associated with asset-liability mismatch. Subsidiaries providing non-life insurance (and consequently Sava Re) do have temporary annuities and annuities for life amongst their liabilities, which are provided under liability insurance contracts, but the effect of a drop in interest rates on their liabilities due to the increased capitalised amounts of such annuities would be insignificant.

The majority of the Group's fixed-income portfolio pertains to Sava Re and Zavarovalnica Tilia. The Group tries to manage the interest rate risk that affects the value of its assets (e.g. bonds) and the return on its investments (e.g. deposits) by investing in variable-rate bonds (i.e. using a so-called natural hedge).

Zavarovalnica Tilia as provider of traditional life products is also exposed to the risk of a drop in interest rates that could increase its liabilities (mathematical provisions). However, a drop in interest rates should at the same time increase the value of bonds in its liability fund, thus offsetting the increase in mathematical provisions. However, this would only hold true if maturity of the insurer's liabilities matched that of its investments. As this is not the case, the Group reduces this risk also by reducing the mismatch between the average maturity of its assets and liabilities. This can never be reduced completely, as life insurance maturities (they can be up to 40 years) are much longer than bond maturities. If the interest rate applicable to traditional life insurance contracts (under which the insurer assumes investment risk) dropped by 2 percentage points, the insurer's liabilities would increase by EUR 3.6 million.

The majority (almost 99%) of the Group's bond portfolio pertains to Sava Re and Zavarovalnica Tilia. Interest rate sensitivity of these investments can be assessed by shifting the yield curve for all maturities by one or two percentage points up or down, and calculating the change in the value of the bond portfolio. As long as interest rate changes are small, we can approximate changes in bond prices quite well: we have to know the first and second derivative of the change in a bond price resulting from such an interest rate change, or else we have to know both duration and convexity of the bond.

The average duration of the Group's bond portfolio was 3.88 years as at year-end 2008 (2007: 3.69 years). A sensitivity analysis assuming a 2 percentage points change in interest rates showed that in the event of an increase by 2 percentage points, the value of the Group's bond portfolio would drop by EUR 9.0 million or 7.2% (2007: EUR 9,5 million or 7.0%). If the same sensitivity is applied to investments in mutual funds (bond, mixed and guaranteed) and in funds of funds (assigning each portfolio a weight of 0.5), the Group found that the same 2 percentage points change in interest rates would further decrease its investment portfolio by EUR 0.9 million (2007: EUR 0.8 million).

Considering the actual movements in interest rates, the Group considers the interest rate risk in 2008 to have been slightly lower than in 2007.

Equity securities risk

As at year-end 2008, the Group held EUR 17.4 million of investments in shares of domestic and foreign companies and EUR 35.3 million of investments in mutual funds, of which 31% are stock funds , 45% are mixed funds, 6% are bond funds, 16% are guaranteed funds, and 2% are funds of funds. Its total exposure to the equity securities risk was thus EUR 57.4 million. For mixed and guaranteed mutual funds and funds of funds, a 50/50 split between bonds and stocks is assumed (bonds are discussed under interest rate risk). Sava Re mitigates this risk primarily through (i) diversification (in terms of issuer, industry and geographic area), (ii) monitoring and analysing global market developments, and (iii) promptly responding to events affecting global financial markets. Sava Re 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 Group's 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 5.7 million (2007: EUR 5.9 million). 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 11.5 million (2007: EUR 11.9 million).

The above figures relate to year-end balances. Due to the drop in the value of investments, the Group's exposure to equity securities risk as at year-end 2008 was lower than at year-end 2007. We hence estimate that, should stock prices continue to fall in 2009, the change in exposure would be smaller.

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 92.2% (2007: 93.3%) of total liabilities. It is in this currency alone that the parent's liability fund exceeds its liabilities significantly, by EUR 25.8 million, while other currencies show an asset-liability mismatch deficit of EUR 6.8 million.

Sava Re ensures that the currencies in which its investments are held are matched to currencies in which liabilities are denominated. In 2008, it even adapted its investment policy because of its prevailing euro-denominated liabilities.

Assets and liabilities of Group companies established in Serbia and Macedonia are denominated in local currencies, while those of Group companies established in Slovenia, Montenegro and Kosovo are denominated in euros. As a result, Sava Re is the Group company that is most exposed to currency risk.

As shown in table 61, Sava Re's currency mismatch in 2008 totalled EUR 6.8 million (2007: EUR 2.0 million) or 4.1% (2007: 1.5%) of the sum of gross technical provisions and credit risk/catastrophe equalization reserves. Given that the surplus of the liability fund over gross technical provisions amounts to nearly EUR 20.4 million (2007: EUR 20.3 million), this mismatch could easily be eliminated, even in the event that the euro weakened significantly.

Table 61: Currency (mis)match as at 31 December 2008 (all amounts expressed in EUR)

Currency	Liability fund (LF)	Gross technical provisions (GTP)	Mismatch (GTP-LF,0)
AED	68,121	379,445	311,323
AMD	32,428	26,084	0
AUD	0	927	927
BGN	28,640	68,699	40,059
CAD	0	63	63
CHF	104,638	14,597	0
CZK	166,852	394,912	228,060
DKK	0	1,291	1,291
DOP	0	13,729	13,729
DZD	31,553	155,003	123,450
EUR	177,511,185	151,729,409	0
GBP	830,885	382,338	0
HKD	90,732	940,478	849,746
HRK	195,407	202,487	7,079
HUF	28,788	50,563	21,775
INR	28,618	95,567	66,949
JPY	333,446	386,257	52,811
KRW	504,508	588,921	84,413
LYD	28,934	44,095	15,161
MAD	0	134,388	134,388
MGA	5	293	288
MKD	157	422	265
MYR	27,078	34,003	6,924
NOK	7,827	0	0
PHP	0	28	28
PLN	12,532	101,073	88,541
RON	15,452	17,789	2,337
RSD	25,324	15,517	0
RUB	0	3,515	3,515
SEK	2,211	343,754	341,543
SKK	0	46,592	46,592
TRY	1,712,315	879,515	0
UAH	3	0	0
USD	3,126,138	7,458,822	4,332,685
XCD	0	47,864	47,864
XOF	100,514	39,745	0
Total	185,014,290	164,598,183	6,821,808

As at 31 December 2008 and one year earlier, Sava Re held no provision for currency mismatch risks, as it was deemed no longer necessary.

The Group considers the currency mismatch risk to have been moderate both in 2008 and 2007.

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 investment (deposits, bonds, equity securities, structured products, mutual fund units), 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.

Table 62: Bond portfolio as at 31 December 2007 and 2008 by geographic region

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
	Amount	Structure	Amount	Structure
Slovenia	82,941,979	64.3%	82,320,399	61.0%
OECD	4,324,901	3.4%	8,977,220	6.7%
EU	40,156,869	31.1%	42,757,740	31.7%
Other	1,596,048	1.2%	809,870	0.6%
Total	129,019,797	100.0%	134,865,229	100.0%

Equity securities are diversified by issuer, credit rating and region.

Table 63: Stock portfolio as at 31 December 2007 and 2008 by geographic region

(EUR, except percentages)	As at 31 December 2008		As at 31 December 2007	
	Amount	Structure	Amount	Structure
Slovenia	13,137,083	75.4%	19,400,461	66.7%
OECD	211,304	1.2%	850,910	2.9%
EU	1,551,173	8.9%	2,423,320	8.3%
Other	2,523,256	14.5%	6,401,810	22.0%
Total	17,422,816	100.0%	29,076,501	100.0%

Investments in stock mutual funds, which are already diversified by their very nature as mutual funds, are additionally diversified by the Group.

Although our concentration risk is deemed low, we are, unable to neutralise the (global) systemic risk by diversification only, when all developments in capital markets are unfavourable. This is exactly what happened in 2008. Based on the two tables above and considering only the unfavourable developments in the local capital market, it could be concluded that the Group's exposure to concentration risk increased in 2008, owing to the increase in the share of domestic debt and equity securities in its portfolio.

Asset-liability mismatch risk

The Group keeps the structure of its liability fund compliant with the legal and other requirements in the countries where it operates, however not everywhere, e.g. not in Montenegro. Even so, as at year-end 2008, solely the liability funds of Sava Re and Zavarovalnica Tilia exceeded their gross technical provisions by as much as EUR 27 million, which resulted into a large surplus also at the Group level.

A detailed structure of the duration of liabilities is not available at the Group level due to certain developments in subsidiaries' technical provisions, described under reserving risk. Nevertheless, given the large amount by which the liability fund exceeds gross technical provisions at Group level, we consider that for non-life business at Group level, there is a sub-group of investments of at least the same size as liabilities and of the same average duration.

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. Debt securities accounted for more than 70% of the insurer's portfolio as at year-end 2008.

Table 64: Bond portfolio as at 31 December 2007 and 2008 by duration

(EUR, except percentage)	As at 31 December 2008		As at 31 December 2007	
Maturity	Amount	Structure	Amount	Structure
0 – 1 years	10,995,633	8.5%	12,305,981	9.1%
1 – 5 years	78,631,446	60.9%	73,597,386	54.6%
Over 5 years	39,392,718	30.5%	48,961,862	36.3%
Total	129,019,797	100.0%	134,865,229	100.0%

43.4 Liquidity risk

The Group had no liquidity problems throughout 2008. 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 addition, Sava Re also concluded a call deposit contract with one of its banks, under which it can, on a daily basis, draw and pay back up to EUR 400,000.

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 2008 and 2007.

43.5 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 local and internal regulatory requirements, Group members are allowed to invest their cash surpluses only in (i) deposits with banks with high credit rating (as measured in accordance with local credit rating standards), (ii) 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.

To assess credit risk, the Group monitors the structure of its investments by issuer credit rating. The table below shows the credit rating profile of the Group’s bond portfolio.

Table 65: Bond portfolio as at 31 December 2007 and 2008 by issuer credit rating

(EUR, except percentage)	As at 31 December 2008		As at 31 December 2007	
As rated by Moody’s/S&P’s	Amount	Structure	Amount	Structure
Aaa/AAA	6,017,856	4.7%	9,319,736	6.9%
Aa/AA	58,989,565	45.7%	66,234,831	49.1%
A/A	26,125,974	20.2%	32,556,835	24.1%
Baa/BBB	8,183,321	6.3%	7,597,241	5.6%
Less than Baa/BBB	788,670	0.6%	509,864	0.4%
Not rated	28,914,411	22.4%	18,646,722	13.8%
Total	129,019,797	100.0%	134,865,229	100.0%

As at year-end 2008 (2007), more than 70% (85%) of bonds representing more than 30% (36%) of the Group’s investment portfolio had an issuer credit rating at least equal to that of Sava Re. It must be noted that in 2008, Sava Re’s rating was upgraded, so that bonds rated Baa/BBB had to be eliminated from the comparison.

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.

As at year-end 2008 (2007), the Group’s total credit exposure associated with reinsurers was EUR 55.1 million (EUR 28.9 million): of this, reinsurers’ share of technical provisions was EUR 40.1 million (EUR 22.4 million), and reinsurers’ share of claims was EUR 14.9 million (EUR 6.5 million). The total credit risk exposure of the Group arising from reinsurers represented 7.5% of total assets (2007: 6.0%).

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 and at the same level as in 2007.

43.6 Operational risk

Operational risk includes human capital risk, management control risk, system risk, process risk and legal risk. According to our assessment, the Group is mostly exposed to risks arising from failed or inadequate processes and internal controls and disruptions in the management of a company. 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 tends to increase 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 and through staff training.

If broadly defined, 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.

The Group considers the operational risk to have remained the same as in 2007.

Table 66: Financial instruments – net carrying amounts and fair values

(EUR)	As at 31 December 2008		As at 31 December 2007	
MSRP group	Net carrying amount	Fair value	Net carrying amount	Fair value
Investment property	5,243,407	5,243,407	1,320,833	1,320,833
Financial investments	313,761,570	312,997,534	330,934,474	330,934,474
Receivables	83,940,441	83,940,441	57,630,105	57,630,105
Subordinated debt	–31,139,605	–31,139,605	–31,136,034	–31,136,034
Financial liabilities	–600,160	–600,160	–37,211	–37,211
Other liabilities	–61,305,265	–61,305,265	–40,044,752	–40,044,752
Total	309,900,388	309,136,352	318,667,415	318,667,415

43.7 Implementing systematic risk management

The Group is implementing risk management on a systematic basis, as it is aware of the requirements to be brought about by the so-called Solvency II insurance regulations, amongst them also risk-based capital calculation. For this reason, Sava Re participated in the Quantitative Impact Study QIS4, under which it evaluated its risks and calculated its capital as at year-end 2007 based on its risk profile and other assumptions. Through this and other activities, Sava Re monitors the implementation of and actively prepares for the new insurance regulations relating to Solvency II, while passing on experiences to other Group members.

Sava Re, as part of its rating reviews, continues to calculate its risk exposure also based on the Standard & Poor's methodology.

44 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Insurance companies in Slovenia were legally required to make the transition to IFRS as of 1 January 2007. Accordingly, Sava Re first prepared its financial statements in accordance with IFRS for the financial year beginning 1 January 2007. The financial statements as at 1 January 2006 and 31 December 2006 had to be adjusted, mainly due to the dismantling and transformation of certain technical provisions, i.e. the equalization provision that are not compliant with IFRS 4. Thus one part of the equalization provision was released to retained earnings and one part was transferred to other profit reserves (credit risk and catastrophe equalization reserves).

The effect of the transition to IFRS is disclosed within the items equity, technical provisions and deferred tax liabilities. Before transition to IFRS, Sava Re used to have equalization provisions required under the Insurance Act, as well as provisions for nuclear, earthquake and credit risks. Under IFRS, it was no longer allowed to have such provisions. It thus adjusted the financial statements as at 1 January 2006 by dismantling, through retained earnings, most of its equalization provision, as well as its nuclear risk provision. Credit risk and earthquake equalization provisions were transferred to profit reserves as credit risk and catastrophe reserves. As provisions dismantled through retained earnings were tax deductible on recognition, Sava Re had to recognise deferred tax liabilities. In accordance with the Corporate Income Tax Act, these are payable in three consecutive annual instalments of EUR 2.6 million each. Outstanding are still the instalments for 2008 and 2009. To present correctly the effect on net profit or loss, the said instalments first increase tax liabilities and then, upon payment, decrease deferred tax assets.

45 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Despite the global financial crisis, Sava Re has continued to implement its strategy of expanding the Sava Re Group to the markets of the Western Balkans. Early in February 2008, Sava Re obtained permission from the Croatian Financial Services Supervision Agency (HANFA) for an indirect acquisition of a qualified stake of over 50% in Velebit osiguranje, d. d., Zagreb, and Velebit životno osiguranje, d. d., Zagreb. The conditions were thus met for Sava Re to acquire from Zavarovalnica Maribor a 100% share in Velebit usluge, d. o. o., Zagreb, which in turn holds majority stakes in the two insurance companies.

46 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 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 amortisation of intangible assets in 2008

(EUR)	Cost					
	As at 1 January	Additions	Reclassification	Impairments	Foreign exchange differences	As at 31 December
Intangible assets	2,464,082	1,193,520	0	0	25,954	3,683,556
Goodwill	23,657,809	0	0	–1,329,362	0	22,328,447
Other long-term deferred costs and accrued income	107,740	4,586	–24,556	0	193	87,963
Total	26,229,631	1,198,106	–24,556	–1,329,362	26,147	26,099,966

(EUR)	Accumulated amortization					Net book value	
	As at 1 January	Additions	Reclassification	Foreign exchange differences	As at 31 December	As at 31 December	As at 1 January
Intangible assets	777,430	436,037	0	13,464	1,226,931	2,456,625	1,686,652
Goodwill	0	0	0	0	0	22,328,447	23,657,809
Other long-term deferred costs and accrued income	59,160	0	19,250	0	78,410	9,553	48,580
Total	836,590	436,037	19,250	13,464	1,305,341	24,794,625	25,393,041

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

Movements in cost and accumulated amortisation of intangible assets in 2007

(EUR)	Cost					
	As at 1 January	Acquisitions	Additions	Disposals	Foreign exchange differences	As at 31 December
Intangible assets	570,841	1,356,717	579,818	–36,568	–6,726	2,464,082
Goodwill	10,039,475	0	13,618,334	0	0	23,657,809
Other long-term deferred costs and accrued income	67,174	24,430	16,967	–764	–67	107,740
Total	10,677,490	1,381,147	14,215,119	–37,332	–6,793	26,229,631

(EUR)	Accumulated amortization							Net book value	
	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
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

Goodwill

Movements in goodwill

Goodwill arose on acquisition of the following companies: Sava Osiguranje (Belgrade), Dukagjini (Pristina), Sava Tabak (Skopje) and Montenegro osiguranje (Podgorica). As at year-end 2008, it amounted to EUR 22,328,447.

Development of goodwill in 2008

(EUR)	
Carrying amount as at 31 December 2007	23,657,809
Sava Osiguranje	5,047,588
Dukagjini	4,991,887
Sava Tabak	3,030,375
Bro-Dil	24,266
Montenegro osiguranje	10,563,693
Additions in current year	0
Impairments	–1,329,361
Carrying amount as at 31 December 2008	22,328,447

Compared to a year ago, goodwill decreased by EUR 1.3 million due to impairment of goodwill belonging to Montenegro osiguranje, carried out in view of the increase in the subsidiary's share capital by EUR 3 million planned for 2009.

Goodwill impairment testing

For the purpose of goodwill impairment testing and in accordance with IAS 36, the recoverable amount of cash-generating units was calculated based on the value in use. Cash flow projections used in this calculation were based on the business plans approved by management for the period until and including 2013, as well as on extrapolations of growth rates for subsequent years. The discount rate used was based on market rates adjusted to reflect each insurance company-specific risks. The recoverable amount of the cash-generating unit so calculated was compared against its carrying amount, including goodwill belonging to the unit. Impairment testing of goodwill belonging to Sava Osiguranje, Dukagjini and Sava Tabak showed that the recoverable amounts of these cash generating units exceeded their carrying amounts including goodwill, for which reason goodwill belonging to these entities was not impaired as at year-end 2008. Impairment testing of goodwill belonging to Montenegro osiguranje resulted in a negative amount of EUR 1.3 million.

Key assumptions used to determine the value in use in goodwill impairment testing

Cash flow projections were based on the Group's strategic business plan covering the period 2009-2012. Net profit was used as a good approximation of net cash flow, and capital adequacy of subsidiaries was also estimated. The depreciation charge was assumed as reinvested upon recognition and therefore excluded.

Key assumptions used:

	Average growth rate for 2009–2013 period			
	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Net earned premiums	18.7%	10.3%	13.3%	15.0%
Net claims incurred	19.1%	19.2%	17.0%	10.2%
Net operating expenses	15.6%	5.9%	10.5%	13.7%
Profit for the period	29.3%	12.2%	54.6%	120.0%
Growth rate for residual amount	4.5%	3.5%	3.5%	3.5%

The high growth in premiums earned by subsidiaries reflects the expected high growth in their insurance markets, as well as the special features of their portfolios. In all their markets, gross insurance premiums as a share of gross domestic product are relatively low. However, they are expected to increase significantly due to the expected convergence of their countries' macroeconomic indicators towards EU levels. In the first years of the five-year period covered, growth in claims incurred is high due to bringing of the subsidiaries' technical provisions up to Group standards. Claims awareness is also expected to increase, i.e. claims made against insurance companies are expected to become more frequent and higher. Costs are expected to lag behind premiums slightly owing to business process optimisation in subsidiaries. Process management, such as elimination of payment by instalments and improved premium collection, will contribute to the growth in net profit.

The discount rate was calculated as the weighted average cost of capital, using the Capital Asset Pricing Model (CAPM), based on a risk-free interest rate and adjusted for market interest rate risk.

No other discount factor was used, given that under the Insurance Act, insurance companies are classified as large and regulated.

Applied discount factor	
Sava Osiguranje	13.0%
Dukagjini	13.2%
Sava Tabak	12.9%
Montenegro osiguranje	12.9%

2) Property and equipment

Movements in cost and accumulated depreciation of property and equipment in 2008

(EUR)	Cost						
	As at 1 January	Additions	Disposals	Reclassification	Impairments	Foreign exchange differences	As at 31 December
Land directly used in insurance activities	353,834	0	0	0	0	0	353,834
Buildings directly used in insurance activities	20,750,300	1,543,545	0	56,812	0	–591,614	21,759,043
Equipment	6,642,146	1,496,394	–356,666	219	–11,971	–58,557	7,711,565
Other property, plant and equipment	220,280	1,943	0	0	0	–10,054	212,169
Total	27,966,560	3,041,882	–356,666	57,031	–11,971	–660,225	30,036,611

(EUR)	Accumulated depreciation							Net book value	
	As at 1 January	Additions	Disposals	Reclassification	Impairments	Foreign exchange differences	As at 31 December	As at 31 December	As at 1 January
Land directly used in insurance activities	0	0	0	0	0	0	0	353,834	353,834
Buildings directly used in insurance activities	3,206,643	215,631	0	–116,484	169,581	–54,117	3,421,254	18,337,789	17,543,657
Equipment	3,784,602	720,106	–258,444	–422,728	138,283	388,008	4,349,827	3,361,738	2,857,544
Other property, plant and equipment	31,588	1,529	0	0	0	0	33,117	179,052	188,692
Total	7,022,833	937,266	–258,444	–539,212	307,864	333,891	7,804,198	22,232,413	20,943,727

The net carrying amount of property and equipment did not change significantly compared to a year ago. There were movements in the "equipment" and "other property and equipment" items, while disposals relate mainly to equipment and company cars that were sold during the year.

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

(EUR)	Cost							
	As at 1 January	Acquisi-tions	Additions	Disposals	Reclassifi-cation	Impair-ments	Foreign exchange differences	As at 31 December
Land directly used in insurance activities	356,041	0	0	–2,207	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	–384,658	20,750,300
Other land and buildings directly used in other insurance activities	25,764	0	0	0	–25,764	0	0	0
Equipment	5,236,416	1,353,607	958,364	–431,228	–215,740	–212,257	–47,016	6,642,146
Other property, plant and equipment	125,519	0	0	–43,533	145,147	0	–6,853	220,280
Total	15,399,967	4,829,084	9,734,918	–524,311	–822,314	–212,257	–438,527	27,966,560

(EUR)	Accumulated depreciation								Net book value	
	As at 1 January	Acquisi-tions	Additions	Disposals	Reclassi-fication	Impair-ment reversals	Foreign exchange differences	As at 31 December	As at 31 December	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 other 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

3) Deferred tax assets

(EUR)	As at 31 December 2008
Long-term financial assets	5,356,526
Short-term financial assets	493,401
Jubilee and termination benefits	10,340
Total	5,860,267

(EUR)	Offset balance as at 1 January 2008	Recognized in the IS	Formed in 2008 (BS)	Offset balance as at 31 December 2008
Long-term financial assets	118,436	2,595,364	2,642,726	5,356,526
Short-term financial assets	224,017	269,384	0	493,401
Jubilee and termination benefits	0	10,340	0	10,340
Total	342,453	2,875,088	2,642,726	5,860,267

In 2008, the Group recognised additional deferred tax assets associated with temporary non-deductible allowances for investments in debt securities, made in accordance with the policy described in section 22.9.5, "Impairment of investments". It also recognised deferred tax assets associated with losses arising from fair value revaluation of investments that are not recognised in the income statement but as revaluation deficit.

4) Investment property

Movements in cost and accumulated depreciation of investment property in 2008

(EUR)	Cost					
	As at 1 January	Additions	Disposals	Reclassification	Foreign exchange differences	As at 31 December
Land	136,048	0	0	0	0	136,048
Buildings	1,484,528	3,731,854	–13,243	203,347	17,722	5,424,208
Total	1,620,576	3,731,854	–13,243	203,347	17,722	5,560,256

(EUR)	Accumulated depreciation						Net book value	
	As at 1 January	Additions	Disposals	Reclassification	Foreign exchange differences	As at 31 December	As at 31 December	As at 1 January
Land	0	0	0	0	0	0	136,048	136,048
Buildings	299,743	21,188	–5,641	2,094	–535	316,849	5,107,359	1,184,785
Total	299,743	21,188	–5,641	2,094	–535	316,849	5,243,407	1,320,833

Movements in cost and accumulated depreciation of investment property in 2007

(EUR)	Cost				
	As at 1 January	Disposals	Reclassification	Foreign exchange differences	As at 31 December
Land	151,512	–15,464	0	0	136,048
Buildings	3,242,075	–31,012	–1,699,876	–26,659	1,484,528
Total	3,393,587	–46,476	–1,699,876	–26,659	1,620,576

(EUR)	Accumulated depreciation				Net book value	
	As at 1 January	Additions	Disposals	As at 31 December	As at 31 December	As at 1 January
Land	0	0	0	0	136,048	151,512
Buildings	293,673	15,601	–9,531	299,743	1,184,785	2,948,402
Total	293,673	15,601	–9,531	299,743	1,320,833	3,099,914

The Group earned EUR 135,225 by leasing out its investment property in 2008.

5) Investments in group companies and associates

Investments in shares of Group companies in 2008

	As at 1 January 2008	Acquisitions	As at 31 December 2008	
	Share (%)	Share (%)	Share (%)	Voting rights (%)
Tilia	99.63%	0.05%	99.68%	99.68%
Sava Osiguranje	99.99%		99.99%	99.99%
Dukagjini	51.00%		51.00%	51.00%
Sava Tabak	66.70%		66.70%	66.70%
Bro-Dil	33.80%	32.90%	66.70%	66.70%
Montenegro osiguranje	99.92%		99.92%	99.92%
Sava Invest	0.00%	83.68%	83.68%	83.68%
Dukagjini Life		51.00%	51.00%	51.00%
Sava Life, Belgrade		99.99%	99.99%	99.99%

Investments in shares of associates in 2008

(EUR)	As at 1 January 2008		Acquisitions		As at 31 December 2008	
	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount
Maribor	45.79%	28,214,138			45.79%	28,609,812
Moja naložba	25.00%	965,773		375,263	25.00%	1,181,313
Gold Mak	17.70%	1,825,037			17.70%	1,789,853
Total		31,004,948		375,263		31,580,978

Indirectly, through Sava Tabak, the Group holds 83.68% of ownership and voting rights in Bro-Dil.

Investments in debt instruments of associates in 2008

(EUR)	Type of debt instrument	As at 31 December 2008
Maribor	bond	1,512,985

Basic information – associates

(EUR)	2008	2007
Maribor		
Assets	634,940,266	604,693,638
Liabilities	579,966,832	535,604,064
Income	230,439,646	229,822,493
Profit for the period	2,791,783	4,524,285
Moja naložba		
Assets	83,616,360	69,727,464
Liabilities	78,967,721	66,011,612
Income	1,509,558	1,541,589
Profit for the period	–505,288	258,854

6) Financial investments

Financial investments in 2008

(EUR)	Held-to-maturity		At fair value through profit or loss			Available-for-sale	Loans and receivables	Total
	Net carrying amount	Fair value	Non-derivative		Derivative			
			Held for trading	Designated as at fair value through P/L				
Long-term financial investments								
Equity and other variable income securities and mutual funds	91,855	0	0	0	0	45,227,715	0	45,319,570
Debt and other fixed income securities	6,487,618	6,045,728	0	0	0	99,595,591	0	106,083,209
Other financial investments	62,251	0	0	0	0	345,254		407,505
Other loan granted	0	0	0	0	0	0	67,424	67,424
Bank deposits	0	0	0	0	0	0	6,016,608	6,016,608
Short-term financial investments								
Held for trading shares and interests	1,356	0	1,108,821	0	0	593,198	0	1,703,375
Held for trading securities or securities with a remaining maturity of less than one year	166,684	0	0	1,031,143	0	48,009,518	0	49,207,345
Short-term loans granted	0	0	0	0	0	0	135,570	135,570
Bank deposits	0	0	0	0	0	0	54,810,292	54,810,292
Other short-term financial investments	0	0	1,037,508	0	–5,407	0	0	1,032,101
Financial investments of reinsurers i.r.o. reinsurance contracts with cedants	0	0	0	0	0	0	5,306,936	5,306,936
Investments for the benefit of life insurance policyholders who bear the investment risk	0	0	10,577,672	0	0	0	0	10,577,672
Total	6,809,764	6,045,728	12,724,001	1,031,143	–5,407	193,771,276	66,336,830	280,667,607

Sava Re took the opportunity brought about by the amendment to IAS 39 in the second half of 2008, and reclassified certain of its investments (equity securities) from category 1 (financial assets at fair value through profit or loss) to category 4 (available for sale financial assets). With this, it expected to mitigate the effect of falling stock prices on its results of operations, given its inability to sell within a short time certain of its equity securities due to capital market conditions. However, the effect of reclassification was offset due to impairment (following obligatory testing) of available for sale equity securities, which resulted in (temporary non-deductible) expenses.

Equity securities of EUR 1.0 million were reclassified from category 1 to category 4. As conditions in capital markets further deteriorated in the second half of 2008, the Company decided, at year-end, to permanently impair all of them. Reclassification thus did not affect its gross profit, but it did affect its net profit due to the tax charge for the year, as permanent impairments of category 4 financial assets, unlike revaluation losses associated with category 1 financial assets, are non-deductible until disposal of assets.

The Group has none of its financial assets pledged.

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 5,306,936, and were included under loans and receivables.

Financial investments in 2007

(EUR)	Held-to-maturity		At fair value through profit or loss			Available-for-sale	Loans and receivables	Total
	Net carrying amount	Fair value	Non-derivative		Derivative			
			Held for trading	Designated as at fair value through P/L				
Long-term financial investments								
Equity and other variable income securities and mutual funds	433,296	0	0	0	0	69,496,015	0	69,929,311
Debt and other fixed income securities	300,000	0	0	1,037,160	0	89,096,589	0	90,433,749
Shares in investment funds	0	0	0	0	0	873,760	0	873,760
Other financial investments	63,338	0	0	0	15,000	539,080	0	617,418
Bank deposits	0	0	0	0	0	0	12,072,939	12,072,939
Short-term financial investments								
Held for trading shares and interests	0	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	0	51,658,213	0	51,658,213
Bank deposits	0	0	0	0	0	0	51,260,376	51,260,376
Other short-term financial investments	1,220,002	0	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	0	5,900,793	5,900,793
Investments for the benefit of life insurance policyholders who bear the investment risk	0	0	10,578,852	0	0	0	0	10,578,852
Total	2,016,636	0	14,397,313	1,037,160	15,000	213,229,310	69,234,108	299,929,527

Loans and receivables, mainly comprising bank deposits, decreased slightly. Financial assets held to maturity, comprising mainly bonds, increased the most.

Investments in subordinated debt instruments in 2007 and 2008

(EUR)	Symbol	As at 31 December 2008	As at 31 December 2007
Bond Abanka 6th issue	AB06	433,269	437,984
Bond Banke Domžale 1st issue	BDM1	498,332	527,131
Bond Factor banke 15th issue	FB15	854,330	838,215
Bond NLB 13th issue	NLB13	1,116,258	1,141,303
Bond NLB	NLB Float	3,877,200	4,474,800
Bond Probanka 8th issue	PRB8	2,017,902	2,017,951
Bond Zavarovalnica Triglav 1st issue	ZT01	340,182	340,173
Bond ING Bank	INTNED 5 7/8 02/11	429,368	445,683
Bond Dexia BIL	DEXGRP 5 5/8 03/08	101,432	238,643
Bond Banke Celje 11th issue	BCE11	2,000,000	2,971,507
Bond Zavarovalnica Maribor 2nd issue	ZVM2	1,512,985	0
Total		13,181,258	13,433,391

Investments in subordinated debt instruments increased in 2008 to represent 4.70% of the Group's total investments.

7) Reinsurers' share of technical provisions

(EUR)	As at 31 December 2008	As at 31 December 2007	Index
From unearned premiums	3,212,667	3,117,433	103.1
From mathematical provisions	78	206	37.9
From provisions for claims outstanding	36,174,355	18,950,999	190.9
From provisions for bonuses and rabates	3	0	0.0
From other technical provisions	753,918	352,529	213.9
Total	40,141,021	22,421,167	179.0

The reinsurers' share of unearned premiums usually moves in line with premiums for the largest proportional retrocession treaties. The significant increase in the claims provision is mainly explainable by the yet unpaid claims for summer storm losses in the Štajerska region (Slovenia). The reinsurers' share of other technical provisions comprises provisions for unexpired risks at the retroceded portfolio level. The calculation of these provisions is at the same time also adequacy testing of unearned premiums, as described in section 23.

8) Receivables

At 31 December 2008, the total receivables were 45.7% higher than at the end of 2007. The majority were receivables under reinsurance contracts invoiced in the fourth quarter of 2008 but falling due only in 2009. Receivables from reinsurers' share in claims increased significantly, by 130.8%.

Receivables under reinsurance contracts are not specifically secured, neither do they represent a substantial exposure.

Receivables in 2007 and 2008

(EUR)	As at 31 December 2008	As at 31 December 2007	Index
Receivables from policyholders	26,136,972	19,096,533	136.9
Receivables from insurance brokers	1,251,971	483,809	258.8
Receivables arising out of primary insurance business	198,557	537,222	37.0
Receivables for premiums arising out of reinsurance and co-insurance	32,686,549	21,171,906	154.4
Receivables for shares in claims	14,984,407	6,491,801	230.8
Receivables for commission	2,735,441	3,311,499	82.6
Receivables arising out of investments	546,699	584,444	93.5
Other receivables	5,399,845	5,952,891	90.7
Total	83,940,441	57,630,105	145.7

Receivables by maturity

The table shows the net carrying amounts of receivables by maturity.

Receivables in 2008 by maturity

(EUR)	Current	Overdue up to 180 days	Overdue more than 180 days	Total
Receivables from policyholders	12,207,081	8,055,863	5,874,028	26,136,972
Receivables from insurance brokers	1,147,752	0	104,219	1,251,971
Receivables arising out of primary insurance business	16,659	118,486	63,412	198,557
Receivables for premiums arising out of reinsurance and co-insurance	26,342,639	5,756,256	587,654	32,686,549
Receivables for shares in claims	12,504,724	1,686,159	793,524	14,984,407
Receivables for commission	719,952	1,126,028	889,461	2,735,441
Receivables arising out of investments	227,342	319,357	0	546,699
Other receivables	3,183,506	165,431	2,050,908	5,399,845
Total	56,349,655	17,227,580	10,363,206	83,940,441

Receivables in 2007 by maturity

(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 arising out of primary insurance business	15,865	13,338	508,019	537,222
Receivables for premiums arising out of reinsurance and co-insurance	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

Movements in allowances for receivables

Allowances for long-term receivables (EUR 1,791,195) relate entirely to receivables from the Lehman Brothers' bankruptcy estate. The total gross receivables from this issuer based on claims filed by Sava Re amounted to EUR 1,990,216 as at year-end 2008.

Movements in allowances for receivables in 2008

(EUR)	As at 1 January 2008	Used	Released	Formed	Foreign exchange differences	As at 31 December 2008
Receivables from policyholders	5,541,368	4,302	221,637	976,478	–108,711	6,183,196
Receivables from life insurance policyholders	25,364	0	0	78,855	0	104,219
Other receivables arising out of primary insurance business	323,757	0	315,399	0	–8,358	0
Receivables for premiums arising out of reinsurance and co-insurance	89,867	0	0	0	0	89,867
Receivables for shares in claims	45,757	0	0	0	0	45,757
Other short-term receivables arising out of reinsurance business	2,304,370	406,512	0	508,047	0	2,405,905
Short-term receivables arising out of investments	5,056,548	0	4,860,041	0	11	196,518
Other short-term receivables	2,692,458	15,458	411,115	5,278,038	–338,921	7,205,002
Long-term receivables	0	0	0	1,791,195	0	1,791,195
Bank deposits (long-term)	162,422	0	0	0	2,596	165,018
Short-term loans granted	16,242	0	0	0	260	16,502
Total	16,258,153	426,272	5,808,192	8,632,613	–453,123	18,203,179

Movements in allowances for receivables in 2007

(EUR)	As at 1 January 2007	Used	Released	Formed	Foreign exchange differences	As at 31 December 2007
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 arising out of primary insurance business	61,663	405,403	0	680,728	–13,231	323,757
Receivables for premiums arising out of reinsurance and co-insurance	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 arising out of 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

9) Other assets

The most important item of other assets is “accrued reinsurance commission income”.

Other assets

(EUR)	As at 31 December 2008	As at 31 December 2007	Index
Accrued income from interest and rent	72,485	816,141	8.9
Short-term deferred acquisition costs	6,094,488	5,375,660	113.4
Other short-term deferred costs and accrued income	16,660,679	7,548,647	220.7
Total	22,827,652	13,740,448	166.1

Other assets comprise also an advance payment of EUR 6 million made by Sava Re at the end of 2008 under the agreement to acquire a 100% share in Velebit usluge, Zagreb.

10) Cash and cash equivalents

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

11) Called-up capital

The General Meeting held in August 2007 amended the Articles of Association of Sava Re to introduce non-par value shares.

In June 2008, Sava Re increased its share capital through the process of initial public offering by EUR ,259,389.08 to EUR 39,069,099.48.

Eventually, 1,500,000 new shares were issued, and the Company’s share capital as at year-end 2008 was divided into 9,362,519 shares (31 December 2007: 7,862,519 shares). All shares are ordinary registered shares of the same class. Their holders are entitled to participate in the Company’s management and profits (dividends).

As at year-end 2008, the Company had 5678 shareholders, 5,657 more than a year ago.

Pursuant to a resolution of the General Meeting, Sava Re did not pay dividends in 2008.

12) Share premium

Through the initial public offering completed in June 2008, the Sava Re share premium increased by EUR 32,897,591. The increase in share premium was recognised net of costs directly attributable to the initial public offering of EUR 2,843,020. As at 31 December 2008, the Company’s share premium was EUR 33,003,756.

13) Profit reserves

Reserves provided for by the Articles of Association (statutory reserves) amounted to EUR 11,475,547 as at year-end 2008. They reached the prescribed maximum amount already in 2006. Legal reserves amounted to EUR 3,510,978, the same as in 2007.

Reserves provided for by the Articles of Association are used for:

- covering net losses that cannot be (completely) covered from retained earnings and other profit reserves (additional protection of equity);
- increasing share capital from own sources;
- supporting the dividend policy.

In accordance with IFRS, Sava Re does not have equalization provisions. However, pursuant to the Insurance Act, it is obliged to have credit risk and catastrophe (earthquake) reserves. In accordance with the law, these provisions are included in profit reserves, and are formed out of profit, allocated under a decision of the Management Board. Credit risk reserves are calculated in accordance with the Insurance Act and implementing regulations, while earthquake reserves are calculated in accordance with the internal Rules on Technical Provisions.

In 2008, the parent, complying with the legal requirements for credit risk and catastrophe reserves, increased its negative results of operations by EUR 62,529.

Profit reserves

(EUR)	As at 31 December 2008	As at 31 December 2007	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	3,053,943	3,839,550	79.5
Catastrophe equalization reserve	2,493,505	1,387,095	179.8
Other profit reserve	71,962,514	35,701,116	201.6
Total	92,496,487	55,914,286	165.4

Treasury shares bought back

In 2008, the Group did not make any transactions with treasury shares. As at 31 December 2008, it held 210 treasury shares.

14) Revaluation surplus

Revaluation surplus comprises solely the effects of fair value revaluation of financial assets available for sale.

Revaluation surplus

(EUR)	2008	2007
Value adjustments – short-term available for sale financial assets		
As at 1 January	1,691,490	1,416,838
Transfer of revaluation amount	–2,116,521	0
Increase due to fair value increase	0	1,403,143
Increase due to investments in subsidiaries	664	0
Transfer of revaluation surplus to operating and financial income	–530,809	–1,128,491
As at 31 December	–955,176	1,691,490
Value adjustments – long-term available for sale financial assets		
As at 1 January	14,319,954	5,274,134
Increase due to fair value increase	–254,892	22,789,676
Transfer of revaluation surplus to operating and financial income	–23,562,405	–13,743,856
As at 31 December	–9,497,343	14,319,954
Total	–10,452,519	16,011,444

The table shows movements in revaluation surplus, which is an equity component.

15) Net profit/loss for the period

Net earnings/loss per share

(EUR)	As at 31 December 2008	As at 31 December 2007
Net earnings	–8,472,644	20,845,254
Weighted number of shares	8,785,596	7,862,519
Net earnings per share	–0.96	2.65

The weighted average number of shares outstanding in the accounting period was 8,785,596.

Accumulated loss for 2008

In 2008, pursuant to the Insurance Act, the parent set up catastrophe risk reserves of EUR 1,106,410, and dismantled credit risk equalization reserves of EUR 785,607, which increased its loss recorded in 2008 by EUR 320,803.

16) Subordinated liabilities

At the end of 2006 and at the beginning of 2007, Sava Re raised two subordinated loans in the total amount of EUR 32 million, and drew down 97% of their principal amounts.

Maturity of the subordinated loans is 20 years, with the possibility of early repayment after 10 years without cancellation charges. Principals are due at maturity. The applicable interest rate is the same for both loans, a 3-month Euribor + 3.35%, with interest payable on a quarterly basis.

Subordinated liabilities as at 31 December 2008

Outstanding debt at effective interest rate as at 31 December 2008	31.139.605
Debt currency	EUR
Maturity date	27 December 2026
Conversion into capital	Not aplicable
Conversion into other liabilities	Not aplicable

Subordinated liabilities as at 31 month 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 aplicable
Conversion into other liabilities	Not aplicable

In 2008, the parent paid EUR 2,676,532.41 of interest on the subordinated liabilities (2007: EUR 2,337,100), and EUR 141,654 of taxes on the subordinated debt, net of interest paid.

17) Technical provisions

Development in gross technical provisions (GTP) in 2008

(EUR)	Consolidated GTP as at 1 January, prior to correction – Montenegro osiguranje	Correction – Montenegro osiguranje	Consolidated GTP as at 1 January	GTP as at 1 January, prior to elimination	Additions	Uses and releases	Foreign exchange differences	GTP as at 31 December, before elimination	Consolidated GTP as at 31 December
			1	2	3	4	5	6 = 2+3–4+5	7
Gross unearned premiums	66,259,147	1,344,089	67,603,236	74,707,216	82,925,952	70,509,311	–305,550	86,818,307	78,620,515
Mathematical provision	9,294,535	0	9,294,535	9,294,535	1,836,090	850,237	0	10,280,389	10,280,389
Gross provision for claims	135,741,158	397,800	136,138,958	147,593,448	114,815,304	82,052,612	–248,750	180,107,390	164,740,856
Gross provision for bonuses, rebates and cancellations	330,975	0	330,975	475,718	690,451	475,718	0	690,451	523,001
Other gross technical provisions	1,370,168	0	1,370,168	1,370,168	2,142,754	1,370,168	0	2,142,754	2,142,754
Unit-linked life provision	11,112,838	0	11,112,838	11,112,838	69,179	433,833	0	10,748,184	10,748,184
Total	224,108,821	1,741,889	225,850,710	244,553,923	202,479,731	155,691,879	–554,300	290,787,476	267,055,699

Development in gross technical provisions (GTP) in 2007

(EUR)	Consolidated GTP as at 1 January, prior to correction	Correction	Consolidated GTP as at 1 January	GTP as at 1 January, prior to elimination	Additions	Uses and releases – relating to companies in the Group	GTP as at 31 December (relating to companies acquired by the Group)	GTP as at 31 December, before elimination	Consolidated GTP as at 31 December
			1	2	3	4	5	6 = 2+3–4+5	7
Gross 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
Gross provision for claims	114,861,903	0	114,861,903	127,528,458	66,159,413	50,488,709	3,966,486	147,165,648	135,741,158
Gross provision for bonuses, rebates and cancellations	288,790	0	288,790	396,849	475,718	396,849	0	475,718	330,975
Other gross technical provisions	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	184,116,178	650,082	184,766,260	203,486,089	133,525,629	104,885,513	10,651,665	242,777,869	224,108,821

Movements in technical provisions are also explained in the business report under the section "Reinsurance business".

Unearned premiums represent short-term provisions for the unexpired portion of coverage under reinsurance contracts. Amounts set aside at the beginning of the year are used during the year; for contracts concluded during the year, unearned premiums are set aside at the year-end.

Claims provisions (provisions for outstanding claims) relate to claims incurred but not settled. The amount established relates in part to losses that occurred during the year, and in part to corrections of estimated liabilities for previous years. Their use relates to claim payments made in the current year relating to losses the occurred in previous years.

Provisions for bonuses, rebates and cancellations relate to Sava Re's share of these provisions under proportional reinsurance contracts with Slovenian cedants. Like unearned premiums, these are short-term provisions that are used up completely during the year and established at year-end for contracts concluded/renewed during the year.

Other technical provisions comprise only provisions for unexpired risks, which are established to strengthen unearned premiums, and therefore have a similar nature: they are used during the year and established at year-end for the contracts concluded during the year. For details about their calculation, see the next section.

Liability adequacy testing of unearned premiums

Unearned premiums are calculated from premium as the ratio of unexpired to total duration of coverage under reinsurance contracts (*pro rata temporis*). Therefore, if premiums are adequate, unearned premiums must be adequate, too. And vice versa. Sava Re carried out the liability adequacy test for gross unearned premiums and for retroceded unearned premiums at insurance class level. Calculation of the expected combined ratio by insurance classes was based on the weighted average of trend-adjusted combined ratios reported in the last three years. Calculation of combined ratios in turn was based on premiums earned, claims and benefits incurred, commission expenses, and other operating expenses. If the expected combined ratio so calculated exceeds 100%, this reveals a shortfall in unearned premiums, which, in accordance with the Insurance Act, is included in other technical provisions, more precisely, in provisions for unexpired risks.

The table below summarises the calculation of gross provisions for unexpired risks by insurance classes, both for 2007 and 2008.

(EUR, except percentages)	RBNS provision	IBNR provision	Total claim provision	Share of IBNR in total claims provision
Consolidated	109,367,342	55,373,515	164,740,856	33.6%
Total before intra-group elimination	118,796,150	58,990,471	177,786,621	33.2%
Total from primary insurance	43,013,604	18,314,037	61,327,641	29.9%
Total from reinsurance	75,782,546	40,676,434	116,458,980	34.9%

(EUR, except percentages)	RBNS provision	IBNR provision	Total claim provision	Share of IBNR in total claims provision
Consolidated	87,385,807	48,355,351	135,741,158	36.0%
Total before intra-group elimination	95,555,084	51,640,564	147,195,648	35.0%
Total from primary insurance	37,146,122	18,830,489	55,976,611	34.0%
Total from reinsurance	58,408,962	32,810,075	91,219,037	36.0%

Gross provisions for unexpired risks in 2008

(EUR, except percentages)	Primary insurance		Reinsurance	
	Expected combined ratio	Provision for unexpired risk	Expected combined ratio	Provision for unexpired risk
Personal accident	79.7%	0	57.8%	0
Land vehicles casco	116.1%	976,079	103.6%	231,067
Aircraft casco	1006.6%	0	46.4%	0
Ships hull	120.3%	0	97.6%	0
Goods in transit	107.9%	0	87.7%	0
Fire and natural forces	98.8%	0	102.9%	173,133
Other damage to property	91.8%	0	87.4%	0
Motor liability	87.8%	0	93.8%	0
Aircraft liability	281.4%	0	31.0%	0
Liability for ships	129.6%	0	70.8%	0
General liability	109.9%	51,529	110.0%	67,086
Credit	119.7%	542,268	69.6%	0
Suretyship	80.4%	0	252.6%	101,592
Miscellaneous financial loss	66.0%	0	98.7%	0
Legal expenses	26.0%	0	3.7%	0
Assistance	31.6%	0	76.7%	0
Life	91.5%	0	26.1%	0
Unit-linked life	8.5%	0	5.3%	0
Total		1,569,876	92.5%	572,879

Gross provisions for unexpired risks in 2007

(EUR, except percentages)	Primary insurance		Reinsurance	
	Expected combined ratio	Provision for unexpired risk	Expected combined ratio	Provision for unexpired risk
Personal accident	76.5%	0	58.0%	0
Land vehicles casco	113.1%	533,970	104.1%	252,078
Aircraft casco	0.0%	0	43.2%	0
Ships hull	0.0%	0	109.3%	11,077
Goods in transit	0.0%	0	64.8%	0
Fire and natural forces	102.6%	23,782	93.5%	0
Other damage to property	104.7%	58,128	89.9%	0
Motor liability	85.9%	0	89.4%	0
Aircraft liability	0.0%	0	31.8%	0
Liability for ships	0.0%	0	20.2%	0
General liability	132.6%	149,319	133.0%	183,104
Credit	105.0%	102,045	92.8%	0
Suretyship	68.5%	0	145.9%	16,192
Miscellaneous financial loss	273.6%	11,264	151.9%	29,210
Legal expenses	66.0%	0	3.6%	0
Assistance	0.0%	0	44.8%	0
Life	0.0%	0	15.3%	0
Unit-linked life	0.0%	0	6.5%	0
Total		878,508		491,661

18) Other provisions

Other provisions comprise provisions for long-term employee benefits and other long-term deferred income.

Movements in other provisions in 2008

(EUR)	As at 1 January	Additions	Uses	Releases	Foreign exchange differences	As at 31 December
Provision for pensions	0	0	0	0	0	0
Provision for termination benefits	498,555	215,494	45,633	23,469	–3,564	641,383
Provision for jubilee benefits	123,619	19,752	10,317	–1,798	276	135,128
Total provisions for employee benefits	622,174	235,246	55,950	21,671	–3,288	776,511
Other long-term deferred income	6,534	0	5,429	0	0	1,105

Movements in other provisions in 2007

(EUR)	As at 1 January	Additions	Uses	Releases	Foreign 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	32,795	5,372	0	–47	123,619
Total provisions for employee benefits	518,601	147,998	29,707	13,469	–1,249	622,174
Other long-term deferred income	17,249	3,117	13,832	0	0	6,534

19) Financial liabilities

Financial liabilities comprise Sava Re's short-term financial liabilities to other companies of EUR 600,160.

20) Other liabilities and current 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 and clients, and other short-term liabilities. They relate to amounts invoiced in the fourth quarter of 2008 but falling due only in 2009.

Other liabilities and current income tax liabilities in 2008

(EUR)	Secured	Maturity			
		Over 5 years	Over 1 year	Up to 1 year	Total
Liabilities to policyholders	0	0	0	4,071,835	4,071,835
Liabilities to insurance brokers	0	0	0	498,530	498,530
Other liabilities from primary insurance busines	0	0	0	1,540,910	1,540,910
Liabilities for reinsurance and co-insurance premiums	0	31,584	0	7,162,927	7,194,511
Liabilities for shares in reinsurance claims	0	0	0	32,216,550	32,216,550
Other long-term liabilities	0	0	97,180	15,038	112,218
Other short-term liabilities	0	0	0	13,912,791	13,912,791
Tax liabilities	0	0	0	320,465	320,465
Short-term provision	0	0	0	1,757,921	1,757,921
Total	0	31,584	97,180	61,496,967	61,625,731

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 busines	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 provision	0	0	0	2,283,804	2,283,804
Total	0	0	5,344,477	45,084,902	50,429,379

Movements in short-term provisions in 2008

(EUR)	As at 1 January 2008	Additions	Uses	Releases	Foreign exchange differences	As at 31 December 2008
Short-term accrued costs	631,144	1,023,654	954,349	35,427	859	665,881
Other accrued costs and deferred income	1,646,259	6,222,783	6,730,929	0	–46,072	1,092,041
Total	2,277,403	7,246,437	7,685,278	35,427	–45,213	1,757,922

Movements in short-term provisions in 2007

(EUR)	As at 1 January 2007	Additions	Uses	Releases	Foreign exchange differences	As at 31 December 2007
Short-term accrued costs	1,064,080	1,036,001	910,698	20,116	–25,316	1,143,951
Other accrued costs and deferred income	782,562	5,074,443	4,717,152	0	0	1,139,853
Total	1,846,642	6,110,444	5,627,850	20,116	–25,316	2,283,804

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21) Net earned premiums

Net premiums written in 2008

(EUR)	Gross premiums written	Reinsurers' share	Retention	
			2008	2007
Personal accident	16,861,889	–42,303	16,819,586	15,476,347
Health	887,714	0	887,714	162,260
Land vehicles casco	44,450,074	–4,114,176	40,335,898	35,367,949
Railway rolling stock	0	0	0	1,379
Aircraft casco	103,485	991	104,476	2,277
Ships hull	1,354,519	–61,786	1,292,733	835,786
Goods in transit	4,437,063	–208,045	4,229,018	1,902,850
Fire and natural forces	36,921,797	–8,914,440	28,007,357	18,059,377
Other damage to property	37,926,479	–7,023,165	30,903,314	26,535,027
Motor liability	64,565,520	–1,847,700	62,717,820	48,660,678
Aircraft liability	259,701	–79,972	179,729	183,870
Liability for ships	214,354	–3,403	210,951	128,394
General liability	5,338,869	–617,005	4,721,864	3,861,550
Credit	2,782,691	0	2,782,691	2,682,562
Suretyship	224,396	–10,229	214,167	164,763
Miscellaneous financial loss	896,162	–377,399	518,763	478,477
Legal expenses	126,074	–9,538	116,536	72,416
Assistance	856,051	–40,807	815,244	485,293
Premium from assumed co-insurance	0	0	0	277,853
Total non-life	218,206,838	–23,348,977	194,857,861	155,339,108
Life	2,646,905	–270,919	2,375,986	2,468,918
Unit-linked life	8,753,184	0	8,753,184	7,264,519
Total life	11,400,089	–270,919	11,129,170	9,733,436
Total	229,606,927	–23,619,896	205,987,031	165,072,544

The above table shows gross (re)insurance premiums net of retroceded reinsurance premiums by insurance classes. Their amounts depend also on changes in unearned premiums. These, in 2008, decreased them by EUR 11,873,257. Sava Re has been growing its business: in 2008, its net (re)insurance premiums earned increased by 23%. Its retroceded reinsurance premiums, however, stayed at the same level.

22) Income from investments in affiliates

Income from investments in affiliates in 2007 and 2008

(EUR)	2008	2007
Profit of affiliates	1,350,266	1,655,883
Interest on bonds	41,736	0
Total	1,392,002	1,655,883

Income from investments in affiliates was EUR 1.4 million in 2008 or EUR 0.25 million less than in 2007. The decrease is explainable by the decrease in dividend income from affiliates.

23) Investment income

Investment income – non-life business in 2007 and 2008

(EUR)	Liability fund 2008	Liability fund 2007	Index
Income from shares and interests	150,371	184,765	81.4
Income from land and buildings	33,639	73,807	45.6
Interest income	7,285,855	5,800,413	125.6
Financial income from revaluation	1,842,363	316,264	582.5
Other financial income	510,982	244,529	209.0
Value adjustments on investments	0	0	–
Gains on disposals of investments	1,621,181	2,948,518	55.0
Total investment income – liability fund	11,444,391	9,568,296	119.6

(EUR)	Capital fund 2008	Capital fund 2007	Index
Income from shares and interests	323,185	196,818	164.2
Income from land and buildings	101,586	103,123	98.5
Interest income	4,535,794	3,127,363	145.0
Financial income from revaluation	1,273,317	28,189	4,517.1
Other financial income	0	0	–
Value adjustments on investments	0	0	–
Gains on disposals of investments	9,344,648	17,377,144	53.8
Total investment income – capital fund	15,578,530	20,832,637	74.8

Total investment income (non-life business)	27,022,921	30,400,933	88.9

Investment income – life business in 2007 and 2008

(EUR)	Long-term business fund 2008	Long-term business fund 2007	Index
Income from shares and interests	0	0	–
Income from land and buildings	0	0	–
Interest income	543,632	506,290	107.4
Financial income from revaluation	0	0	–
Other financial income	8,069	5,737	140.6
Value adjustments on investments	0	0	–
Gains on disposals of investments	0	90,874	–
Net unrealised losses on investment of life insurance policyholders who bear the investment risk	210,919	857,707	24.6
Total investment income – long-term business fund	762,620	1,460,608	52.2

(EUR)	Capital fund 2008	Capital fund 2007	Index
Income from shares and interests	0	0	–
Income from land and buildings	0	0	–
Interest income	17,342	34,678	50.0
Financial income from revaluation	162,408	0	–
Other financial income	0	0	–
Value adjustments on investments	0	0	–
Gains on disposals of investments	0	0	–
Total investment income – capital fund	179,750	34,678	518.3

Total investment income (life business)	942,370	1,495,286	63.0

Total investment income	27,965,291	31,896,219	87.7

Investment income by IFRS categories in 2008

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Interest income	192,576	0	70,005	365,369	7,292,228	4,462,445	0	0	12,382,624
Dividend income	0	290,642	245	0	182,670	0	0	0	473,556
Gains on disposal of investments	0	205,189	0	0	10,760,640	0	0	0	10,965,829
Income from land and buildings	0	0	0	0	0	0	135,225	0	135,225
Financial income from revaluation	0	124,298	226,281	1,276,655	498,300	1,882,524	0	0	4,008,058
Total	192,576	620,129	296,531	1,642,024	18,733,838	6,344,969	135,225	0	27,965,292

Investment income by IFRS categories in 2007

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Interest income	0	0	70,186	171,445	6,169,287	2,804,355	253,471	0	9,468,744
Dividend income	0	34,937	0	0	346,646	0	0	0	381,583
Gains on disposal of investments	0	593,392	0	1,387,000	16,173,576	0	2,262,568	0	20,416,536
Income from land and buildings	0	0	0	0	0	0	176,930	0	176,930
Financial income from revaluation	0	13,106	856,963	12,175	21,105	549,077	0	0	1,452,426
Total	0	641,435	927,149	1,570,620	22,710,614	3,353,432	2,692,969	0	31,896,219

The Group keeps separate accounts for investment income from its liability fund and investment income from its long-term business fund.

Income from other investments was EUR 28.0 million in 2008 or EUR 3.9 million less than in 2007. The decrease is attributable to the decrease in gains on disposal of investments. Performance of capital markets in 2008 was very poor, for which reason the parent was not in a position to earn gains on disposal of investments from its portfolio.

24) Other technical income

This item includes reinsurance commission income.

Reinsurance commission income in 2007 and 2008

(EUR)	2008	2007	Index
Personal accident	930	0	–
Land vehicles casco	240,507	48,048	500.6
Aircraft casco	2,583	31,874	8.1
Ships hull	6,483	8,589	75.5
Goods in transit	13,255	28,108	47.2
Fire and natural forces	1,370,312	1,461,565	93.8
Other damage to property	1,055,018	1,326,992	79.5
Motor liability	133,774	96,315	138.9
Aircraft liability	17,594	41,433	42.5
Liability for ships	482	1,836	26.3
General liability	68,683	72,428	94.8
Miscellaneous financial loss	39,617	79,045	50.1
Assistance	0	203	–
Total non-life	2,949,238	3,196,436	92.3
Life	77,533	72,085	107.6
Unit-linked life	0	2,583	–
Total life	77,533	74,668	103.8
Total	3,026,771	3,271,104	92.5

25) Other income

In 2008, this item was EUR 1.3 million, down 45.5% from EUR 2.5 million in 2007.

26) Net insurance claims and benefits incurred

Net insurance claims and benefits incurred in 2008

(EUR)	Gross claims	Gross subrogation recoveries	Reinsurers' share	Coinsurance share	Net claims
Personal accident	7,490,377	0	–28,191	0	7,462,186
Health	66,907	0	0	0	66,907
Land vehicles casco	36,080,678	–1,077,190	–6,506,890	0	28,496,598
Aircraft casco	21,968	0	–23,932	0	–1,964
Ships hull	879,322	0	–17,641	0	861,681
Goods in transit	2,090,703	–10,136	0	0	2,080,567
Fire and natural forces	31,206,763	–21,587	–17,282,072	14,046	13,917,150
Other damage to property	38,287,371	–4,644	–19,755,658	88,583	18,615,652
Motor liability	35,055,561	–1,452,342	–1,489,548	0	32,113,671
Aircraft liability	117,477	0	–16,019	0	101,458
Liability for ships	25,315	0	0	0	25,315
General liability	3,343,595	–4,613	–132,312	–54,673	3,151,997
Credit	2,306,158	–1,815,817	0	0	490,341
Suretyship	655,123	–93,624	0	0	561,499
Miscellaneous financial loss	337,647	0	–105,072	0	232,575
Legal expenses	0	0	0	27	27
Assistance	56,189	0	0	0	56,189
Total non-life	**158,021,154**	**–4,479,954**	**–45,357,335**	**47,983**	**108,231,848**
Life	1,067,501	0	–31,782	0	1,035,719
Unit-linked life	522,782	0	0	0	522,782
Total life	**1,590,283**	**0**	**–31,782**	**0**	**1,558,501**
Total	**159,611,437**	**–4,479,954**	**–45,389,117**	**47,983**	**109,790,349**

The above table shows gross claims and benefits paid, net of gross subrogation and retrocession recoveries (including recourse). The amount of net claims incurred depends also on the change in provisions for outstanding claims, which, in 2008, increased them by EUR 12,058,082. The table below shows comparable data for 2007.

Net insurance claims and benefits incurred in 2007

(EUR)	Gross claims	Gross subrogation recoveries	Reinsurers' share	Coinsurance share	Net claims
Personal accident	7,233,284	0	–34,364	0	7,198,920
Health	17,593	0	0	0	17,593
Land vehicles casco	24,216,133	–1,177,791	–587,785	11,200	22,461,757
Aircraft casco	133,457	0	–103,772	0	29,685
Ships hull	643,604	0	–115,507	0	528,097
Goods in transit	603,108	0	–3	0	603,105
Fire and natural forces	18,203,702	–455,359	–7,668,101	0	10,080,242
Other damage to property	16,173,410	0	–2,477,722	0	13,695,688
Motor liability	27,846,502	–1,322,834	–446,485	0	26,077,183
Aircraft liability	65,556	0	–17,133	0	48,423
Liability for ships	7,472	0	–3	0	7,469
General liability	3,033,603	0	–121,369	0	2,912,234
Credit	2,437,557	–1,311,702	4,804	0	1,130,659
Suretyship	132,739	0	0	0	132,739
Miscellaneous financial loss	892,100	0	–577,533	0	314,567
Legal expenses	81	0	0	0	81
Assistance	35,078	0	0	0	35,078
Total non-life	101,674,979	–4,267,687	–12,144,973	11,200	85,273,519
Life	1,719,544	0	–105,531	0	1,614,013
Unit-linked life	295,520	0	0	0	295,520
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

27) Change in other technical provisions

In 2008, other technical provisions of EUR 1,163,331 were dismantled (2007: 4,363,895). Both changes relate to provisions for bonuses, rebates and cancellations, and reversal of provisions for unexpired risks.

28) Operating expenses

The Group classifies operating expenses by nature. Compared to 2007, they increased by 27.4%.

Operating expenses

(EUR)	2008	2007	Index
1. Acquisition costs (commissions)	40,908,643	32,115,659	127.4
2. Change in deferred acquisition costs	–2,770,561	–1,840,342	150.5
3. Depreciation of operating assets	1,536,966	1,187,645	129.4
4. Labour costs	20,400,584	15,461,917	131.9
– salaries and wages	15,225,328	11,304,417	134.7
– social and pension insurance costs	2,841,227	2,343,789	121.2
– other labour costs	2,334,029	1,813,711	128.7
5. Costs of serices by natural persons not performing business, incl. of contributions	446,310	438,350	101.8
6. Other operating costs	13,346,331	9,284,993	143.7
– entertainment, advertising, exhibition costs	3,392,075	1,839,567	184.4
– material and energy costs	1,405,556	832,463	168.8
– maintenance costs	894,336	289,574	308.8
– reimbursement of work-related costs	874,620	848,602	103.1
– professional services costs	1,861,333	905,718	205.5
– taxes, levies and charges independent of profit or loss, except for insurance	597,324	557,045	107.2
– transport and communication costs	475,605	489,520	97.2
– insurance premium costs	174,706	157,087	111.2
– bank fees	530,597	625,300	84.9
– rentals and leases	869,714	416,454	208.8
– training costs	334,511	1,337,469	25.0
– other service costs	1,935,954	986,194	196.3
Total	73,868,273	56,648,222	130.4

As already mentioned in section 22.7., "Significant accounting policies", Sava Re changed presentation of commissions under reinsurance contracts. Commission expenses are now included under acquisition costs, while commission income is included under other technical income. Other operating expenses, net of acquisition costs (commissions) and changes in deferred acquisition costs (commissions), represented 15.56% of gross premium written in 2008 (2007: 13.98%). The increase is mainly attributable to labour costs relating to the Company's expansion to new markets.

In 2008, the total costs of auditing were EUR 201,367 (2007: 128,371).

Remuneration paid to the members of Management and Supervisory Boards, and employees with individual employment contracts

(EUR)	2008	2007
Management board members	887,827	810,417
Supervisory board members	61,586	58,527
Auditing Committee members	4,826	0
Supervisory boards/bodies of subsidiaries	14,815	17,569
Employees with individual contracts	3,091,299	2,384,396
Total	4,060,353	3,270,909

Remuneration paid to the parent's Management Board members in 2008

(EUR)	Gross salary – fixed amount	Gross salary – variable amount	Other benefits	Total
Dušan Čeč	212,636	100,646	338,720	652,002
Mag. Zvonko Ivanušič	171,543	55,707	8,575	235,825
Total	384,179	156,353	347,295	887,827

Remuneration paid to the parent's Supervisory Board and audit committee members in 2008

(EUR)	Attendance fees	Expenses reimbursed	Total
Supervisory Board members			
Mag. Marko Pogačnik	12,698	14	12,713
Dr. Timotej Jagrič	9,768	1,462	11,230
Dr. Edo Pirkmajer	8,316	38	8,354
Anton Sagadin	9,768	1,306	11,074
Nada Zidar	8,448	0	8,448
Mag. Aleš Mirnik	9,768	0	9,768
Supervisory board members – total	58,766	2,820	61,586
Auditing Committee members			
Dr. Edo Pirkmajer	1,716	0	1,716
Dr. Timotej Jagrič	1,320	235	1,555
Mag. Blanka Vezjak	1,320	235	1,555
Auditing committee members – total	4,356	470	4,826

Average number of employees in 2007 and 2008 by the highest level of education achieved

Degree of education	2008[27]	2007
Primary and lower secondary (I–IV)	21	407
Secondary (V)	672	207
Higher (VI)	122	86
University (VII)	317	248
Post-graduate (VIII)	21	16
Total	1,153	964

29) Investment expenses

Investment expenses – non-life business in 2007 and 2008

(EUR)	Liability fund 2008	Liability fund 2007	Index
Depreciation of investments not necessary for operations	709	709	100.0
Asset management expenses, interest expenses and other financial expenses	434,230	1,342,222	32.4
Financial expenses from revaluation	6,672,979	100,416	6,645.3
Losses on disposal of investments	1,155,604	521,854	221.4
Total investment expenses – liability fund	8,263,522	1,965,201	420.5

(EUR)	Capital fund 2008	Capital fund 2007	Index
Depreciation of investments not necessary for operations	19,973	44,172	45.2
Asset management expenses, interest expenses and other financial expenses	3,043,204	2,592,548	117.4
Financial expenses from revaluation	14,560,541	57,144	25,480.4
Losses on disposal of investments	1,454,303	1,368,440	106.3
Total investment expenses – capital fund	19,078,021	4,062,304	469.6

Total investment expenses (non-life business)	27,341,543	6,027,505	453.6

27 Market share for non-life business; 2008 figure relates to the period January–September.

Investment expenses – life business in 2007 and 2008

(EUR)	Long-term business fund 2008	Long-term business fund 2007	Index
Depreciation of investments not necessary for operations	0	0	–
Asset management expenses, interest expenses and other financial expenses	28	423	6.6
Financial expenses from revaluation	0	0	–
Losses on disposal of investments	0	0	–
Net unrealised losses on investment of life insurance policyholders who bear the investment risk	5,893,260	377,162	1562.5
Total investment expenses – long-term business fund	5,893,288	377,585	1560.8

(EUR)	Capital fund 2008	Capital fund 2007	Index
Depreciation of investments not necessary for operations	0	0	–
Asset management expenses, interest expenses and other financial expenses	4,813	0	–
Financial expenses from revaluation	0	0	–
Losses on disposal of investments	0	0	–
Total investment expenses – capital fund	4,813	0	–

Total investment expenses (life business)	5,898,101	377,585	1562.1

Total investment expenses	33,239,644	6,405,090	519.0

Investment expenses by IFRS categories in 2008

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Losses on disposal of investments	0	1,418,800	0	0	1,191,107	0	0	0	2,609,907
Expenses from land and buildings	0	0	0	0	4,934	0	15,748	0	20,682
Financial expenses from revaluation	0	84,765	5,912,486	3,602,507	330,235	1,366,780	0	0	11,296,772
Other financial expenses	0	5,724	2,398	136	353,792	302,039	0	2,818,186	3,482,275
Permanent impairment	0	0	0	0	15,830,007	0	0	0	15,830,007
Total	0	1,509,289	5,914,884	3,602,643	17,710,075	1,668,819	15,748	2,818,186	33,239,644

Investment expenses by IFRS categories in 2007

(EUR)	Held-to-maturity	At fair value through profit or loss			Available-for-sale	Loans and receivables	Land and buildings	Subordinated liabilities	Total
		Non-derivative		Derivative					
		Held for trading	Designated as at fair value through P/L						
Losses on disposal of investments	0	564,733	0	472,000	850,390	0	3,172	0	1,890,294
Expenses from land and buildings	0	0	0	0	0	0	44,881	0	44,881
Financial expenses from revaluation	0	0	415,402	4,730	114,590	0	0	0	534,722
Other financial expenses	0	189,978	0	0	487,099	747,927	0	2,510,188	3,935,192
Permanent impairment	0	0	0	0	0	0	0	0	0
Total	0	754,711	415,402	476,730	1,452,079	747,927	48,053	2,510,188	6,405,090

Investment expenses in 2008 were EUR 33.2 million or EUR 26.8 million more than in 2007. The increase is attributable to permanent investment impairment of EUR 14.5 million, recognised in accordance with IAS 39, but also to financial expenses from revaluation, which increased EUR 6.5 million due to negative trends in capital markets, and net unrealised losses on investments of life policyholders who bear the investment risk of EUR 5.5 million.

Permanent impairment of financial investments

(EUR)	As at 31 December 2008	As at 31 December 2007
Bonds	2,477,556	0
Shares	6,050,122	0
Mutual funds	7,302,330	0
Total	15,830,008	0

Permanent impairments of long-term investment relate also to shares issued by Nova Kreditna Banka Maribor (EUR 2,675,897), and units of Publikum Balkan mutual fund (EUR 2,241,245), as well as to goodwill belonging to Montenegro osiguranje (EUR 1,329,361).

30) Other technical expenses

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

31) Other expenses

Other expenses comprise expenses that cannot be classified as technical expenses.

32) Corporate income tax

Due to the gross loss reported by Sava Re in 2008, it is not possible to compare the 2008 and 2007 corporate income tax. Its amount in 2008, however, was affected by payment of the second and pre-last instalment (of EUR 2.6 million) of tax payable due to the increase in retained earnings upon transition to IFRS. Despite the gross loss reported in 2008, Sava Re still had to account for non-deductible expenses arising on impairment of available for sale financial assets (category 4 under IFRS).

Income tax in 2007 and 2008

(EUR)	2008	2007
Accounting income	228,974,184	176,158,791
Adjustment – exemption of income due to past non-deductability	–191,401	–1,402,267
Recognized income	228,782,783	174,756,524
Accounting expenses	237,767,938	148,966,711
Adjustment of expenses	–12,965,484	–415,335
Increase in expenses due to payment of non-deductible expenses	0	0
Recognised expenses	224,802,454	148,551,376
Recognised income less recognised expenses	3,980,329	26,205,148
Increase in tax due to transition to IFRS	12,192,852	12,072,513
Increase in tax base	487,446	67,572
Tax incentives	–275,276	–54,561
Tax base	16,385,351	38,290,672
Tax	5,051,983	8,961,318
Deferred tax	–5,373,093	–2,614,492
Income tax	–321,110	6,346,826

The effective tax rate (calculated as the ratio of corporate income tax to taxable basis) was 23% in 2007. It would not make sense to calculate it for 2008, given the gross loss reported by Sava Re.

48 TRANSACTIONS WITH GROUP COMPANIES

Investments in Group companies and amounts due from Group companies in 2008

(EUR)		Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Debt securities and loans to Group companies	gross	1,666,365	1,500,000	500,000	0	0
	allowances	0	0	0	0	0
	net	1,666,365	1,500,000	500,000	0	0
Receivables for reinsurance premiums	gross	4,182,856	0	300,643	1,600,630	237,548
	allowances	0	0	0	0	0
	net	4,182,856	0	300,643	1,600,630	237,548
Other short-term receivables from insurance business	gross	0	2,143	0	0	0
	allowances	0	0	0	0	0
	net	0	2,143	0	0	0
Long-term receivables	gross	0	92,412	83	0	0
	allowances	0	0	0	0	0
	net	0	92,412	83	0	0
Total		5,849,221	1,594,555	800,726	1,600,630	237,548

Investments in Group companies and amounts due from Group companies in 2007

(EUR)		Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Debt securities and loans to Group companies	gross	1,670,523	1,500,000	500,000	0	0
	allowances	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
	allowances	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
	allowances	0	0	0	0	0
	net	0	2,492	4,444	0	0
Long-term receivables	gross	0	35,308	0	0	0
	allowances	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

Liabilities to Group companies

Liabilities to Group companies in 2008

(v EUR)	Sava Re	Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Liabilities for reinsurance shares in claims	0	3,203,265	0	31,299	457,071	69,441
Other short-term liabilities	0	1,090,077	0	38,355	298,979	25,758
Total (excluding provisions)	0	4,293,342	0	69,654	756,050	95,199

Liabilities to Group companies in 2007

(EUR)	Sava Re	Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Liabilities for reinsurance shares in claims	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

Intra-Group transactions

Income and expenses from transactions with Group companies in 2008

(EUR)	Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Gross premius written	19,482,129	0	377,971	1,959,018	604,004
Gross claims paid	11,341,558	0	88,729	965,774	116,773
Income from land and bulidings	38,300	0	0	0	0
Interest income	22,575	0	0	0	0
Other operating costs	162,171	86,646	27,236	0	0
Reinsurance commissions	4,914,936	0	65,920	381,397	45,340

Income and expenses from transactions with Group companies in 2007

(EUR)	Tilia	Sava Osiguranje	Dukagjini	Sava Tabak	Montenegro osiguranje
Gross premius written	16,888,072	0	479,462	2,878,150	0
Gross claims paid	11,519,207	0	7,229	664,957	0
Other operating costs	3,963	0	0	0	0
Reinsurance commissions	4,168,322	0	0	775,856	0

Income and profit/loss by subsidiary in 2007 and 2008

(v EUR)	2008	2007
Tilia		
Income	54,847,182	43,826,104
Net profit/loss for the year	57,279	555,423
Sava Osiguranje		
Income	12,967,526	10,626,874
Net profit/loss for the year	360,030	78,295
Dukagjini		
Income	8,395,663	7,567,622
Net profit/loss for the year	867,213	418,282
Sava Tabak		
Income	12,132,927	9,760,159
Net profit/loss for the year	173,982	660,298
Bro-Dil		
Income	284,455	882,100
Net profit/loss for the year	123,796	302,070
Montenegro osiguranje		
Income	10,306,727	0
Net profit/loss for the year	–2,366,141	0
Sava Invest		
Income	4,933	0
Net profit/loss for the year	–97,371	0
Dukagjini Life		
Income	24,682	0
Net profit/loss for the year	–45,580	0
Sava Life, Belgrade		
Income	162,408	0
Net profit/loss for the year	132,733	0

Pozavarovalnica Sava, d. d.

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