SAVA RE ANNUAL REPORT 2005

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

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

SAVA RE IS SLOVENIA'S LEADING REINSURER.

Our primary concern is to service the local insurance community. We also transact foreign business, which currently accounts for nearly one quarter of our premium income. The Company handles all classes of business. We write facultative covers as well as proportional and excess of loss treaties. With the business going back to 1973, Sava Re has developed unrivalled knowledge and experience of the market and has maintained a sound operation through many political and economic upheavals.

1973

Reinsurance Department of Insurance Company Sava

The department starts reinsurance underwriting.

1975

Insurance and Reinsurance Community Sava

The Company operates on the principle of self-management.

1977

Reinsurance Community Sava

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

1990

Reinsurance Company Sava Limited

The Company reorganises itself into a joint-stock company.

1998

Sava Re Group

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

1999

Acquisition of a major share in Maribor Insurance Company.

2001

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

2004

Acquisition of a major share in Osiguranje Helios, Zagreb.

FINANCIAL HIGHLIGHTS

	2005	2004	2003
Gross premiums written	SIT 22.1 billion *(EUR 92.1 million)*	SIT 21.3 billion *(EUR 88.8 million)*	SIT 18.3 billion *(EUR 78.5 million)*
Net premiums written	SIT 17.9 billion *(EUR 74.8 million)*	SIT 16.9 billion *(EUR 70.8 million)*	SIT 14.6 billion *(EUR 62.4 million)*
Net technical provisions	SIT 32.4 billion *(EUR 135.1 million)*	SIT 30.8 billion *(EUR 127.5 million)*	SIT 30.2 billion *(EUR 129.2 million)*
Capital and reserves	SIT 20.1 billion *(EUR 84.0 million)*	SIT 17.8 billion *(EUR 74.2 million)*	SIT 15.9 billion *(EUR 68.1 million)*
Profit for the year	SIT 1.5 billion *(EUR 6.1 million)*	SIT 1.4 billion *(EUR 6.0 million)*	SIT 1.9 billion *(EUR 8.4 million)*
Net technical provisions as % of net premiums written	180.5%	181.8%	207.1%
Administrative expenses as % of gross premiums written	4.4%	4.6%	5.2%

THE GROUP

The Sava Re Group comprises the parent company Sava Re (professional reinsurer) and the subsidiary Tilia Insurance Company (composite insurer). However, the following companies are often grouped together due to their capital links:

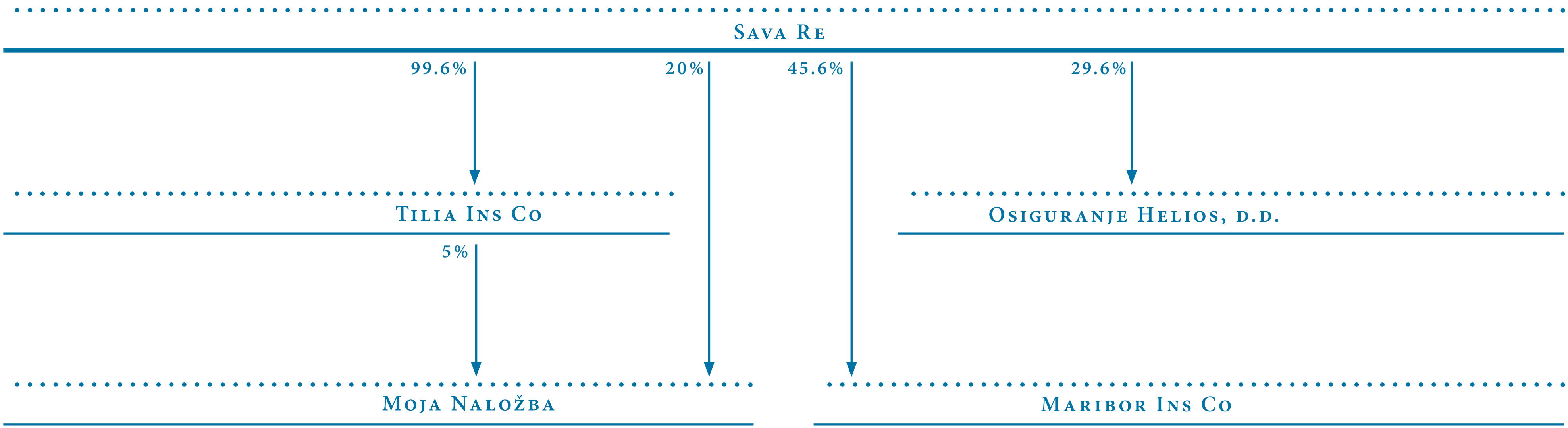
POZAVAROVALNICA SAVA, D.D., LJUBLJANA
Reinsurance Company Sava Limited (Sava Re)
Type of company: professional reinsurance company
Origin: 1977
Head office: Dunajska 56, 1000 Ljubljana, Slovenia
Subscribed capital: SIT 7,862,519,000
Holdings by Group Members: Maribor Insurance Company – 0.0066%

ZAVAROVALNICA MARIBOR, D.D., MARIBOR
Maribor Insurance Company
Type of company: composite insurance company
Established: 1991
Head office: Cankarjeva 3, 2507 Maribor, Slovenia
Subscribed capital: SIT 6,812,050,000
Holdings by Group Members:
Reinsurance Company Sava: 45.64%
Board of Management: Drago Cotar (Chairman), Srečko Čebron, Darko Tolar, Srečko Čarni
Chairman of the Supervisory Board: Zvonko Ivanušič

ZAVAROVALNICA TILIA, D.D., NOVO MESTO
Tilia Insurance Company
Type of company: composite insurance company
Established: 1991
Head office: Seidlova 5, 8001 Novo mesto, Slovenia
Subscribed capital: SIT 4,700,000,000
Holdings by Group Members:
Reinsurance Company Sava: 99.59%
Board of Management: Adolf Zupan (Chairman), Franci Bratkovič, Primož Močivnik
Chairman of the Supervisory Board: Sergej Rusjan

MOJA NALOŽBA, D.D., MARIBOR
Type of company: pension company
Established: 2001
Head office: Vita Kraigherja 5, 2000 Maribor, Slovenia
Subscribed capital: SIT 750,000,000
Holdings by other Group Members:
Reinsurance Company Sava: 20%
Maribor Insurance Company: 20%
Tilia Insurance Company: 5%
Board of Management: Lojze Grobelnik (Chairman), Boris Pipan
Chairman of the Supervisory Board: Darko Tisaj

OSIGURANJE HELIOS, D.D., ZAGREB
Helios Insurance Company
Type of company: composite insurance company
Established: 1991
Head office: Poljička 5, 10000 Zagreb, Croatia
Subscribed capital: HRK 33,709,400
Holdings by Group Members:
Reinsurance Company Sava: 29.64%
Board of Management: Ivan Pavelić (Chairman), Guy Sadeh, Tomaž Kačar
Chairman of the Supervisory Board: Efraim Naimer


Sava Re
99.6%
20%
45.6%
29.6%
Tilia Ins Co
Osiguranje Helios, d.d.
5%
Moja Naložba
Maribor Ins Co

SAVA RE
ANNUAL REPORT
2005

CONTENTS

SOME THINGS SEEM SMALL

EVERYTHING IS A MATTER OF PERCEPTION.

REPORT OF THE BOARD OF MANAGEMENT

Management perceptions

Sava Re performed well in 2005, and I am glad that over the year our strategy of expanding into foreign markets was backed by good management and the full commitment of our staff. The Company ended 2005 with a gross profit of more than SIT 2 billion (EUR 8.6 million), a 9.9-percent increase over the previous year. Net profit amounted to nearly SIT 1.5 billion (EUR 6.1 million), while return on equity was 12.4 percent. The most important achievement in 2005, however, was the 3.6 percent increase in premium. This growth was achieved in spite of forecasts that the premium volume would shrink as a result of reduced business from a major Slovenian cedant.

The Company is more secure than ever. The available solvency margin remained well above the statutory capital adequacy requirement; the provision for outstanding losses was increased further, and although – in line with legal requirements – we substantially reduced the equalization provision, the ratio of net technical provisions to net premiums written remained at a high level of 180.5 percent. This serves as the Company's basis for further growth as well as providing security for current and future clients.

Sava Re continues to focus on a client-centred approach. We understand how important relationships are, delivering quality services and providing security to our cedants and ultimately to policyholders. Our results pay tribute to this, as does the rating which Sava Re obtained in 2005 for the first time. Standard & Poor's rated the Company BBB+ with a stable outlook, which gives Sava Re a global perspective. As Sava Re is a small reinsurer on the global scale, the rating is more than satisfactory.

We are aware that a solid rating from a major rating agency is an important part of any reinsurer's ID. It is vital to any reinsurer's growth as an increasing number of markets make a favourable rating a precondition in the choice of reinsurer. Backed by the credit rating obtained in 2005, giving Sava Re greater confidence when dealing in the international marketplace, our expansion strategy led to a remarkable increase in international premium, a trend which has continued in the current year. Sava Re is primarily interested in European markets – those of Western Europe as well as the markets of the new EU members, the markets of former Yugoslavia, and the Rumanian and Bulgarian market. Yet we remain selective in assuming risks, valuing quality over quantity.

In 2005, premiums from international markets on a calendar year basis increased by 23 percent and accounted for 24.5 percent of the total portfolio (20.6 percent in 2004). This was a large step towards our target for the end of 2010 when international premiums should account for 39.9 percent of the entire portfolio. Most international premium growth was recorded in Sweden, Turkey, the Czech Republic, Greece, Serbia and Montenegro. In 2005 we entered a total of 16 new markets. However, we realise that a growing company needs to continuously develop internal business processes. Some years ago we started a major overhaul of business processes and IT technology. We are also carefully planning new recruitment. In line with our medium-term plans, in recent years we have made important recruitments for our underwriting and marketing teams and this will be continued as only adequately and sufficiently staffed teams will be able to maintain a high level of client service.

Although expanding into new markets usually involves high costs, the Company maintains a firm grip on expenditure. In 2005 administrative expenses as a percent of gross premiums written decreased to 4.4 percent from 4.6 percent in 2004.

Sava Re turned towards the international markets for business after having exhausted opportunities in the domestic market as domestic premium growth depends predominantly on the premium growth of our cedants. The domestic market remains our most important one, both in terms of premium volume as well as in terms of strategic investments. The Slovenian market produced good results in 2005, and there were no catastrophic losses. Prior to 2005 we expected a turn in the reinsurance cycle toward a soft market, but this trend was completely halted by last year's catastrophes – hurricane Katrina and the summer storms in Scandinavia. The Slovenian insurance market followed a different course independent of global developments. This had a favourable impact on our domestic results, also through the good results of our affiliated companies Maribor Ins Co, which produced a profit of over SIT 2.5 billion (EUR 10.4 million), and Tilia Ins Co that produced a loss, yet a smaller one than initially expected. Tilia Ins Co generated a net profit of over SIT 150 million (EUR 0.6 million) with non-life business, but produced an overall loss owing to its introduction of new life products. This loss, however, was anticipated and is fully manageable. The development of life products was a carefully designed project and Tilia Ins Co is honouring the trust placed in it with an above average 46-percent increase in life premium in 2005.

The Company is growing and making a name for itself in international markets. Responsiveness and quality services are our top priorities. Our growing business offers opportunities to a growing number of people. At the time of writing this report, there are 47 of us and every single one of these 47 staff members contributed to the Company's positive results. As a services sector company, we stand and fall on the commitment of our staff. We will therefore continue to give our utmost attention to investment in our people. Only through the co-ordinated work of people who truly believe in the Company and understand its business will we be able to attain our goals.

Dušan Čeč
Chairman of the Board of Management

REPORT OF THE SUPERVISORY BOARD

Supervisor perceptions

The Supervisory Board met at ten sessions in 2005. In the year, the Supervisory Board, pursuant to its statutory powers and powers conferred on it by the Articles of Association, dealt with all relevant aspects of business operations of Sava Re. Supervisory Board meetings were also attended by the members of the Board of Management when deliberating business issues, and for some issues also by other professional staff of the Company.

Furthermore, the Supervisory Board familiarised themselves with the operations of Sava Re's associated and subsidiary companies within the framework of interim reports as well as by special reports, especially on the operations of the subsidiary Tilia Ins Co.

At the beginning of the financial year, the Supervisory Board adopted the Business Policy and Financial Plan submitted by the Board of Management for the financial year 2005 and thus jointly with the Board of Management set business objectives for the current year. The Supervisory Board monitored the implementation of the business policy and financial plan on a regular basis – by quarterly reports, while at the beginning of October, the two boards jointly amended the financial plan for 2005.

In addition, the Supervisory Board approved the Strategic Guidelines for the Company's basic business operations for the period 2005–2009. The Board of Management decided that due to the exceptional importance of the development of basic business operations, the Board should adopt a special document. The Board of Management with the approval of the Supervisory Board set itself a strategy to intensively develop its portfolio of business from certain foreign markets, and the Company followed this strategy during the year. It is the objective of the Company to increase the share of foreign-sourced business. In view of the fact that from the Yugoslav hyperinflation era when underwriting international business was not possible, this share had been relatively low and that the Company had focused on the development of domestic business, the Supervisory Board is of the opinion that the Company's objectives are high but still within reach. All aspects of operations are subjected to attaining this strategic objective, which will include a reorganisation, a thorough overhaul of information technology, and in 2005 the Company requested a rating from the international rating agency Standard & Poor's. Considering that the Company managed to increase foreign-sourced business to account for 24.5 percent of the portfolio (from 20.6 percent in 2004), the Supervisory Board is of the opinion that the Company is successfully pursuing its fundamental strategic objective while maintaining a prudent stance.

In 2005 the Supervisory Board adopted the Sava Re Financial Plan, the Business Policy, the Strategic Guidelines for Basic Business Operations from 2005–2009, the Rules of the Internal Auditing Department, the Annual Internal Auditing Program and the Annual Report of Internal Auditing for the financial year 2004. With respect to internal auditing, the Supervisory Board also discussed the report on internal auditing in the period 30 June–31

December 2004 and the report on internal auditing in the period 1 January–30 June 2005. All documents relating to internal auditing were presented by the Internal Auditor of the Company. The Supervisory Board is of the opinion that the internal auditing reports are independent and objective.

Furthermore, the Supervisory Board discussed the unaudited Annual Report 2004, interim reports of Sava Re for the periods January–June 2005 and January–September 2005, the Report on Operations of the Subsidiary Tilia Ins Co on ordinary operations and findings of the Auditing Committee appointed by the Tilia Supervisory Board.

In 2005 the Supervisory Board adopted the Annual Report 2004 of Sava Re and presented it to the Shareholders' Meeting together with the Opinion to the Annual Report on Internal Auditing for the financial year 2004 and the Report on the Activities of the Supervisory Board in 2004 with an Opinion to the Annual Report 2004.

In accordance with the Articles of Association, in 2005 the Supervisory Board adopted the Rules on the Board of Management, which prescribe the number of Management Board members and define the responsibilities of Board members. The Supervisory Board also adopted the amended Rules on Activities of the Supervisory Board, which included only minor corrections.

In co-operation with the Board of Management, the Supervisory Board drafted resolutions to be adopted at the Shareholders' Meeting and, on its own, made proposals for the appointment of new Supervisory Board members and for the appointment of the auditor for the 2005 financial year. The Supervisory Board, furthermore, decided on the appropriation of net profit for the year 2004 (after allocations to legal reserves and reserves provided for by the Articles of Association).

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

The performance of the Company in 2005 was good. It surpassed its targets in respect of the above-mentioned strategic objectives (above-average growth of foreign-sourced business); profit was higher than planned, premium growth was higher, administrative expenses were well controlled as these were even reduced in relation to premium income in 2005. The Supervisory Board also notes that the Company further enhanced its security through an increased capital base and through a prudent reserving policy. The Supervisory Board is in favour of the latter as an active business policy in international markets requires in addition to an adequate rating and high-quality services, also the ability to offer security to cedants and policyholders.

THE ANNUAL REPORT

In accordance with its mandate, the Supervisory Board reviewed the Annual Report on the operations of the Company for the 2005 financial year. The Supervisory Board is of the opinion that the Annual Report has been prepared in a clear and concise way and that it includes all elements and disclosures required by the Law on Commercial Companies, the Slovenian Accounting Standards and special rules or executive acts adopted on the basis of such special rules.

The Supervisory Board reviewed the opinion of the auditing company, which in addition to auditing the Annual Report of Sava Re, carried out audits of the associate Maribor Ins Co and of the subsidiary Tilia Ins Co. Based on a review of the Annual Report and the opinion of the external auditor, the Supervisory Board is of the opinion that the Annual Report of the Company gives a true and fair view of the assets, liabilities and financial position of the Company and the profit of Sava Re. Hereby the Supervisory Board adopts the Annual Report of Sava Re for the 2005 financial year.

ESTABLISHING THE AMOUNT OF PROFIT AND PROPOSAL FOR THE APPROPRIATION OF ACCUMULATED PROFIT

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

The net profit of the Company totalled SIT 1,456,821,701.10. In accordance with Article 228 of the Law on Commercial Companies and pursuant to the power derived from Article 28 of the Articles of Association, the Board of Management allocated part of net profit in the amount of SIT 218,523,255.17 to the reserves provided for by the Articles of Association. In accordance with the Law on Commercial Companies, 50 percent of the remaining amount was allocated to other reserves. Allocations from net profit are properly disclosed in the financial statements of the Company.

Thus the accumulated profit for the year comprised undistributed net profit of SIT 619,149,222.98 and undistributed profit from previous years of SIT 602,689,692.22. The total amount of accumulated profit intended for appropriation in the Shareholders' Meeting was SIT 1,221,838,915.35. The Board of Management and the Supervisory Board propose that accumulated profit is used as follows: a gross amount of SIT 12,056,400.00 for awards for the members of the Supervisory Board, the remaining accumulated profit of SIT 1,209,782,515.35 is to remain undistributed.

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

Tomaž Rotar
Chairman of the Supervisory Board

ORGANISATIONAL STRUCTURE

SUPERVISORY BOARD

Composition until 13 July 2005

Uroš Slavinec, Chairman
Chairman of the Management Board, Helios d.d.

Prof. Dr. Miha Juhart, Deputy Chairman
Associate Professor, University of Ljubljana, Faculty of Law

Barbara Nose
General Manager, Constantia UHYS, d.o.o.

Samo Selan*
Reinsurance Manager, Reinsurance Company Sava

Nika Matjan*
Lawyer, Reinsurance Company Sava

Mateja Herič Lovšin (since 12 January 2005)
Advisor, Slovenian Restitution Company

*Representative of employees

Composition since 13 July 2005

Tomaž Rotar, Chairman
Director of Operations, Ljubljana Central Securities Clearing Corporation

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

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

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

Samo Selan*
Reinsurance Manager, Reinsurance Company Sava

Nika Matjan*
Lawyer, Reinsurance Company Sava

BOARD OF MANAGEMENT

CONSULTANTS TO THE BOARD OF MANAGEMENT

SPECIAL BOARDS

ACTUARIAL

INTERNAL AUDITING

BUSINESS PROCESSES & IT

COMPANY SECRETARY & PUBLIC RELATIONS

STRATEGIC DEVELOPMENT & CONTROLLING

INTERNAL LAW SECTION

PROPERTY

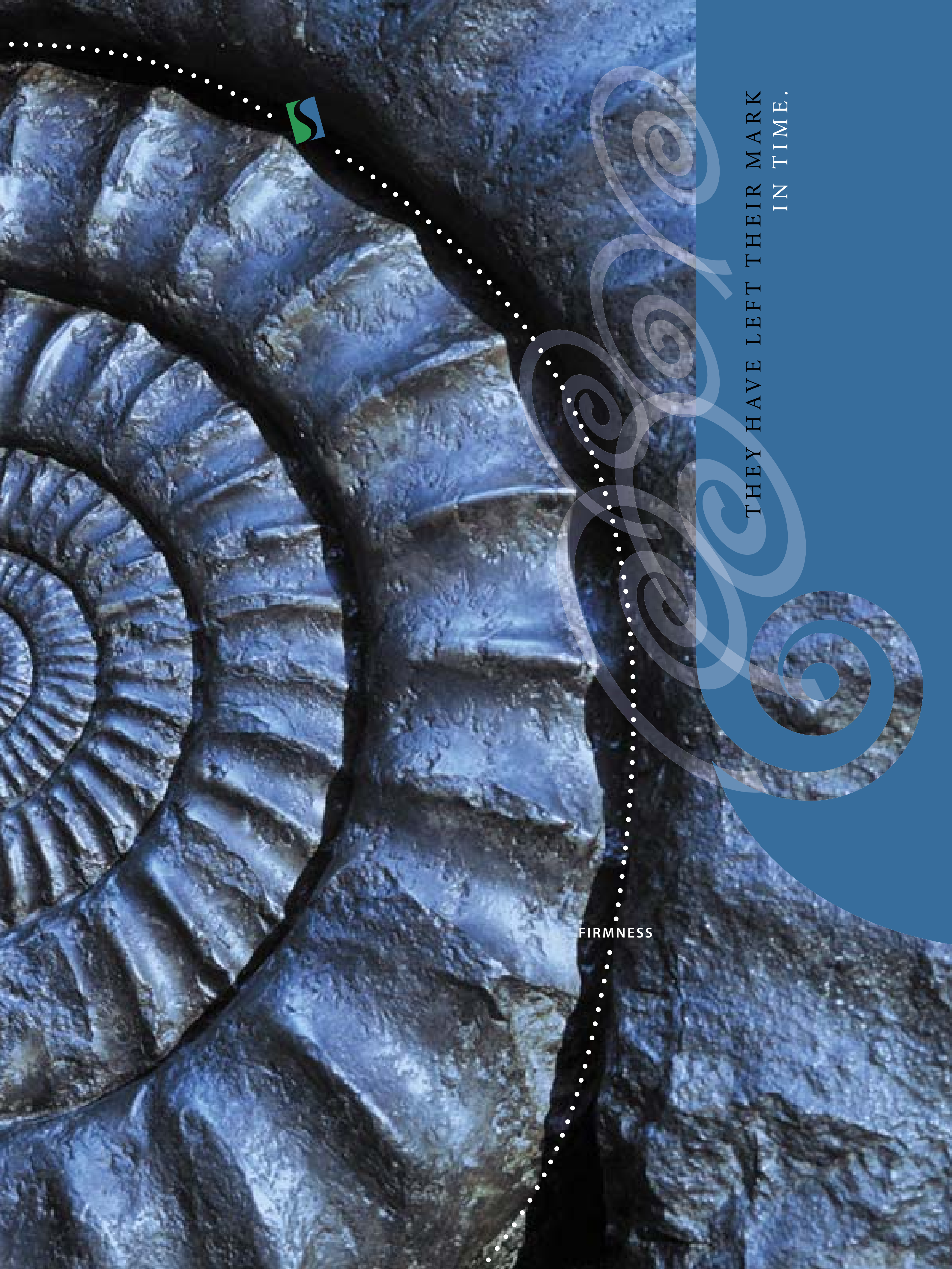
CASUALTY, MARINE & AVIATION

TECHNICAL ACCOUNTING

FINANCE & ACCOUNTING

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

SOME THINGS SEEM
FRAGILE.



THEY HAVE LEFT THEIR MARK
IN TIME.

TECHNICAL REVIEW
Technical perceptions

PREMIUMS AND CLAIMS

Gross premiums written grew by 3.6 percent to SIT 22.1 billion in 2005. Very strong growth of 23.0 percent was recorded in foreign-sourced premiums as a result of increased marketing activities in 2003 and 2004 and the rating obtained in 2005. Domestic premiums declined by 1.4 percent because one of our largest cedants restructured their reinsurance program. Premium from other domestic cedants showed a stable growth of about 8.9 percent.

Development of gross premiums written 1996–2005, *SIT million*

1996	9,275
1997	10,794
1998	12,422
1999	11,020
2000	10,801
2001	12,932
2002	16,789
2003	18,338
2004	21,299
2005	22,068

The net premium in 2005 was SIT 17.9 billion, which is a 5.7 percent increase from the previous year. The retention rate was at 81.2 percent, up 1.6 percentage points from 2004.

In the year, the Company paid SIT 13.4 billion in claims, which is nearly the same amount as in 2004.

Development of gross claims paid 1996–2005, *SIT million*

1996	5,938
1997	7,091
1998	8,711
1999	8,281
2000	9,413
2001	10,100
2002	10,167
2003	10,698
2004	13,416
2005	13,384

Paid claims remained low as a result of a very favorable year for the Slovenian insurance market and improvements in loss control and loss payment procedures by our largest cedant. The restructuring of the reinsurance program of one of our cedants also contributed to containing the claims amount. Claims paid for domestic business declined by 9.2 percent.

On the other hand, claims relating to international business were higher by 55.1 percent compared to 2004. This high increase is due to the growth in the international portfolio in 2004 and 2005 and the development of claims for underwriting year 2004.

STRUCTURE OF PREMIUM

The most important line of business for Sava Re remained motor insurance. MTPL accounted for 28.1 percent of total premium income; land vehicle hull represented 16.7 percent of total premiums written (motor liability and hull together amounting to 44.8 percent). The share of fire and natural forces together with other damage to property accounted for 36.5 percent of total premium – a slight increase compared to 2004.

Among the largest classes of business, the strongest growth in 2005 was recorded in the class of general third party liability where premium volume increased by as much as 25.2 percent. The largest contribution to this growth came from the domestic market.

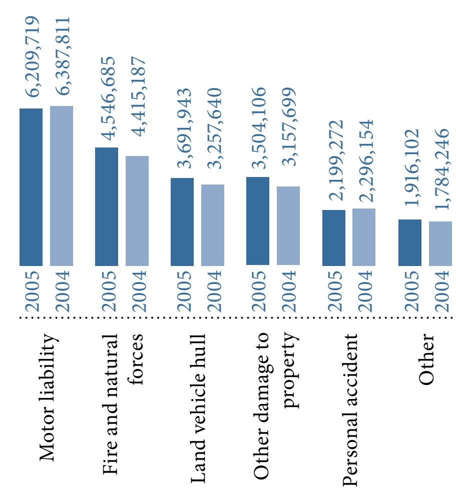
In international markets, Sava Re focuses on writing property and other short-tail business. As a result, business of the two classes fire & natural forces and other damage to property represented 71.9 percent of the foreign-sourced portfolio.

STRUCTURE OF CLAIMS

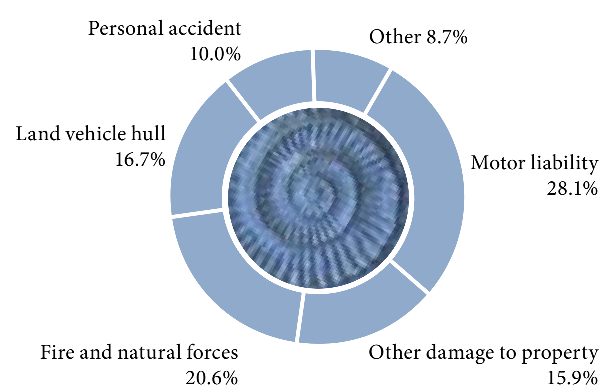
In 2005 gross claims did not surpass the level of claims in 2004. This stabilization was partly due to the decline in personal accident claims following the introduction of tighter coverage terms for this line on the Slovenian market, partly a result of the decline in MTPL claims after one of our biggest cedants restructured their reinsurance program and also due to a lesser claims burden in the class of other damage to property compared to 2004, which was a year of heavy losses. For fire and natural forces the increase in claims amounted to 14.6 percent, which reflects the growth in the international portfolio.

Motor liability accounted for 28.6 percent of the claims portfolio (together with motor hull 48.0 percent), while the share of fire and natural forces represented 21.4 percent (18.7 percent in 2004).

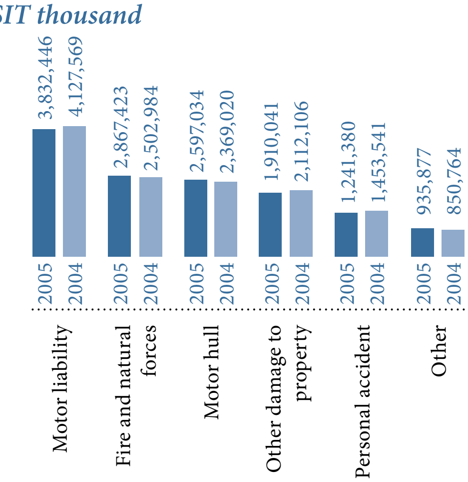
Gross premiums written by class of business 2004/2005, *SIT thousand*



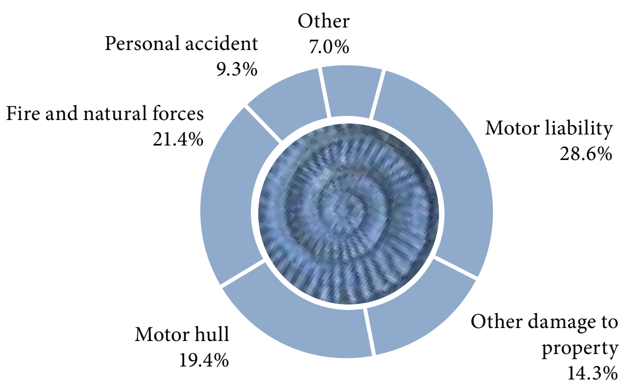
Gross premiums written by class of business 2005



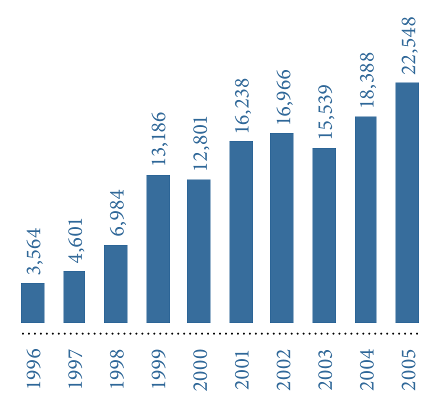
Gross claims paid by class of business 2004/2005, *SIT thousand*



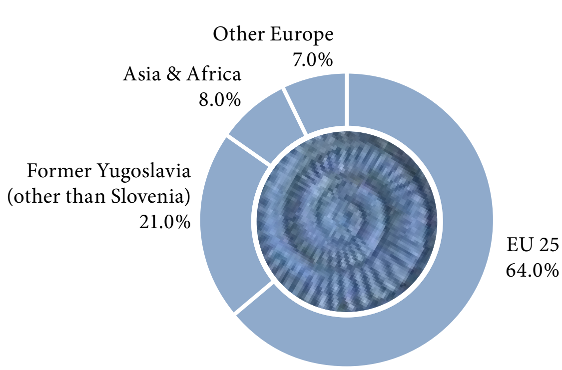
Gross claims paid by class of business



Development of gross premiums written from abroad 1996–2005, *EUR thousand*



Gross premium income from abroad by area



BUSINESS FROM INTERNATIONAL MARKETS

Foreign-sourced premium in 2005 increased by 23.0 percent. In the overall premium volume, premium income from abroad accounted for 24.5 percent, which is 3.9 points more than in 2004. This growth is a result of the increased marketing activities in 2003 and 2004 and reflects the favorable rating from Standard & Poor's of BBB+ assigned in 2005.

The largest classes of insurance in terms of premium volume were: fire and natural forces, accounting for 42.6 percent (48.8 percent in 2004), other damage to property with 29.3 percent (33.3 percent in 2004) and motor hull with 10.5 percent (3.8 percent in 2004).

Premium sourced from EU markets accounted for 64.0 percent of the international portfolio. Since Sava Re became a member of the European Union, the share of EU-sourced premium in its portfolio remained stable (above 60 percent). Another stable source of premium are the markets of the former Yugoslavia, which reflects Sava Re's long-term presence and role in the region.

DEVELOPMENT OF LOSS RATIOS

The gross loss ratio improved by 2.3 percentage points compared to 2004. The loss ratio for the net account decreased substantially to 59.4 percent (from 63.8 percent in 2004). The overall combined ratio was 102.9 percent.

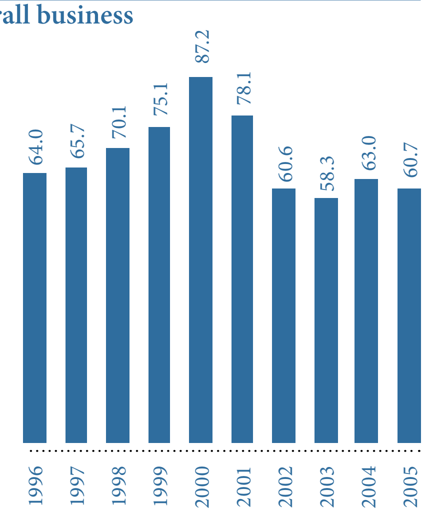
The gross loss ratio for domestic business decreased by 5.4 percentage points compared to 2004. This improvement was due to a very favorable loss year for our largest cedant and progress made in loss settlement procedures. However, this result was also contributed by improved terms and conditions for business lines that generated negative results in past years.

The gross loss ratio for foreign business deteriorated by 11.1 percentage points as a result of the development of claims for underwriting year 2004 when the foreign portfolio grew by 20.9 percent. In 2005 this part of the portfolio continued to grow at the same pace (over 20 percent) with a proportionate increase in the claims volume.

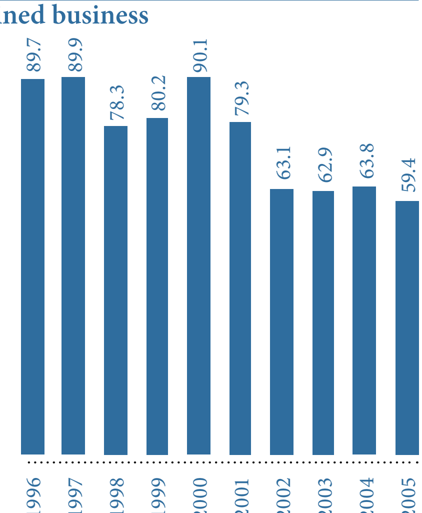
In the overall portfolio, all the business lines accounting for more than 2 percent of the portfolio, recorded an improvement in the gross loss ratio. The only exception was the line of fire and natural forces where the loss ratio deteriorated by 6.4 percentage points.

Business retroceded abroad recorded a 6.1-point increase in loss ratio to 66.0 percent.

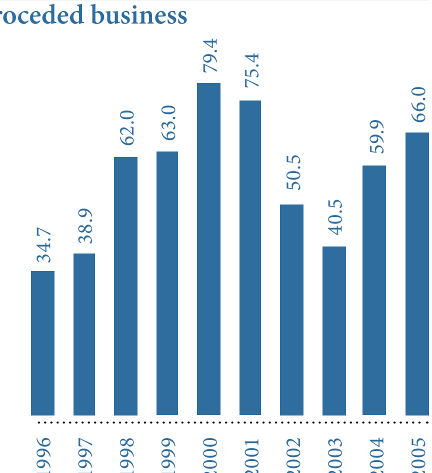
Loss ratio – overall business 1996–2005



Loss ratio – retained business 1996–2005

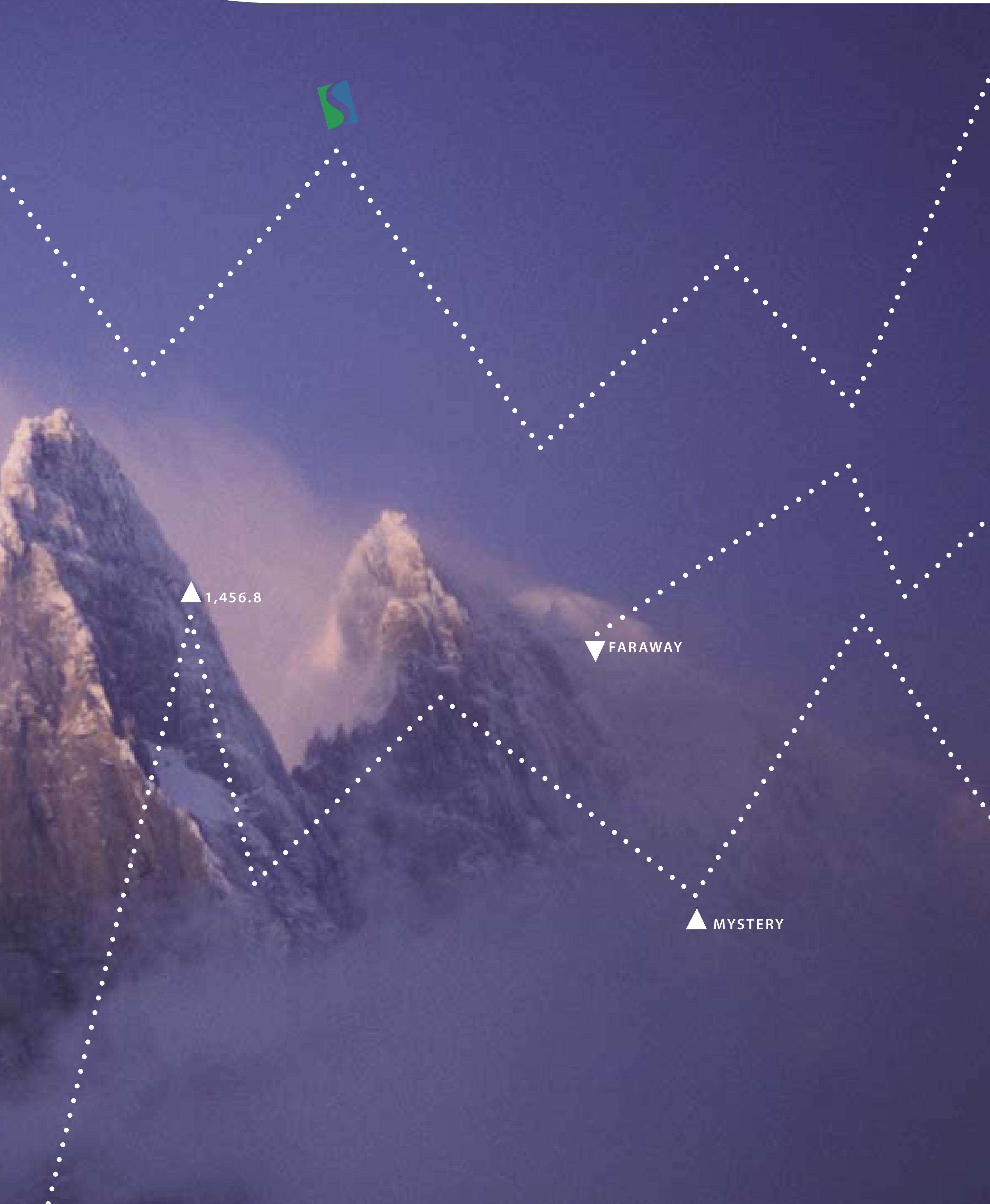


Loss ratio – retroceded business 1996–2005



SOMETIMES THINGS SEEM VAGUE.

FROM NEAR THEY ARE CLEAR AND SOLID.



FINANCIAL REVIEW
Financial perceptions

Sava Re ended the year with a pre-tax profit of SIT 2 billion, which is 9.8 percent more than in 2004, while the technical result improved by 23.6 percent to SIT 1.4 billion. The year was marked by an exceptional growth in foreign inwards premium (23 percent), which was the main contribution to the 3.6 percent growth in the total premium volume. Net earned premiums grew by 11.4 percent, whilst retrocession premium decreased, mostly as a result of the growing foreign inwards portfolio almost fully retained by the Company. The most important impact on the growth in earned premiums was the change in the unearned premium provision, which reached only 6.7 percent of total change in 2004. This is mostly due to the reorganised reinsurance program of one of our major domestic cedants.

Class of business	Net earned premiums	Net claims incurred	Change in the equalization provision	Change in other net technical provisions	Net operating expenses	Net investment income	Other expenses less other income	Profit before tax
Personal Accident	2,222,355	1,172,193	104,553	28,683	848,829	249,892	–4,896	579,565
Motor hull	3,186,051	2,530,538	211,782	–40,222	1,009,954	261,789	–7,593	71,315
Aircraft hull	22,664	22,876	118,067	–5	–6,195	9,192	–52	133,185
Marine hull	135,021	170,098	33,584	–9,782	33,355	20,551	–330	–24,409
Goods in transit	122,315	31,014	–28,995	–7	33,853	10,443	–278	38,611
Fire and natural forces	3,032,916	2,351,475	338,451	–79,143	1,126,544	219,135	–6,898	26,442
Other damage to property	2,485,884	1,974,431	–22,956	–8,184	882,425	275,997	–5,786	–131,901
Motor liability	5,865,623	3,909,962	0	–7,271	1,773,903	660,463	–13,079	821,871
Aircraft liability	29,897	24,297	31,076	8,838	6,866	8,254	–54	46,848
Liability for ships	7,832	12,460	2,570	–3,837	787	2,902	–17	–3,797
General liability	391,034	207,272	–578,983	–1,206	115,548	439,377	–926	–73,524
Credit	245,795	81,374	186,232	–1,373	77,781	112,867	–604	383,762
Suretyship	5,679	5,582	29	–61	1,962	476	–20	–1,441
Miscellaneous financial loss	109,342	15,158	3,234	27,351	21,791	7,221	–167	110,032
Legal expenses	–6,920	0	0	0	–1,707	61	–4	–5,156
Medical assistance	14,839	–5,776	411	–2	4,622	1,917	–28	18,291
Life	59,883	–2,543	6,670	1	19,449	5,905	–135	55,418
Life – investment funds	5,901	0	0	0	1,097	211	–13	5,002
Total Profit before tax	17,936,111	12,500,411	405,725	–86,221	5,950,864	2,286,653	–40,880	2,050,113
Tax on profit								**593,291**
Net profit for the year								**1,456,822**

In addition, the Company improved its results by keeping costs stable, by making releases from the equalization provision (required by law) and by achieving a favourable investment result. Gross claims declined by 0.2 percent in 2005, while net claims incurred rose by 19.2 percent. The Company applied a more prudent reserving strategy in order to protect the rapidly growing inwards portfolio. The decline in gross claims was mostly driven by the domestic portfolio; there were no major claims in the Slovenian insurance market in 2005.

Tax on profit totalled SIT 593 million. While the regular corporate tax rate was 25 percent, the after-tax profit of SIT 1,457 million was arrived at by applying an effective tax rate of 28.9 percent. Thus profit after tax almost equalled the 2004 result. The effective tax rate was higher due to modified tax regulations under which certain expenses (such as value adjustments of investments) no longer qualified as tax-deductible.

INVESTMENTS AND THE INVESTMENT RETURN

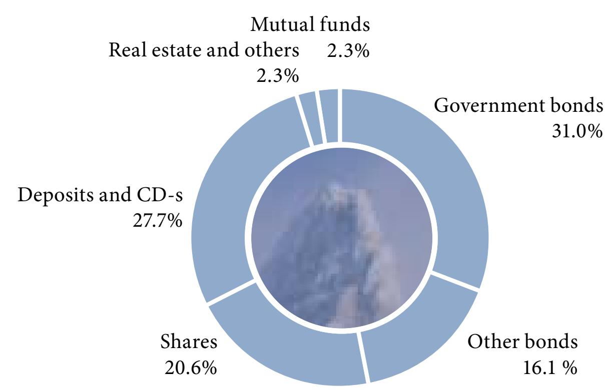
In 2005 the investment portfolio of Sava Re increased by SIT 2,970 million (EUR 12.4 million), which represents an increase of 6.4 percent over 2004. The structure of the portfolio changed substantially during the year. The largest decrease was with investments in deposits and CD-s and totalled SIT 2.9 billion (EUR 12.0 million).

The largest relative increase was recorded with investments in mutual funds, whereas in absolute terms investments in other-than-government bonds and shares showed the largest increase, the former by SIT 3.0 billion (EUR 12.740 million) and the latter by SIT 2.3 billion (EUR 9.52 million). Investments in other-than-government bonds rose mainly due to a more intensive purchase

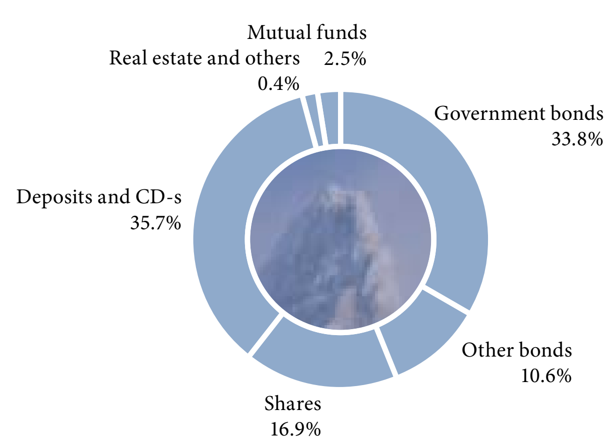
Investment portfolio 2004/2005, *SIT thousand*

	2005	2004	Index 2005/2004
Government bonds	15,279,397	15,611,863	97.9
Other bonds	7,884,589	4,880,020	161.6
Shares	10,111,887	7,830,043	129.1
Deposits and CD-s	13,640,123	16,515,906	82.6
Mutual funds	1,150,391	203,279	565.9
Real estate and other	1,114,961	1,166,034	95.6
Total	**49,181,348**	**46,207,145**	**106.4**

Investment structure 2005



Investment structure 2004



of foreign commercial bonds, structured products and Slovenian Restitution Fund bonds. The increased investment in shares was a consequence of the positive result achieved by our subsidiary Maribor Insurance Company and a better-than-expected performance of Tilia Insurance Company (both investments are accounted for under the equity method) and of Sava Re's injection of capital in its subsidiary Tilia Insurance Company. In addition, the Company contributed SIT 20 million (EUR 83,000) to the capital increase in the Moja naložba pension fund. On the other hand, in the year Sava Re sold 5 percent of the Croatian insurer Helios.

Net technical provisions
At 31 December 2005, *SIT thousand*

Net provision for unearned premiums	6,543,545
Net provision for outstanding claims	15,670,066
Equalization provision	7,633,608
Provision for nuclear risks	2,254,560
Provision for unexpired risks	199,054
Earthquake provision	34,524
Provision for currency risks	1,562
Net provision for bonuses and rebates	30,336
Total	**32,367,254**

RETURN ON INVESTMENTS

The rate of return was calculated on the basis of the average amount of investments, being the arithmetical mean of the amount invested on five dates throughout the year 2005, as net investment income to average amount of investments. Pursuant to the Slovenian Accounting Standards, any value increases in investments (arising out of value increases in investments to their amortized cost and from profits generated by Group companies accounted for under the equity method) are not taken to the profit and loss account but to the specific equity revaluation adjustment (SERA). In effect, any increase in the specific equity revaluation adjustment is a return on investment; therefore, the SERA was included in investment income when calculating the return on investments. The SERA increased the investment income by SIT 851 million (EUR 3.55 million) relating to the equity portfolio. This was primarily a result of the value increases in investments in Maribor Insurance Company. On the basis of the method outlined above, the rate of return on investments in 2005 was 6.7 percent, which is approximately half a percentage point more than in 2004 when the rate of return on investments was 6.2 percent. The largest contribution to an increased rate of return in 2005 was a substantial increase in the Maribor profits, where equity investments improved their profitability from 7.4 percent in 2004 to 12.3 percent in 2005. On the other hand, the profitability of Sava Re's investment portfolio was threatened by a continued downward trend in yields of various kinds of fixed-income securities and time deposits in 2005.

TECHNICAL PROVISIONS

Net technical provisions increased 4.9 percent compared to 2004. The largest growth in absolute terms was recorded in the net provision for outstanding claims, i.e. SIT 1,850,185,000, which is a 13.4-percent growth in relative terms. The Company took on a more prudent reserving strategy in 2005 because of the high growth rates in foreign inwards business.

The net provision for unearned premiums remained at the 2004 level, which is in line with premium growth.

Pursuant to the Insurance Companies Act, the Company is required to decrease certain types of the equalization provision. First releases from the provision were made already in 2002. In 2005 the law changed again and the Company was obligated to decrease the equalization provision for credit risks. The changed regulation is harmonised with the EU directive. The equalization provision was decreased by 5 percent, totalling SIT 405 million in absolute terms. In 2006 a new change in the Insurance Companies Act is expected, which is to require the complete release of the equalization provision in respect of all insurance lines, except for credit risks. This change is expected to be effective as from January 1st, 2007.

The provision for nuclear risks was marginally increased (by 1.8 percent) to reach SIT 2,254 million. Provisions for unexpired risks decreased by 7 percent to SIT 199 million, whereas provisions for currency risks increased by 89 percent to SIT 1,562,000.

In the year, the Company made the first contributions towards an earthquake provision in the amount of SIT 34,524,000. This provision had not been established before because substantial amounts were set aside and until 2004 held in the equalization provision relating to the class of fire and natural forces.

THE LIABILITY FUND

At 31 December 2005, liability funds exceeded technical provisions by more than 11 percent. This large surplus is due to the fact that according to legal regulations, the liability fund also includes creditors due from insurance and reinsurance companies with a maturity of up to 90 days. The structure of investments in the liability fund complies with statutory regulations.

As shown in the table below, the liability fund exceeded technical provisions by over SIT 3.5 billion.

Technical provisions supporting the liability fund including investments, cash and creditors
At 31 December 2005, *SIT thousand*

Form of investment	Liability Fund	Technical provisions	Surplus of liability fund over technical provisions
Government securities	14,959,944		
Other debt securities	4,343,998		
Shares	140,479		
Time deposits in Slovenian banks	9,130,757		
Mutual funds	972,099		
Real estate	921,772		
Creditors and cash	5,459,666		
Total	**35,928,715**	**32,367,254**	**3,546,461**

CAPITAL ADEQUACY

The financial stability of the Company is evidenced by its capital adequacy figures calculated in accordance with Slovenian regulations. At 31 December 2005 the required solvency margin was SIT 2,836,077,000, while the available solvency margin stood at SIT 10,352,930,000 and exceeded the required amount by almost SIT 8 billion. Accordingly, the Company had no liquidity difficulties throughout the year 2005.

Additional core capital comprises the surplus of the equalization provision over the amount permitted by regulations. Since 2002 the equalization provision is established only for certain classes of business. The surplus relates to classes for which no provision is to be established and which is therefore being released over a period of five years.

Capital adequacy calculation
At 31 December, *SIT thousand*

CORE CAPITAL		2005	2004
Subscribed capital	1	7,862,519	7,862,519
Reserves	2	8,273,450	7,435,776
Profit brought forward	3	602,690	6,954
General equity revaluation adjustment	4	25,440	25,440
Own shares	5	425	425
Intangible fixed assets	6	16,162	13,893
Specific equity revaluation adjustment	7	2,652,067	1,798,208
Core capital (1+2+3+4–5-6+7)	8	19,399,579	17,114,579
Minimum guarantee fund	9	945,359	945,359
Surplus over minimum guarantee fund (8–9)	10	18,454,220	16,169,220

ADDITIONAL CORE CAPITAL		2005	2004
Surplus in the equalization provision	11	328,807	1,145,649
Additional core capital	12	328,807	1,145,649

CAPITAL ADEQUACY		2005	2004
Core capital + additional core capital (8+12)	13	19,728,386	18,260,228
Deductible investments	14	9,375,456	7,611,957
Available solvency margin (13–14)	15	10,352,930	10,648,271
Required solvency margin	16	2,836,077	2,836,077
SURPLUS (15–16)	**17**	**7,516,853**	**7,812,194**

Selected financial indicators

	2005	2004
Growth in gross premiums written	3.6	16.1
Net premiums written as % of gross premiums written	81.2	79.6
Growth in gross claims paid	–0.2	25.4
Loss ratio (overall business)	60.7	63.0
Administrative expenses as % of gross premiums written	4.4	4.6
Reinsurance commission as % of gross premiums written	22.6	23.2
Investment return as % of average book value of investment	6.7	6.2
Net provision for outstanding claims as % of net earned premiums	87.4	85.8
Profit before tax as % of net premiums written	11.4	11.0
Profit before tax as % of average capital	10.8	11.1
Profit before tax as % of average total assets	3.4	3.3
Profit before tax per share (SIT)	261	237
Net profit for the year as % of average capital	7.7	8.5
Available solvency margin as % of net premiums written	53.1	62.8
Available solvency margin as % of minimum guarantee fund	335.5	375.5
Available solvency margin as % of net technical provisions	29.4	34.5
Available solvency margin as % of debtors and technical provisions – reinsurers' share	75.3	78.5
Net premium as % of average sum of capital & reserves and technical provisions	35.5	35.8
Net premium as % of average capital & reserves	94.6	100.7
Average technical provisions as % of net premiums written	176.3	189.4
Capital & reserves as % of provision for unearned premiums	307.5	271.3
Capital & reserves as % of total liabilities	33.6	29.8
Net technical provisions as % of total liabilities	54.1	51.7
Total investments as % of total assets	85.0	81.6
Gross premiums written per average number of employees (SIT million)	490,396	484,062
Capital and reserves as % of net premiums written	112.2	104.8
Equalization provision as % of net premiums written	42.6	47.4
Net technical provisions as % of net premiums written	180.5	181.8
Net technical provisions as % of gross premiums written	146.7	144.8

RISK MANAGEMENT

UNDERWRITING RISK

The basic source of risk in reinsurance business stems from the uncertainty in relation to the amount of the claims expense, which can increase dramatically in the event of a natural catastrophe or other large loss. The Company protects itself against this risk by setting up an adequate retrocession programme and by establishing adequate technical provisions. If these arrangements are appropriate with respect to risk exposure, the probability that an unfavourable claims development has a substantial negative impact on the financial stability of the Company is relatively small.

The retrocession programme is designed to reduce potentially large exposures as maximum limits are applied only with best risks. In addition, reciprocal treaties are used for better risk diversification.

FINANCIAL RISK

Sava Re encounters predominantly the following financial risks: market risk and credit risk.

Market risk

Sava Re is required to follow the risk management regulations of the Insurance Act prescribing the types of investments allowed, investment restrictions, valuation and asset-liability matching rules. Thus as part of asset management, the Company not only strives to ensure liquidity but also to satisfy all regulatory provisions, especially regarding currency matching and the types of investments in the liability fund.

Sava Re is mainly exposed to the following types of market risk: interest rate risk, currency risk, liquidity risk and asset-liability matching risk.

Interest rate risk

Interest rates continued to decrease in the domestic market in 2005. As a response to this trend, the Company replaced a large part of its deposit portfolio with investments in structured products, mutual funds and other (mostly foreign) fixed income instruments.

Currency risk

Following the substantial increase in international premium in 2005, the Company gradually started to replace domestic deposits with foreign fixed income securities in order to obtain better control over currency risk. In 2005 Sava Re met the regulatory requirement of at least 80% currency matching of the liability fund with the technical provisions in all major currencies. Sava Re did not use any special hedging instruments for the small portion of liabilities not covered by assets in the same currency, but protected itself against currency risk by forming a currency matching reserve.

Liquidity risk

In order to monitor liquidity, Sava Re calculates the liquidity ratio on a weekly basis. The Company had no liquidity difficulties throughout the year 2005. In addition to keeping an appropriate amount of time deposits and highly liquid fixed income investments, the liquidity is ensured also through call deposits and credit lines with several domestic banks.

Asset-liability matching risk

At 31 December 2005, the liability fund exceeded technical provisions by 11 percent (SIT 3.56 billion EUR 14.84 million). This large surplus was due to the fact that according to legal regulations, the liability fund also includes creditors due from insurance and reinsurance companies with a maturity of up to 90 days. The structure of investments in the liability fund complied with statutory regulations.

Credit risk

Sava Re is mainly exposed to the risk of change in the credit quality of issuers of securities and of reinsurers.

PORTFOLIO DIVERSIFICATION

In order to avoid large exposures to credit risk with relation to types of investments, business is not retroceded to just one business partner or industry or any other concentration; pursuant to the Insurance Act, executive acts and internal Company rules, Sava Re strives to build a well-diversified investment portfolio. In 2005, the Company placed investments (such as deposits, debt and equity securities, structured products, mutual funds – all with different maturity and in various currencies) with over 60 domestic and foreign partners.

CREDIT QUALITY OF ISSUERS

Pursuant to the Insurance Act, executive acts and internal Company rules, Sava Re invests only in first-class bank deposits or in the case of securities only in issuers with an adequate credit quality.

CREDIT QUALITY OF RETROCESSIONAIRES

Although, the net exposure of the Company is only 2 percent of the available solvency margin, retrocession programs are predominantly placed with first class reinsurers with adequate credit ratings (A- for long-term business and BBB+ for short-term business). Thus the risk that any Sava Re reinsurer becomes insolvent is very low, and default risk is accordingly very low.

OPERATIONAL RISK

Operational risk is the risk arising out of failures or improper functioning of internal controls and disturbances in company management. The key factor in managing operational risk is a properly functioning and effective system of internal controls. A characteristic of this type of risk is that it usually works in conjunction with other types of risk (such as market or credit risk).

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Družba za revidiranje

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Reinsurance company Sava limited
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1000 Ljubljana

INDEPENDENT AUDIT REPORT

We have audited the balance sheet of Reinsurance company Sava limited and the related income statement, changes in shareholders' equity and funds flow statement for the year ended on 31 December 2005 and appendix to financial statements. We reviewed also the business report of the company. These financial statements are the responsibility of the management of the company. Our responsibility is to express an independent opinion on these financial statements based on our audit.

We conducted our audit in accordance with Fundamental Auditing Principles and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of Reinsurance company Sava limited as at 31 December 2005 and of the result of the year, changes in shareholders' equity, and funds flow for the year then ended and have been prepared in accordance with the Slovene Accounting Standards.

The business report is in accordance with presented financial statements.

Ljubljana, 24 May 2006

M.Sc. Nadja Knez
Certified Auditor

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

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The business report is in accordance with presented financial statements.

Ljubljana, 24 May 2006

M.Sc. Nadja Knez
Certified Auditor

BDO
Revizija d.o.o.

BALANCE SHEET as at 31 December 2005 – Reinsurance Company Sava

		Notes	2005 SIT '000	2004 SIT '000	2005 EUR '000	2004 EUR '000
	ASSETS		59,848,591	59,607,844	249,811	248,632
A	**INTANGIBLE ASSETS**	**(1)**	**16,162**	**13,893**	**67**	**58**
B	**LAND, BUILDINGS AND FINANCIAL INVESTMENTS**	**(2)**	**50,874,437**	**47,489,403**	**212,352**	**198,085**
I	Land and buildings		1,482,735	1,498,892	6,189	6,252
II	Financial investments in group undertakings and in associates		9,375,456	7,611,957	39,134	31,750
III	Other financial investments		38,691,945	37,430,279	161,502	156,127
IV	Deposits with ceding undertakings		1,324,301	948,275	5,528	3,955
C	**DEBTORS**	**(3)**	**6,875,831**	**9,884,849**	**28,700**	**41,231**
I	Debtors arising out of reinsurance and co-insurance operations		6,249,271	8,884,038	26,085	37,057
II	Other debtors		626,560	1,000,811	2,615	4,175
D	**DIVERSE ASSETS**	**(4)**	**109,706**	**120,483**	**458**	**503**
I	Tangible fixed assets other than land and buildings		59,349	60,261	248	251
II	Cash		49,932	59,797	208	249
III	Own shares		425	425	2	2
E	**DEFERRED COSTS (EXPENSES) AND ACCRUED INCOME**	**(5)**	**1,972,455**	**2,099,216**	**8,233**	**8,756**
F	**OFF BALANCE SHEET ITEMS**		**1,193,638**	**1,281,005**	**4,982**	**5,343**
	LIABILITIES		59,848,591	59,607,844	249,811	248,632
A	**CAPITAL AND RESERVES**	**(6)**	**20,122,478**	**17,780,013**	**83,992**	**74,163**
I	Called-up capital		7,862,519	7,862,519	32,819	32,796
II	General equity revaluation adjustment		25,440	25,440	106	106
III	Specific equity revaluation adjustment		2,739,230	1,841,578	11,434	7,681
IV	Reserves		8,273,450	7,435,777	34,534	31,016
V	Net profit brought forward		602,690	6,954	2,516	29
VI	Profit for the financial year		619,149	607,745	2,584	2,535
B	**NET TECHNICAL PROVISIONS**	**(7)**	**32,367,254**	**30,845,496**	**135,102**	**128,661**
I	Net provision for unearned premiums		6,543,545	6,552,469	27,313	27,331
II	Net provision for outstanding claims		15,670,066	13,819,881	65,408	57,645
III	Net provision for bonuses and rebates		30,336	4,846	127	20
IV	Equalization provision		7,633,608	8,039,332	31,863	33,533
V	Other net technical provisions		2,489,699	2,428,968	10,392	10,132
C	**CREDITORS**	**(8)**	**7,044,767**	**10,793,366**	**29,405**	**45,021**
I	Creditors arising out of co-insurance and reinsurance operations		5,344,987	8,345,471	22,310	34,810
II	Other creditors		1,699,780	2,447,895	7,095	10,210
D	**ACCRUED COSTS (EXPENSES) AND DEFERRED INCOME**	**(9)**	**314,092**	**188,969**	**1,311**	**788**
E	**OFF BALANCE SHEET ITEMS**	**(10)**	**1,193,638**	**1,281,005**	**4,982**	**5,343**

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005 – Reinsurance Company Sava

		Notes	2005 SIT '000	2004 SIT '000	2005 EUR '000	2004 EUR '000
A	**TECHNICAL ACCOUNT**					
I	Earned premiums, net of retrocession	(11)	17,936,111	16,106,098	74,866	67,181
II	Allocated investment return transferred from the non-technical account	(12)	1,646,830	1,634,323	6,874	6,817
III	Claims incurred, net of retrocession	(13)	−12,500,412	−10,488,456	−52,177	−43,749
IV	Change in other technical provisions, net of retrocession	(14)	−86,221	545	−360	2
V	Net operating expenses	(15)	−5,950,864	−5,935,265	−24,839	−24,757
VI	Other net technical charges	(16)	−26,775	−23,270	−112	−97
VII	Change in the equalization provision	(17)	405,725	−141,294	1,694	−589
VIII	Balance on the technical account		1,424,394	1,152,681	5,945	4,808
B	**NON-TECHNICAL ACCOUNT**					
I	Balance on the technical account		1,424,394	1,152,681	5,945	4,808
II	Investment income	(18)	2,866,709	2,873,148	11,966	11,984
III	Investment charges	(19)	−580,057	−512,450	−2,421	−2,137
IV	Allocated investment return transferred to the technical account	(12)	−1,646,830	−1,634,323	−6,874	−6,817
V	Other income from ordinary activities		0	6,088	0	25
VI	Other charges for ordinary activities	(20)	−132,600	−21,063	−553	−88
VII	Net profit from ordinary activities		1,931,616	1,864,081	8,063	7,775
C	**ACCOUNT FOR EXTRAORDINARY OPEARATIONS**					
I	Extraordinary income	(21)	118,535	2,453	495	10
II	Extraordinary charges	(22)	−38	−169	0	−1
III	Extraordinary profit for the year		118,497	2,284	495	10
D	**TAX ON PROFIT**		**−593,291**	**−436,376**	**−2,476**	**−1,820**
E	**NET PROFIT FOR THE FINANCIAL YEAR**	**(23)**	**1,456,822**	**1,429,989**	**6,081**	**5,965**

INDIRECT CASH FLOW STATEMENT for the year ended 31 December 2005 – Reinsurance Company Sava

	2005 SIT '000		2004 SIT '000	
A CASH FLOWS FROM OPERATING ACTIVITIES				
a) INFLOWS FROM OPERATING ACTIVITIES	23,672,185		17,784,091	
1 Net premiums written	17,927,188		16,964,044	
2 Investment income (excl. financial income) derived from	2,866,711		2,873,148	
2.1. technical provisions	2,019,490		2,028,880	
2.2. other sources	847,221		844,268	
3 Other ordinary income excl. releases from provisions	0		6,088	
4 Extraordinary income relating to operations	118,535		2,453	
5 Changes in debtors arising out of reinsurance operations	2,258,741		–1,762,237	
6 Changes in other operating debtors	374,250		–48,816	
7 Changes in prepayments and accrued income	126,760		–250,589	
b) OUTFLOWS FROM OPERATING ACTIVITIES		21,345,887		15,518,498
1 Net claims paid		10,650,227		10,821,350
2 Net operating expenses excl. depreciation		5,923,908		5,902,663
3 Investment charges (excl. depreciation but incl. financial charges) derived from		553,667		498,964
3.1. technical provisions		350,374		384,889
3.2. other sources		203,293		114,075
4 Other ordinary charges excl. additions to provisions		159,375		44,333
5 Extraordinary charges relating to operating activities		38		169
6 Tax on profit and other taxation not included in operating charges		593,292		436,376
7 Changes in creditors arising out of reinsurance operations		3,940,695		–2,587,288
8 Changes in other operating creditors		–350,192		368,487
9 Changes in accruals and deferred income		–125,123		33,444
c) CASH FLOWS FROM OPERATING ACTIVITIES	0	2,326,298	0	2,265,593
B CASH FLOWS FROM INVESTING ACTIVITIES				
a) INFLOWS FROM INVESTING ACTIVITIES	3,960,302		4,691,040	
1 Offset decrease in long-term financial investments (except for revaluation) derived from	44,375		4,691,040	
1.1. technical provisions	0		3,895,224	
1.2. other sources	44,375		795,816	
2 Offset decrease in short-term financial investments derived from	3,915,927			
2.1. technical provisions	192,943			
2.2. other sources	3,722,984			
b) OUTFLOWS FROM INVESTING ACTIVITIES		6,284,455		6,889,790
1 Offset increase in intangible assets (except for revaluation)		6,245		9,239
2 Offset increase in tangible fixed assets (except for revaluation and non-cash equity increase)		18,477		7,645
2.1. for insurance activities		18,477		7,645
2.2. for other activities		0		0
3 Offset increase in long-term financial investments (except for revaluation) derived from technical provisions		0		0
4 Offset increase in short-term financial investments (except for revaluation) derived from		6,259,733		
4.1. technical provisions		1,666,581		
4.2. other sources		4,593,152		
5 Offset increase in short-term financial investments (except for revaluation) derived from				6,872,906
5.1. technical provisions				4,711,368
5.2. other sources				2,161,538
c) CASH FLOWS FROM INVESTING ACTIVITIES	2,324,153	0	2,198,750	0
C CASH FLOWS FROM FINANCING ACTIVITIES				
a) OUTFLOWS FROM FINANCING ACTIVITIES		12,010		16,375
Dividends and other participations in profit		12,010		16,375
b) CASH FLOWS FROM FINANCING ACTIVITIES	12,010	0	16,375	0
D CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		**49,932**		**59,797**
x) NET CASH FLOW FOR THE PERIOD	–9,865		50,468	
+				
y) OPENING BALANCE OF CASH AND CASH EQUIVALENTS	59,797		9,329	

CONSOLIDATED BALANCE SHEET as at 31 December 2005

		Notes	2005 SIT '000	2004 SIT '000	2005 EUR '000	2004 EUR '000
	ASSETS		70,628,202	70,759,754	294,805	295,148
A	**INTANGIBLE ASSETS**	(24)	**107,646**	**856,912**	**449**	**3,574**
B	**LAND, BUILDINGS AND FINANCIAL INVESTMENTS**	(25)	**58,436,401**	**55,802,036**	**243,916**	**232,758**
I	Land and buildings		2,300,177	2,360,275	9,601	9,845
II	Financial investments in group undertakings and in associates		6,590,720	6,706,988	27,510	27,976
III	Other financial investments		48,221,203	45,786,498	201,278	190,982
IV	Deposits with ceding undertakings		1,324,301	948,275	5,528	3,955
C	**INVESTMENTS FOR THE BENEFIT OF LIFE INSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK**		**841,876**	**282,044**	**3,514**	**1,176**
D	**DEBTORS**	(26)	**8,629,067**	**11,390,062**	**36,018**	**47,509**
I	Debtors arising out of direct insurance operations		2,000,422	1,867,384	8,350	7,789
II	Debtors arising out of reinsurance and co-insurance operations		5,574,464	8,171,221	23,268	34,083
III	Other debtors		1,054,181	1,351,457	4,400	5,637
E	**DIVERSE ASSETS**	(27)	**376,713**	**319,616**	**1,572**	**1,333**
I	Tangible fixed assets other than land and buildings		283,460	221,368	1,183	923
II	Cash		74,056	79,598	309	332
III	Own shares		425	425	2	2
IV	Stocks and other assets		18,772	18,225	78	76
F	**DEFERRED COSTS (EXPENSES) AND ACCRUED INCOME**	(28)	**2,236,499**	**2,109,084**	**9,335**	**8,797**
G	**OFF BALANCE SHEET ITEMS**		**3,633,303**	**2,363,572**	**15,166**	**9,859**
	LIABILITIES		70,628,202	70,759,754	294,805	295,148
A	**CAPITAL AND RESERVES**	(29)	**19,791,242**	**19,329,166**	**82,610**	**80,625**
I	Called-up capital		7,862,519	7,862,519	32,819	32,796
II	General equity revaluation adjustment		25,441	25,441	106	106
III	Specific equity revaluation adjustment		2,728,005	3,384,079	11,387	14,115
IV	Reserves		8,273,450	7,435,777	34,534	31,016
V	Net profit brought forward		365,370	6,954	1,525	29
VI	Profit for the financial year		527,920	607,745	2,204	2,535
VII	Minority interests		8,537	6,652	36	28
B	**NET TECHNICAL PROVISIONS**	(30)	**42,617,698**	**40,333,716**	**177,888**	**168,237**
I	Net provision for unearned premiums		9,009,787	8,988,001	37,607	37,490
II	Net mathematical provision		2,025,533	2,114,794	8,455	8,821
III	Net provision for outstanding claims		21,072,453	18,485,740	87,957	77,106
IV	Net provision for bonuses and rebates		62,087	11,687	259	49
V	Equalization provision		7,693,994	8,121,877	32,115	33,877
VI	Other net technical provisions		2,753,844	2,611,617	11,495	10,893
C	**NET TECHNICAL PROVISIONS FOR THE BENEFIT OF LIFE INSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK**		**844,249**	**310,277**	**3,524**	**1,294**
D	**CREDITORS**	(31)	**6,823,332**	**10,409,289**	**28,481**	**43,419**
I	Creditors arising out of direct insurance operations		207,404	160,661	866	670
II	Creditors arising out of co-insurance and reinsurance operations		4,873,766	7,946,697	20,343	33,147
III	Other creditors		1,742,162	2,301,931	7,272	9,602
E	**ACCRUED COSTS (EXPENSES) AND DEFERRED INCOME**	(32)	**551,681**	**377,306**	**2,303**	**1,574**
F	**OFF BALANCE SHEET ITEMS**	(33)	**3,633,303**	**2,363,572**	**15,166**	**9,859**

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005

		Notes	2005 SIT '000	2004 SIT '000	2005 EUR '000	2004 EUR '000
A	**TECHNICAL ACCOUNT**					
I	Earned premiums, net of reinsurance	(34)	26,144,039	22,766,731	109,126	94,963
II	Allocated investment return transferred from the non-technical account	(35)	1,985,401	2,122,843	8,287	8,855
III	Other net technical income		63,287	47,268	264	197
IV	Claims incurred, net of reinsurance	(36)	−18,026,378	−15,529,671	−75,243	−64,776
V	Change in other technical provisions, net of reinsurance	(37)	−628,012	−199,865	−2,621	−834
VI	Net charges for bonuses and rebates		−25,467	−1,779	−106	−7
VII	Net operating expenses	(38)	−8,346,644	−7,650,340	−34,839	−31,911
VIII	Other net technical charges	(39)	−137,134	−112,507	−572	−469
IX	Change in the equalization provision	(40)	427,883	−100,021	1,786	−417
X	Balance on the technical account		1,456,975	1,342,659	6,081	5,600
B	**NON-TECHNICAL ACCOUNT**					
I	Balance on the technical account		1,456,975	1,342,659	6,081	5,600
II	Investment income	(41)	3,315,160	3,444,171	13,838	14,366
III	Net unrealised gains on investments for the benefit of life assurance policyholder who bear the investment risk		67,588	11,455	282	48
IV	Investment charges	(42)	−684,653	−559,514	−2,858	−2,334
V	Allocated investment return transferred to the technical account	(35)	−1,985,401	−2,122,843	−8,287	−8,855
VI	Other income from ordinary activities		15,306	6,929	64	29
VII	Other charges for ordinary activities	(43)	−397,256	−236,701	−1,658	−987
VIII	Net profit from ordinary activities		1,783,424	1,883,545	7,444	7,857
C	**ACCOUNT FOR EXTRAORDINARY OPERATIONS**					
I	Extraordinary income	(44)	183,420	43,444	766	181
II	Extraordinary charges	(45)	−8,317	−9,716	−35	−41
III	Extraordinary profit for the year		175,103	33,728	731	141
D	**TAX ON PROFIT**		**−593,292**	**−436,376**	**−2,476**	**−1,820**
E	**NET PROFIT FOR THE FINANCIAL YEAR**	**(46)**	**1,365,235**	**1,480,897**	**5,699**	**6,177**

CONSOLIDATED INDIRECT CASH FLOW STATEMENT for the year ended 31 December 2005

	2005 SIT '000		2004 SIT '000	
A CASH FLOWS FROM OPERATING ACTIVITIES				
a) INFLOWS FROM OPERATING ACTIVITIES	32,428,736		25,063,772	
1 Net premiums written	26,150,393		24,166,301	
2 Investment income excl. financial income	3,315,161		3,444,171	
3 Other ordinary income excl. releases from provisions	146,181		65,652	
4 Extraordinary income relating to operations	183,420		43,444	
5 Changes in debtors arising out of direct insurance operations	–133,039		–675,546	
6 Changes in debtors arising out of reinsurance operations	2,596,758		–1,473,818	
7 Changes in other operating debtors	297,276		–184,584	
8 Changes in prepayments and accrued income	–127,414		–321,848	
b) OUTFLOWS FROM OPERATING ACTIVITIES		29,048,855		22,246,638
1 Net claims paid		15,439,665		15,347,555
2 Bonuses and rebates		25,467		1,779
3 Net operating expenses excl. depreciation		8,346,644		7,650,340
4 Investment charges excl. depreciation and incl. financial charges		684,653		559,514
5 Other ordinary charges excl. additions to provisions		538,686		351,818
6 Extraordinary charges relating to operating activities		8,317		9,716
7 Tax on profit and other taxation not included in operating charges		593,292		436,376
8 Changes in stocks		548		88
9 Changes in creditors arising out of direct insurance operations		–46,743		–60,541
10 Changes in creditors arising out of reinsurance operations		3,072,932		–1,602,788
11 Changes in other operating creditors		559,769		–343,140
12 Changes in accruals and deferred income		–174,375		–104,079
c) CASH FLOWS FROM OPERATING ACTIVITIES		3,379,881		2,817,134
B CASH FLOWS FROM INVESTING ACTIVITIES				
a) INFLOWS FROM INVESTING ACTIVITIES	2,520,690		6,004,668	
1 Offset decrease in intangible assets	749,267		0	
2 Offset decrease in tangible fixed assets (except for revaluation and non-cash equity increases)	0		106,449	
3 Offset decrease in long-term financial investments (except for revaluation)	0		5,898,219	
4 Offset decrease in short-term financial investments (except for revaluation)	1,771,423		0	
b) OUTFLOWS FROM INVESTING ACTIVITIES		4,739,690		10,438,591
1 Offset increase in intangible assets		0		487,658
2 Offset increase in tangible fixed assets (except for revaluation and non-cash equity increases)		69,475		0
3 Offset increase in long-term financial investments		4,110,383		2,068,677
4 Offset increase in short-term financial investments		559,832		7,882,256
c) CASH FLOWS FROM INVESTING ACTIVITIES	2,219,000	0	4,433,923	0
C CASH FLOWS FROM FINANCING ACTIVITIES				
a) INFLOWS FROM FINANCING ACTIVITIES	–715,498		1,682,189	
1 Increase in equity (excl. net profit)	–654,188		1,647,373	
2 Offset increase in long-term provisions irrespective of profit for the year	–61,310		34,816	
3 Offset increase in long-term debt (except for revaluation)	0		0	
b) OUTFLOWS FROM FINANCING ACTIVITIES		450,926		67,283
1 Financial charges relating to financing activities		99,147		50,908
2 Extraordinary charges relating to financing		339,769		
3 Dividends and other participations in profit		12,010		16,375
c) CASH FLOWS FROM FINANCING ACTIVITIES	1,166,424	0	0	1,614,906
D CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		**74,055**		**79,598**
x) NET CASH FLOW FOR THE PERIOD	–5,543		–1,883	
+				
y) OPENING BALANCE OF CASH AND CASH EQUIVALENTS	79,598		81,481	

NOTES TO THE ACCOUNTS OF SAVA RE

GENERAL

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

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

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

In the business year, the number of employees was 44.67 on average. At 31 December 2005, the Company employed 45 staff.

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

Sava Re has prepared consolidated financial statements as per 31 December 2005.

Sava Re holds 210 own shares.

Accounting policies and basis of preparation

The financial statements of Sava Re for the financial year 2005 have been prepared in accordance with the Slovenian Accounting Standards (hereinafter: »SAS«) and the Decision on Insurance Company Annual Reports (hereinafter SKL 2002). As there have been no material changes to these regulations for the year 2005, the financial statements for the years 2004 and 2005 are fully comparable.

The financial statements have been prepared on the going concern basis and on the accrual basis, strictly observing the principles of consistency, prudence, substance over form and materiality.

The financial statements are prepared in Slovenian tolars (SIT), rounded to the nearest thousand. Figures have been translated to euro amounts at the central rate of the Bank of Slovenia as at 31 December 2005, i.e. 1 euro = 239.5756 Slovenian tolars.

Valuation rules and methods

Balance sheet items have been valued in accordance with the SAS and in accordance with the Decision on Detailed Valuation of Bookkeeping Records and on the Preparation of Financial Statements. Valuation rules are described in greater detail in the Accounting Rules of Sava Re (hereinafter »internal accounting rules«).

Tangible and intangible fixed assets used by the Company for its own activities are stated at cost plus any permissible expenses incurred in the process of bringing assets into their designated use.

Depreciation has been calculated per item on a straight-line basis.

Financial investments are valued observing the principle of prudence, and except in very special cases, the value of financial investments is not increased. Financial investments are disclosed and valued according to internal accounting rules and the SAS on a quarterly basis, the most recent valuation having been made on 31 December 2005. Investments are valued based on the FIFO principle.

The Company classified the entire portfolio of long-term debt securities as securities held to maturity. These debt securities are initially valued at cost and revalued evenly on a quarterly basis to equal amortised cost at maturity. Any value increase is disclosed as an increase in the specific equity revaluation adjustment; any decrease is charged to the profit and loss account. The Company recognises impairment losses if the historical cost is higher than the amortised cost. The impairment loss is debited to the specific equity revaluation adjustment relating to such long-term financial investments. If no specific equity revaluation adjustment is available or if it is exhausted, the balance is booked under financial expenses from revaluation relating to financial investments and is posted against profit. Short-term financial investments are valued at the lower of cost and fair value. Long-term financial investments approaching maturity, with a maturity period of less than one year, are continued to be valued according to rules applying to long-term investments.

Financial investments in mutual funds are valued at fair value. Equity securities relating to subsidiaries and affiliates are accounted for using the equity method, while other long-term financial investments in shares are accounted for on the cost method. Under the equity method, the effects of any value increases are credited to the specific equity revaluation adjustment. As a rule, other long-term financial investments in shares are not increased in value.

Likewise, investments in land and buildings are not increased in value. However, if the real estate market shows a continued lowering in prices for a period of over six months, the board of management gives instructions for a valuation of the fair value of land and buildings.

Investments denominated in foreign currencies, and debtors and creditors relating to foreign entities are valued at the central rate of the Bank of Slovenia at 31 December 2004.

Value adjustments in full are made to debtors in default for more than 90 days.

Changes in accounting policies

There were no changes in accounting policies in 2005. However, there were some changes relating to reserving pursuant to legal changes in respect to the equalization provision. The Company accordingly decrease the equalization provision relating to credit risks by SIT 186,000,000. On the other hand, in 2005 a new provision – the earthquake provision – was set up with an amount of SIT 34,524,000. This was due to the complete abolition of the equalization provision relating to fire and natural forces.

Disclosures

The Company makes disclosures for all material items of the balance sheet and profit and loss account defined in the Companies Act, SAS, internal accounting rules and in the Decision on the Annual Report of Insurance Companies (2002). As a rule, a balance sheet item is deemed material if it exceeds 1 percent of total assets, corresponding to SIT 598,486,000 as per 31 December 2005. The main items of the profit and loss account are further broken down into items that exceed 10 percent of any main item.

NOTES TO THE BALANCE SHEET OF SAVA RE

(1) Intangible assets

(SIT '000)	2005	2004	Index
Acquisition cost	39,004	32,759	119.1
Amortisation	22,842	18,865	121.1
Net book value	**16,162**	**13,894**	**116.3**

Intangible assets comprise computer software. Computer software is amortised at the rate of 20 percent. Pursuant to the Slovenian accounting standards, no revaluation was carried out.

Movement in intangible assets

(SIT '000)	Licenses, software
COST	
At 31 December 2004	32,759
Additions	6,245
At 31 December 2005	39,004
VALUE ADJUSTMENT	
At 31 December 2004	18,865
Amortisation	3,977
At 31 December 2005	22,842
NET BOOK VALUE	
At 31 December 2004	13,894
At 31 December 2005	16,162

(2) Land, buildings and financial investments

(SIT '000)	2005	2004	Index
Land and buildings	1,482,735	1,498,892	98.9
– occupied by the Company	368,788	333,983	110.4
– not occupied by the Company	1,113,947	1,164,909	95.6
Financial investments in group undertakings and in associates	9,375,456	7,611,957	123.2
Other financial investments	38,691,945	37,430,279	103.4
Deposits with ceding undertakings	1,324,301	948,275	139.7
Total	**50,874,437**	**47,489,403**	**107.1**

Pursuant to SAS 32, the balance sheet item Land, buildings and financial investments comprises financial investments as well as investments in real estate and deposits with ceding undertakings. At 31 December 2005, investments in land and buildings occupied by the Company totalled SIT 368,788,000. These investments have not been included in the investment portfolio of Sava Re as shown below but are discussed as tangible fixed assets. In addition, deposits with ceding undertakings of SIT 1,324,301,000 are also not included in financial investments because such deposits are not viewed as a traditional form of investment.

Tangible fixed assets – land and building occupied by the Company

The acquisition cost of tangible fixed assets also includes direct expenses. Tangible fixed assets used by the Company in its activities are depreciated at the rate of 1.3-1.8 percent for buildings and nil for land.

Movement in tangible fixed assets used by the Company in its activities

(SIT '000)	Land	Buildings	Total
COST			
At 31 December 2004	22,515	349,009	371,524
Additions		44,375	44,375
Disposals			
At 31 December 2005	22,515	393,384	415,899
VALUE ADJUSTMENT			
At 31 December 2004		37,541	37,541
Depreciation		4,855	4,855
Additions		4,715	4,715
At 31 December 2005		47,111	47,111
NET BOOK VALUE			
At 31 December 2004	22,515	311,468	333,983
At 31 December 2005	22,515	346,273	368,788

In 2005 the Company increased the value of buildings occupied by the Company by SIT 44,375,000. This amount relates to premises previously leased but taken over for own use by the Company in the year. While leased, premises were accounted for as part of the liability fund.

Financial investments

(SIT '000)	2005	2004	Index
Land and buildings	1,113,947	1,164,909	95.6
Government securities	15,279,397	15,611,863	97.9
Other debt securities	7,884,589	4,880,020	161.6
Shares in affiliated companies	8,995,456	7,231,955	124.4
Other shares	1,116,431	598,087	186.7
Deposits in domestic banks and savings banks	13,640,123	16,515,906	82.6
Mutual funds	1,150,391	203,279	565.9
Other	1,014	1,125	90.1
Total	**49,181,348**	**46,207,144**	**106.4**

Financial investments are recognised at cost plus relevant expenses related to their acquisition.
The investments listed above are given in their net amounts. Invested assets increased by 6.4 percent compared to 2004. A higher-than-average increase was registered in mutual funds, shares in associated companies (due to the results of associated companies) and investments in other shares. The Company gradually decreases investments in deposits.
The tables below show separately investments supporting the liability fund and those supporting the capital fund.

Investments supporting the liability fund

(SIT '000)	2005	2004	Index
Land and buildings	921,772	930,068	99.1
Slovenian government securities	15,007,202	15,611,863	96.1
Other debt securities	4,296,740	4,750,020	90.5
Shares in associated companies	0	15,530	–
Other shares	140,479	140,480	100.0
Deposits in domestic banks and savings banks	9,130,757	8,274,239	110.4
Mutual funds	972,099	203,279	478.2
Other	0	0	–
Total	**30,469,049**	**29,925,479**	**101.8**

In the year investments supporting the liability fund grew by 1.8 percent. The largest increase was in investments in mutual funds (primarily in mutual funds investing in foreign securities) and in deposits. The decrease in government securities is mostly due to recalls of Slovenian government bonds. Because of lower yields offered, the Company reinvested recalled amounts in other forms of investments.

Investments supporting the capital fund

(SIT '000)	2005	2004	Index
Land and buildings	192,175	234,841	81.8
Government securities	272,195	–	–
Other debt securities	3,587,849	130,000	2,759.9
Shares in associated companies	8,995,456	7,216,426	124.7
Other shares	975,952	457,607	213.3
Deposits in domestic banks and savings banks	4,509,366	8,241,667	54.7
Mutual funds	178,292	–	–
Other	1,014	1,125	90.1
Total	**18,712,299**	**16,281,666**	**114.9**

Investments supporting the capital fund increased by 14.9 percent compared to 2004. There was a substantial increase in other-than-government debt securities in the amount of SIT 3,457,849,000. This significant growth is a result of Sava Re's investment policy to decrease investments in deposits in banks and savings banks. Another substantial increase was recorded in investments in shares of group companies relating to participation in their profits. There was also a high growth in other-than-associated-company shares (113.3 percent). Those investments are mainly investments in domestic shares bought for resale. Consequently, investments in time deposits with commercial banks were decreased by 45.3 percent.

Long-term investments

(SIT '000)	Liability Fund	Capital Fund
Land and buildings	921,772	192,175
Government securities	12,073,524	–
Other debt securities	2,859,720	3,125,824
Shares in associated companies	0	8,995,456
Other shares	140,479	758,952
Deposits in domestic banks and savings banks	2,025,200	795,500
Mutual funds	972,099	178,292
Other	0	1,014
Total	**18,992,794**	**14,047,213**

Short-term investments

(SIT '000)	Liability Fund	Capital Fund
Land and buildings	0	0
Government securities	2,933,678	272,194
Other debt securities	1,437,020	462,024
Shares in associated companies	0	0
Other shares	0	217,002
Deposits in domestic banks and savings banks	7,105,557	3,713,866
Mutual funds	0	0
Other	0	0
Total	**11,476,255**	**4,665,086**

Long-term investments in shares of affiliated companies

(SIT '000)	Book value of investment	Share-holding	Voting shares	Total capital of affiliated company	Net profit for the year 2005
Maribor Insurance Company	7,048,690	45.64%	45.64%	15,444,445	2,576,567
Tilia Insurance Company	2,065,000	99.59%	99.59%	2,073,501	–86,424
Helios Insurance Company	364,322	29.64%	29.64%	1,229,157	32,456
Moja Naložba Pension Fund	88,688	20.00%	20.00%	443,440	–25,769

In 2005 the shareholding in Insurance Company Tilia changed following the capital injection in the amount of SIT 850,000,000. Sava Re contributed in the capital increase according to its shareholding and additionally acquired shares so that its shareholding was increased to 99.59 percent from 99.47 percent in 2004. Sava Re also contributed to the capital increase in the affiliate Moja naložba according to its shareholding and invested an additional SIT 20,000,000. On the other hand, according to the Share Purchase Agreement, Sava Re sold 5 percent of Osiguranje Helios back to the original seller. Sava Re now holds 29.64 percent of Helios compared to 34.63 percent at the end of 2004. In 2005 the investment in Sava Plus Insurance Agency was sold.

Financial investments representing a material amount

Financial investments as per 31 December 2005 totalled SIT 49,181,348,000. The tables below show major investments in government securities, bonds of commercial banks, deposits with commercial banks and investments in land and buildings.

Long-term financial investments

(SIT '000)	Liability fund	Capital fund	Total 2005
Deposits in banks			
ABANKA Vipa d.d., Ljubljana	1,073,000	206,000	1,279,000
NLB d.d., Ljubljana	613,700	221,400	835,100
Bank bonds			
NLB d.d., Ljubljana	423,673	1,273,089	1,696,762
Nova KBM, Maribor	953,854	0	953,854
SOD d.d., Ljubljana	195,996	737,869	933,865
Mutual Funds			
Mutual Funds NLB, d.d., Ljubljana	556,803	178,292	735,095
Bonds of group companies			
Tilia d.d., Novo mesto	250,000	130,000	380,000
Bonds and structured products of foreign issuers			
HSBC	0	476,299	476,299
Merril Lynch	0	407,278	407,278
Slovenian government securities			
Bonds	12,073,524	0	12,073,524
Land and buildings			
Land and buildings	921,772	192,175	1,113,947

Investments supporting technical provisions in the form of real estate totalled SIT 921,772,000 and relate to an office building at the Celovška 175 in Ljubljana, which the Company leases.

Short-term financial investments

(SIT '000)	Liability fund	Capital fund	Total 2005
Deposits in banks			
Nova KBM d.d., Maribor	2,457,500	949,940	3,407,440
Probanka d.d. Maribor	1,724,950	1,276,800	3,001,750
ABANKA VIPA, d.d., Ljubljana	1,014,400	1,034,800	2,049,200
Deželna banka, d.d., Ljubljana	839,900	160,000	999,900
Banka Celje d.d., Celje	840,337	5,750	846,087
Slovenian government securities			
Bonds	2,368,775	272,194	2,640,969
Other government securities			
Swedish goverment bonds	328,214	0	328,214
Bank bonds			
Probanka, d.d., Maribor	274,793	238,139	512,932

Deposits with ceding undertakings

In accordance with reinsurance contracts, part of the reinsurance premium is retained by ceding undertakings and is paid only after one year. Debtors in relation to such contracts increased by 39.6 percent to SIT 1,324,310,000 from the previous year.

(3) Debtors

(SIT '000)	2005	2004	Index
Debtors for reinsurance premiums	4,937,635	6,249,198	79.0
Debtors for reinsurance claim payments	1,311,636	2,634,840	49.8
Debtors for commission	402,314	738,584	54.5
Debtors arising out of financing	193,390	150,235	128.7
Trade debtors	26,224	7,944	330.1
Other debtors	4,632	104,048	4.5
Total	**6,875,831**	**9,884,849**	**69.6**

Debtors decreased by 30.4 percent compared to 31 December 2004. The major part of debtors were debtors for reinsurance premiums relating to the 4th quarter accounts for 2005 to become due in 2006. Debtors arising out of financing, comprising deferred interest on deposits and deposit certificates, increased by 28.7 percent, while other debtors decreased substantially. The decrease in other debtors relates to the fact that the Company has no creditors relating to tax in 2005, which was the case in 2004.

Debtors arising out of reinsurance contracts are not specifically secured as they do not constitute a substantial exposure. Value adjustments are made in the full amount for all debtors due more than 90 days.

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

Pursuant to the above-mentioned note, the Company did not establish debtors for deferred tax because the amount was not considered material. The Company maintains records that ensure that revaluation amounts not tax deductible on their formation will be excluded from tax deductible expenses upon any justified impairment reversal.

Debtors representing more than 1 percent of total assets

(SIT '000)	
Debtors for domestic reinsurance premium	
Maribor Insurance Company	2,349,650
Tilia Insurance Company	676,593
Debtors for reinsurance premium from abroad	
Mapfre, Brussels	274,396
Debtors for reinsurance claim payments due from abroad	
Heath Lambert Group, London	337,464

(4) Diverse assets

In accordance with the internal chart of accounts, the Company discloses under diverse assets tangible fixed assets (equipment), cash and own shares.

Tangible fixed assets – equipment

The acquisition cost of operating fixed assets includes acquisition costs and direct expenses. Equipment used by the company is depreciated at the rates between 7 percent for equipment and 33 percent for computer hardware.

Upon the proposal of the stocktaking committee, tangible fixed assets in the total amount of SIT 20,149,000 – comprising mostly outdated computer hardware – were written off. Most of the items written off were fully amortized except for the stolen mobile phone worth SIT 37,000. In the year tangible fixed assets used for insurance business increased by SIT 18,549,000 as a result of additions.

Movement in equipment

(SIT '000)	Equipment and other tangible fixed assets
COST	
At 31 December 2004	269,670
Additions	18,549
Disposals	–20,149
At 31 December 2005	268,070
VALUE ADJUSTMENT	
At 31 December 2004	209,409
Depreciation	19,424
Disposals	–20,112
At 31 December 2005	208,721
NET BOOK VALUE	
At 31 December 2004	60,261
At 31 December 2005	59,349

Cash

Cash relates to cash in hand, in the transaction account and foreign-currency accounts of the Company.

Own shares bought

In 2005 the Company carried out no transactions with own shares. At 31 December 2005, the Company held own shares in the nominal amount of SIT 425,000 accounting for 0.0026709 percent of the share capital. In accordance with company law, the Company bought the own shares from its subsidiary Tilia Insurance Company in 1999.

(5) Deferred costs (expenses) and accrued income

(SIT '000)	2005	2004	Index
Deferred commission arising out of inwards business	1,579,537	1,657,367	95.3
Deferred commission arising out of outwards business	–117,274	–118,148	99.3
Other deferred costs	6,411	1,526	420.1
Accrued interest	503,781	558,471	90.2
Total	**1,972,455**	**2,099,216**	**94.0**

This item comprises accrued interest on securities and deposits of SIT 503,781,000, prepaid postal services, subscriptions and membership fees, and deferred commission. Deferred commission comprises that part of booked commission relating to the following financial year.

(6) Capital and reserves

(SIT '000)	2005	2004	Index	Structure in 2005
Called-up capital	7,862,519	7,862,519	100.0	39.1%
General equity revaluation adjustment	25,440	25,440	100.0	0.1%
Specific equity revaluation adjustment	2,739,230	1,841,578	148.7	13.6%
Reserves	8,273,450	7,435,777	111.3	41.1%
– legal reserves	841,371	841,371	100.0	4.2%
– reserves provided for by the Articles of association	2,749,694	2,531,170	108.6	13.7%
– reserves for own shares	425	425	100.0	0.0%
– other reserves	4,681,960	4,062,811	115.2	23.3%
Net profit brought forward	602,690	6,954	8,666.8	3,0%
Profit for the financial year	619,149	607,745	101.9	3.1%
Total	**20,122,478**	**17,780,013**	**113.2**	**100,0%**

The share capital is divided into 7,862,519 shares of SIT 1,000 each. Shares are recorded at the Central Securities Clearing Corporation (KDD) under the designation POSR.
Net profit per share amounted to SIT 185.29.
At 31 December 2005, the Company held 210 own shares, while its affiliated company Maribor Insurance Company held 525 shares.
In 2005, capital and reserves increased by 13.2 percent. This increase came from the specific equity revaluation adjustment relating to investments and from the profit for the year.
In the year under report, no general revaluation of capital and reserves was carried out. If such revaluation was carried out in order to maintain the purchasing power of capital and reserves in relation to the euro, the profit for the year would have been higher by SIT 15,565,000. If a revaluation was carried out on the basis of the increase in the consumer price index, the profit would have been lower by SIT 414,113,000.
The specific revaluation reserve was increased due to the profits of affiliated companies, which are partly shown under this item.
The Company is permitted to establish reserves provided for by the Articles of association of up to SIT 2.75 billion. These reserves are established in the following way: 15 percent of net profit available after covering any loss carried over and after setting aside funds for legal reserves and reserves for own shares, is used for reserves provided for by the Articles of association until these reserves reach the amount of SIT 2.75 billion. According to the Companies Act, the Company is also permitted to establish other reserves (of up to 50 percent of the profit for the year after other profit allocations). Pursuant to the decision by the Board of Management, the Company allocated SIT 218,523,000 to reserves provided for by the Articles of association. Pursuant to the Supervisory Board decision, the Company allocated SIT 619,149,000 to other reserves, leaving SIT 619,149,000 undistributed.
Reserves provided for by the Articles of association are used for
– covering net losses that cannot be completely covered by profits brought forward and other reserves (instrument of additional protection of tied-up capital);
– increasing share capital from company resources;
– supporting the Company's dividend policy.

Change in the specific equity revaluation adjustment

(SIT '000)	Adjustment relating to shares of group companies	Adjustment relating to shares of associated undertakings	Adjustment relating to bonds and other shares	Total
At 31 Dec 2004	102,453	1,695,755	43,370	1,841,578
Direct increase from profit		875,598		875,598
Revaluation of bonds and shares			82,188	82,188
Transfer to financial income on disposal – realisation, decrease	**–24,818**		**–35,316**	**–60,134**
At 31 Dec 2005	**77,635**	**2,571,353**	**90,242**	**2,739,230**

(7) Net technical provisions

(SIT '000)	2005	2004	Index	Structure in 2005
Net provision for unearned premiums	6,543,545	6,552,469	99.9	20.2
Net provision for outstanding claims	15,670,065	13,819,881	113.4	48.4
Net provision for bonuses and rebates	30,336	4,846	626.0	0.1
Equalization provision	7,633,608	8,039,332	95.0	23.6
Provision for nuclear risks	2,254,560	2,214,003	101.8	7.0
Provision for unexpired risks	199,054	214,140	93.0	0.6
Earthquake provision	34,524	–	–	0.1
Provision for currency risks	1,562	825	189.2	0.0
Total	**32,367,254**	**30,845,496**	**104.9**	**100.0**

Net technical provisions accounted for 54.1 percent of total liabilities compared to 51.7 percent in 2004.
In the year under report, provisions increased 4.9 percent to SIT 32,367,254,000. The largest part of technical provisions was the provision for outstanding claims. The equalization provision was decreased by 5 percent from 2004. The decrease of SIT 817,000,000 relates to a legal change in 2002; an additional decrease of SIT 186,000,000 to a legal change in 2005. The Company has to decrease the equalization provision relating to credit risks in accordance with the EU directive. The decrease will be completed within 5 years. The provision for nuclear risks was established in accordance with the instructions from the Slovenian Nuclear pool and was slightly increased in 2005. The provisions for unexpired risks decreased 7 percent, the majority of the provision relates to motor hull business. The Company set up an earthquake provision with an amount of SIT 34,524,000 in 2005. The provision for bonuses and rebates increased by SIT 25,490,000 due to the formation of this

provision in Tilia Ins Co: Sava Re participated in this provision within the quota share treaty. The provision for currency risks relating to asset-liability mismatch remained on a very low level of SIT 1,562,000 since the Company strives to match all currencies significant in terms of amount. Provisions were established on the basis of internal rules and were approved by the Sava Re Appointed Actuary.

IBNR compared to the gross provision for outstanding claims of Slovenian cedants

(SIT '000)	IBNR	Provision for outstanding claims	%
	1	2	1/2
2004	4,287,933	17,977,813	23.9
2005	4,304,739	21,467,014	20.1

Provision for outstanding claims – reserving levels

(SIT '000)		
1	Provisions for outstanding claims at 1 Jan 2005	17,977,813
2	Provisions for outstanding claims at 31 Dec 2005 (in respect of losses that occurred prior to 2005)	9,392,739
3	Claims in respect to U/Ys prior to 2005	8,062,782
1–2–3	**Balance**	**522,292**

There is no difference between claims provisions for reported claims outstanding at 1 January 2005 and the total of all claims paid in the financial year and provisions for outstanding claims at the end of the financial year.

(8) Creditors

(SIT '000)	2005	2004	Index
Creditors for reinsurance premiums	1,754,623	3,172,351	55.3
Creditors for reinsurance claim payments	3,590,364	5,173,120	69.4
Creditors for commission	1,498,737	2,415,470	62.0
Trade creditors	9,845	8,505	115.8
Amounts due to employees	72	28	257.1
Other creditors	191,126	23,892	800.0
Total	**7,044,767**	**10,793,366**	**65.3**

Creditors accounted for 11.8 percent of total liabilities and decreased by 34.7 percent compared to 2004.
Like debtors from reinsurance operations, creditors from reinsurance operations relate to 4th quarter accounts due for payment in 2006.
The major item of other creditors is liability arising out of tax on profit for 2005.

Creditors in excess of 1 percent of total assets

(SIT '000)	
Creditors for domestic claims	
Maribor Insurance Company	1,452,330
Creditors for domestic commission	
Maribor Insurance Company	584,222

(9) Accrued costs (expenses) and deferred income

The major part of this item (SIT 309,780,000) relates to deposits retained by reinsurers that are yet to be released.

(10) Off balance sheet items

Off balance sheet items totalled SIT 1,193,638,000. Amounts in excess of 1 percent of total assets were as follows:
– Debtors relating to the Ministry of Finance for sales tax on reinsurance services in the amount of SIT 456,127,000.
– Debtors relating to the Ministry of Finance for income tax payments in respect of financial years 1998 and 1999, inclusive default interest for the period 30 April 1999–4 May 2001 of SIT 729,621,000 (principal and interest).

Off balance sheet items include debtors relating to the Ministry of Finance for the unjustified payment of sales tax on reinsurance services on the basis of the decision of the special tax office no. 300/3-98-06-AP, MJ-1. In March 2005, the tax office refunded SIT 87,376,349 as overpayments of default interest. On the basis of the tax inspection report for 1999 and for part of 1998 and in accordance with the decision of the tax authorities no. 30001-111/00-06 AP, JH-1, we set out in the off balance sheet items the payment of the difference in income tax charge arising from the value adjustment in Tilia Insurance Company in 1998 and 1999, and default interest. By the time of this Report, the Ministry of finance has refunded SIT 243,284,000 as overpayment of default interest.

ADDITIONAL INFORMATION TO THE BALANCE SHEET OF SAVA RE

Business co-operation with affiliated companies in 2005

(SIT '000)	Maribor Insurance Company			
Class of business	Premiums	Claims	Commission	Gross UW result
Personal accident	1,234,097	661,985	318,517	253,594
Motor hull	2,424,060	1,624,909	600,553	198,599
Aircraft hull	89,69	1,500	–1,989	90,179
Marine hull	9,895	3,334	2,413	4,148
Goods in transit	38,894	3,273	9,012	26,609
Fire and natural forces	1,242,997	1,150,088	271,644	–178,734
Other damage to property	1,282,251	935,921	238,744	107,585
Motor liability	4,422,925	2,352,796	1,112,150	957,978
Aircraft liability	10,875	388	0	10,486
Liability for ships	5,070	0	1,246	3,824
General liability	437,013	296,428	66,706	73,879
Credit	142,662	36,927	37,092	68,643
Suretyship	4,113	625	1,069	2,419
Miscellaneous financial loss	83,807	55,812	18,496	9,499
Legal expenses	1,712	0	445	1,267
Medical assistance	1,155	0	347	809
Life	17,983	0	8,884	9,099
Total	**11,449,199**	**7,123,986**	**2,685,329**	**1,639,883**

(SIT '000)	Tilia Insurance Company			
Class of business	Premiums	Claims	Commission	Gross UW result
Personal accident	467,554	298,063	223,106	–53,615
Motor hull	650,772	515,438	163,955	–28,621
Aircraft hull	175	0	14	161
Marine hull	841	1,863	155	–1,176
Goods in transit	18,765	2,972	4,874	10,919
Fire and natural forces	331,759	113,847	111,303	106,609
Other damage to property	399,912	185,031	96,669	118,212
Motor liability	1,372,209	726,612	285,243	360,353
Aircraft liability	986	0	129	857
Liability for ships	632	0	171	461
General liability	111,433	58,175	25,293	27,965
Credit	68,261	29,978	17,514	20,769
Suretyship	4,700	301	1,206	3,193
Miscellaneous financial loss	11,433	301	2,229	8,903
Medical assistance	266	0	72	194
Life	2,317	0	224	2,093
Total	**3,442,015**	**1,932,581**	**932,157**	**577,277**

(SIT '000)	Helios Insurance Company			
Class of business	Preiums	Claims	Commission	Gross UW result
Personal accident	5,801	1,099	2,030	2,672
Motor hull	145,021	123,635	17,077	4,308
Aircraft hull	741	0	0	741
Marine hull	8,340	2,283	834	5,224
Goods in transit	3,688	5,061	538	–1,910
Fire and natural forces	122,554	26,517	45,543	50,494
Other damage to property	175,898	81,977	67,511	26,410
Motor liability	32,433	0	0	32,433
Aircraft liability	28	0	0	28
Liability for ships	1,878	0	94	1,784
General liability	57,910	10,833	16,123	30,954
Miscellaneous financial loss	121	0	6	115
Life	548	449	0	99
Total	**554,961**	**251,854**	**149,756**	**153,352**

Long-term subordinated debt

(SIT '000)	Form of investment	At 31 December 2005
ABANKA VIPA d.d., Ljubljana	bonds VIP3	3,828
ABANKA VIPA d.d., Ljubljana	bonds AB04	287,715
ZAVAROVALNICA TILIA d.d., Novo mesto	bonds ZT11	380,000
ZAVAROVALNICA TRIGLAV, d.d., Ljubljana	bonds ZT01	74,268
PROBANKA, d.d., Maribor	bonds PRB8	476,324
NLB, d.d., Ljubljana	bonds NLB13	276,738
NLB, d.d., Ljubljana	bonds NLB FLOAT 49	1,119,897
Total Subordinated Investments		**2,618,770**

At 31 December 2005, long-term subordinated debt accounted for 5.3 percent of all investments of Sava Re.

Asset liability matching

Below are details on liabilities denominated in foreign currencies and assets under foreign currency clauses. As currencies are not adequately matched (less than the required 80 percent), the Company set aside provisions of SIT 1,562,000.

Assets and liabilities denominated in foreign currencies at 31 December 2005

Currency	ASSETS	LIABILITIES
(SIT '000)	Liability Fund	Technical provisions
SIT	25,261,521	24,490,059
EUR	8,803,595	5,988,010
USD	1,341,239	1,382,929
GBP	241,377	161,698
CZK	117,424	119,618
HKD	69,066	78,814
HRK	59,338	67,179
INR	13,482	34,681
PLN	10,426	12,217
WST	5,549	4,162
XCD	4,902	11,978
AED	790	539
JPY	5	0
MGA	0	6,907
XOF	0	4,999
SEK	0	1,536
MKD	0	577
MUR	0	448
PHP	0	424
DKK	0	309
HUF	0	130
BGN	0	27
UAH	0	13
Total	**35,928,714**	**32,367,254**

Risk exposure by type of investment

Land and buildings

The Company made investments in buildings in order to generate income from rent. In view of the relatively stable business circumstances in the Slovenian real estate market, the exposure to the risk of reduced rent is very limited. This risk is estimated to be further reduced in view of the development projects underway next to the premises.

Government securities

These investments are considered the least risky, which is why the Company employs no special instruments of security. In the year under report the Company for the first time invested in bonds issued by other governments, however, only in bonds rated AAA by Standard & Poor's. By valuing such securities at cost approximating amortised cost at maturity, the Company protects itself against the risk of change in their market value.

In this regard it may be worth mentioning that Slovenia's sovereign rating is AA.

Other debt securities

These debt securities are exposed to credit risk due to default. The Company uses no security because investments are estimated to be in secure financial institutions: the foremost domestic banks, our subsidiary insurance company and other financial institutions of good reputation. In the year under report, the Company also invested in foreign bonds (nominated in USD or EUR) rated A or better by Standard & Poor's. Two thirds of all investments in foreign bonds are rated AAA by Standard & Poor's.

Shares

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

Deposits with banks

Within the framework of legal regulations, the Company invests funds in deposits with domestic banks at interest rates which are variable in the part relating to the monthly basic interest rate. Deposits with savings banks are secured by government securities and securities of parastatal funds. Owing to asset matching requirements, the Company holds time deposits denominated in euros, US dollars and British pounds with commercial banks. These were not secured by instruments against currency risks in 2005.

NOTES TO THE PROFIT AND LOSS ACCOUNT OF SAVA RE

(11) Earned premiums, net of retrocession

(SIT '000)	2005	2004	Index
Gross premiums written	22,067,827	21,298,737	103.6
Retrocession premiums	–4,140,639	–4,334,693	95.5
Change in the provision for unearned premiums – gross amount	–62,668	–926,564	6.8
Change in the provision for unearned premiums – reinsurers' share	71,591	68,618	104.3
Earned premiums, net of retrocession	**17,936,111**	**16,106,098**	**111.4**

Earned premiums are accounted for on the basis of statements of account.

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

In the calendar year 2005, gross premiums for the underwriting year 2005 totalled SIT 20,389,432,000.

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

(SIT '000)	2005	2004	Index
Investment income from liability funds	2,019,490	2,028,881	99.5
Investment expenses for liability funds	372,660	394,554	94.5
Allocated investment return	**1,646,830**	**1,634,327**	**100.8**

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

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

(13) Claims incurred, net of retrocession

(SIT '000)	2005	2004	Index
Claims paid – gross amount	13,384,201	13,415,984	99.8
Claims paid – reinsurers' amount	–2,733,974	–2,594,633	105.4
Change in the provision for outstanding claims – gross amount	3,489,201	1,039,875	335.5
Change in the provision for outstanding claims – reinsurers' share	–1,639,016	–1,372,770	119.4
Claims incurred, net of retrocession	**12,500,412**	**10,488,456**	**119.2**

Claims incurred, net of retrocession comprise gross claims paid less claims paid by retrocessionaires including the change in the provision for outstanding claims. Net claims incurred increased by 19.2 percent from the previous year. This is mainly due to the change in the provision for outstanding claims, which mainly relates to the prudent approach to IBNR for the international portfolio.

In the calendar year 2005, gross claims for the underwriting year 2005 totalled SIT 5,321,419,000.

(14) Change in other technical provisions, net of retrocession

(SIT '000)	2005	2004	Index
Change in the provision for bonuses and rebates	–25,490	1,772	–
Change in the provision for nuclear risks	–40,557	–24,062	168.6
Change in the earthquake provision	–34,524	–	–
Change in the provision for unexpired risks	15,086	–7,119	–
Change in the provision for currency risks	–736	29,954	–
Change in other technical provisions, net of retrocession	**–86,221**	**545**	**–**

Details on accounting for other technical provisions are provided by the Appointed Actuary, who in accordance with the Rules on the Establishing of Technical Provisions calculates the required amount of these provisions.

The result of movements in other technical provisions in 2005 was a negative one of SIT 86,221,000. This was due to the formation of the provision for bonuses and rebates in Tilia Ins Co (Sava Re followed according to the quota share treaty), the setting up of the earthquake provision, and an additional, albeit marginal, increase in the provision for nuclear risks.

The level of any possible additions to the provision for nuclear risks is advised by the GIZ Nuclear Pool. As in previous years, we opted for the lower amount because the provision already reached a sufficient level.

(15) Net operating expenses

(SIT '000)	2005	2004	Index
1. Other operating expenses	967,969	989,297	97.8
1.1. Depreciation of operating assets	26,956	32,602	82.7
1.2. Labour cost	781,776	752,251	103.9
– employee salaries	514,403	477,743	107.7
– cost of social and pension insurance	94,887	91,186	104.1
– other labour cost	172,486	183,322	94.1
1.3. Cost of services of natural persons not related to insurance business and untaxed	3,012	2,155	139.8
1.4. Diverse operating expenses	156,225	202,289	77.2
2. Reinsurance commission paid	4,982,895	4,945,968	100.7
Total	**5,950,864**	**5,935,265**	**100.3**

Net operating expenses increased marginally by 0.3 percent. Other operating expenses amounted to SIT 967,969,000, which was a decrease of 2.2 percent from the previous year. The ratio of administrative expenses compared to net premium was 4.4 percent, a positive development compared to 4.6 percent in 2004.

Income (charges) relating to reinsurance commission

In 2005 the net commission increased in line with the growth in business.

(SIT '000)	2005	2004	Index
Inwards business – domestic (ID)	–4,062,295	–4,413,146	92.0
Inwards business – international (II)	–1,581,822	–1,639,662	96.5
Outwards business – domestic (OD)	8,641	8,691	99.4
Outwards business – international (OI)	729,538	878,490	83.0
Effect of deferred commission – ID	–82,945	221,535	–
Effect of deferred commission – II	5,115	–2,697	–
Effect of deferred commission – OD	15	–268	–
Effect of deferred commission – OI	858	1,089	78.8
Net reinsurance commission	**–4,982,895**	**–4,945,968**	**100.7**

Depreciation/amortisation of assets used by the Company in its activities

(SIT '000)	Base	2005	2004	Index
Intangible fixed assets	32,803	3,977	3,796	104.8
Buildings	390,989	5,084	4,537	112.1
Motor vehicles	64,809	6,471	5,811	111.4
Wooden furniture	73,995	3,310	9,160	36.1
Computer hardware	75,070	6,608	7,049	93.7
Other fixed assets	43,702	1,506	2,249	67.0
Total	**681,368**	**29,956**	**32,602**	**82.7**

The decrease in the depreciation cost is due to the fact that a substantial amount of assets was fully depreciated/amortized by 2004.

Labour cost

Labour cost accounted for 80 percent of other operating expenses and increased by 3.9 percent compared to the prior year. The number of employees was 43.7 calculated on the basis of realised work hours.

Educational profile as per 31 December 2005

Education	Women	Men	Total
Less than secondary school	0	1	1
Secondary school	14	0	14
Undergraduate degree	0	4	4
Graduate degree	11	9	20
Master's degree	1	5	6
Total	**26**	**19**	**45**

Management Board, Supervisory Board & Directors' Remuneration

(SIT '000)	Gross amount
Board of management	138,672
Supervisory board	15,966
Personal employment contracts	210,374
Total	**365,012**

Diverse operating expenses

(SIT '000)	2005	2004	Index
Repair and maintenance material	4,670	5,661	82.5
Stationery	3,764	5,980	62.9
Energy costs	12,692	11,186	113.5
Subscriptions	4,206	5,703	73.8
Reimbursements relating to work	13,483	19,023	70.9
Transaction fees and bank fees	8,199	8,386	97.8
Professional and personal services	37,186	74,494	49.9
Insurance premiums	7,663	6,626	115.7
Advertising, gifts and entertainment	10,883	13,285	81.9
Other costs of services	44,878	45,040	99.6
Other costs	18,257	15,032	121.5
Extraordinary and other income	–9,656	–8,127	118.8
Total	**156,225**	**202,289**	**77.2**

Diverse operating expenses totalled SIT 156,225,000, accounting for 16 percent of all expenses. Compared with 2004, these expenses decreased by 22.8 percent.

The strongest item of diverse operating expenses are still expenses relating to professional and personal services. Professional and personal services include auditing, services of notaries public, consulting services, services pertaining to valuations of companies in the insurance group and such like.

(16) Other net technical charges

(SIT '000)	2005	2004	Index
Expenses for preventive measures	19	16	118.8
Annual fee payable to the Insurance Supervisory Agency	26,756	23,254	115.1
Total	**26,775**	**23,270**	**115.1**

(17) Change in the equalization provision

The equalization provision, calculated on the basis of the Insurance Act, was decreased by SIT 405,724,000, which is a decrease of 5 percent. According to the Insurance Act, the Company has to decrease the equalization provision for certain lines of business. At the beginning of 2002, the Insurance Act changed and allowed reserving for the following lines of business: railway rolling stock hull, aircraft hull, ship hull, goods in transit, fire and natural forces, other damage to property, aircraft liability, ship liability, general liability, credit insurance, suretyship insurance and miscellaneous financial loss insurance. Any equalization provision set aside for other lines was defined as surplus and has to be released by 2006. The amount to be released was SIT 781 million per year. In addition in 2005 the Law also changed the calculation of equalization provisions for credit risks. The surplus in excess of this provision must be released within 5 years following the change in Law. In 2005 the Company released SIT 186,000,000.

(18) Investment income

(SIT '000)	Liability fund	Capital fund	2005	2004	Index
Income from land and buildings	76,849	17,574	94,423	76,971	122.7
Interest income	1,646,967	412,325	2,059,292	2,348,196	87.7
– interest on government securities	946,950	24,285	971,235	1,061,044	91.5
– interest on bank bonds	291,655	104,709	396,364	309,854	127.9
– interest on bank time deposits	392,569	283,331	675,900	966,501	69.9
– interest on demand deposits and on deposits with ceding undertakings and other	15,793	0	15,793	10,797	146.3
Other investment income	281,667	394,708	676,375	447,545	151.1
– financial income from revaluation	268,045	353,941	621,986	417,269	149.1
– other financial income	13,622	40,767	54,389	30,276	179.6
Value adjustments on investments	449	0	449	0	–
Gains on the realisation of investments	13,558	22,612	36,170	437	8,276.9
Total	**2,019,490**	**847,219**	**2,866,709**	**2,873,149**	**99.8**

Investment income totalled SIT 2,866,709,000, which is a decline by just 0.2 percent. Interest income decreased by SIT 288,904,000 or 12.3 percent compared to 2004. The decrease is mainly due to the generally low interest rates accompanied by a slightly lower investment base. The restructuring of the investment portfolio by replacing deposits with other forms of investment, primarily bonds, also affected interest income by a decrease in interest on bank time deposits of 30.1 percent and by an increase in interest on bank bonds of 27.9 percent.

Other income was higher by 51.1 percent, mostly driven by financial income from revaluation. The increase in financial income from revaluation comprises exchange differences of SIT 277,600,000, reversals of past investment impairments and part of the Maribor Ins Co profit, which by far exceeded the 2004 profit.

In the figure for financial income from revaluation, profit participation in associated companies amounted to SIT 224,228,000.

The Company holds 52 percent of the investments in highly liquid assets. Among those, 60.3 percent are listed. For such investments the difference between book value and fair market value is as shown under the following heading.

Difference between the book value and fair market value

(SIT '000)	Book value	Fair market value	Difference
Debt securities of other issuers	5,723,423	5,737,045	13,622
Government debt securities	8,831,939	8,918,241	86,303
Equity securities	772,641	807,104	34,464
Total	**15,328,003**	**15,462,390**	**134,389**

(19) Investment charges

(SIT '000)	Liability Fund	Capital Fund	Total 2005	Total 2004	Index
Depreciation of non-operating assets	9,596	3,005	12,601	12,992	97.0
Interest and other cost of investments	350,373	203,293	553,666	498,964	111.0
Investment management charges, interest cost and other financial charges	177,435	38,076	215,511	82,178	262.2
Financial expenses from revaluation	172,938	165,217	338,155	416,786	81.1
– exchange rate losses	43,565	15,087	58,652	201,665	29.1
– impairment loss on investments in shares	18,163	134,635	152,798	140,234	109.0
– impairment loss on long-term investments in securities	72,699	15,495	88,194	18,942	465.6
– impairment loss on short-term investments in deposits	38,511	0	38,511	55,946	68.8
Value adjustments on investments	**0**	**0**	**0**	**494**	**–**
Losses on the realisation of investments	**12,690**	**1,100**	**13,790**	**0**	**–**
Total	**372,659**	**207,398**	**580,057**	**512,450**	**113.2**

Investment charges comprise charges arising from financial investments.

The largest share relates to financial expenses from revaluation including primarily impairment losses on investments in shares on SIT 152,798,000, impairment losses on bonds in the amount of SIT 88,194,000, exchange rate losses of SIT 58,652,000 and impairment loss on short-term investments in deposits of SIT 38,511,000. Significant growth is shown in investment management charges, interest cost and other financial charges mainly arising from the interest cost. In 2005 the Company was more focused on investments in bonds; hence the significant growth in interest costs.

Depreciation of non-operating assets was calculated in accordance with SAS 1.47, taking into account the value of the land or functional part thereof. The change in the calculation decreased the depreciation charge by SIT 4,254,000.

(20) Other charges for ordinary activities

Other charges amounted to SIT 132,600,000. These include value adjustments relating to debtors of SIT 61,496,000 and other operating charges for revaluation.

(21) Extraordinary income

Extraordinary income totalled SIT 118,535,000. Other income from ordinary activities comprises gains on the disposal of tangible assets in of SIT 1,295,000, recoveries of bad debts of SIT 6,828,000, recovery from the bankruptcy estate of the KIH Bank of SIT 21,605,000 and a payment of SIT 88,807,000 by the Ministry of Finance as overpayments of default interest arising out of tax on profit that relates to the years 1998 and 1999.

(22) Extraordinary and other charges

Extraordinary and other charges totalled SIT 38,000 and relate mainly to value adjustments on receivables.

(23) Net profit for the financial year

In 2005 the Company generated a gross profit of SIT 2,050,113,000, which is 9.9 percent more than in 2004. Pursuant to the Corporate Profit Tax Act, the Company calculated tax on profit for the year 2005 in the amount of SIT 593,292,000. Net profit totalled SIT 1,456,822,000.

Because tax advance payments in the year were lower than the actual tax charge, the Company will pay the balance in 2006; the amount is disclosed under creditors. At December 31st 2005 there were no other tax liabilities.

ADDITIONAL INFORMATION TO THE PROFIT AND LOSS ACCOUNT

Net technical result

The net technical result is calculated as the difference between earned premiums, net of retrocession, and claims incurred, net of retrocession.

Premiums and claims by business segment

(SIT '000)	Premiums		Claims	
	2005	2004	2005	2004
Inwards business – domestic	16,665,830	16,906,543	10,476,343	11,541,056
Inwards business – international	5,401,997	4,392,194	2,907,858	1,874,928
Outward business – domestic	−51,947	−62,724	−18,925	−21,098
Outward business – international	−4,088,692	−4,271,969	−2,715,049	−2,573,535
Net account	**17,927,188**	**16,964,044**	**10,650,227**	**10,821,351**

In 2005 Sava Re wrote SIT 19.9 billion in premiums in EU member states, of this SIT 16.7 billion in Slovenia.

Net technical result

(SIT '000)	Net premiums	Net claims	Net technical result 2005	Net technical result 2004
Class of business	1	2	1–2	4
Personal accident	2,146,216	1,222,475	923,741	775,554
Motor hull	3,329,878	2,278,511	1,051,367	601,128
Railway rolling stock hull	0	0	0	−17,697
Aircraft hull	22,632	19,447	3,185	29,018
Marine hull	144,833	154,983	−10,150	42,208
Goods in transit	121,863	36,913	84,950	85,201
Fire and natural forces	3,025,342	1,833,474	1,191,868	1,465,043
Other damage to property	2,537,513	1,179,202	1,358,311	953,126
Motor liability	5,736,010	3,401,064	2,334,946	1,989,139
Aircraft liability	23,630	6,901	16,729	10,570
Liability for ships	7,483	90	7,393	3,568
General liability	406,119	405,082	1,037	−15,735
Credit	264,683	66,058	198,625	92,530
Suretyship	8,730	1,383	7,347	7,360
Miscellaneous financial loss	73,132	20,495	52,637	59,541
Legal expenses	1,698	0	1,698	1,422
Medical assistance	12,195	8,772	3,423	12,220
Life	59,330	15,377	43,953	46,399
Unit-linked life insurance	5,901	0	5,901	2,098
Total	**17,927,188**	**10,650,227**	**7,276,961**	**6,142,694**

Net technical result including the effects of commission

(SIT '000)	Net premiums	Net claims	Net commission	Net technical result 2005	Net technical result 2004
Class of business	**1**	**2**	**3**	**4**	**5**
Personal accident	2,146,216	1,222,475	701,542	222,199	−7,860
Motor hull	3,329,878	2,278,511	838,321	213,046	−180,227
Railway rolling stock hull	0	0	0	0	−17,697
Aircraft hull	22,632	19,447	−7,524	10,709	26,362
Marine hull	144,833	154,983	25,254	−35,404	−36,615
Goods in transit	121,863	36,913	27,382	57,568	64,970
Fire and natural forces	3,025,342	1,833,474	967,612	224,256	547,589
Other damage to property	2,537,513	1,179,202	743,611	614,700	74,624
Motor liability	5,736,010	3,401,064	1,403,731	931,215	493,170
Aircraft liability	23,630	6,901	5,521	11,208	3,674
Liability for ships	7,483	90	−44	7,437	2,939
General liability	406,119	405,082	89,478	−88,441	−116,485
Credit	264,683	66,058	68,530	130,095	33,717
Suretyship	8,730	1,383	2,248	5,099	5,376
Miscellaneous financial loss	73,132	20,495	18,894	33,743	38,302
Legal expenses	1,698	0	441	1,257	1,053
Medical assistance	12,195	8,772	3,959	−536	10,477
Life	59,330	15,377	16,205	27,748	32,502
Unit-linked life insurance	5,901	0	778	5,123	1,197
Total	**17,927,188**	**10,650,227**	**4,905,939**	**2,371,022**	**977,066**

Technical result of retrocession business

(SIT '000)	Outwards premiums	Outwards claims	Outwards commission	Gross technical result	Net technical result 2005	Net technical result 2004
Class of Business	**1**	**2**	**3**	**1–2**	**1–2–3**	**6**
Personal Accident	53,056	18,906	10,746	34,150	23,404	24,327
Motor hull	362,066	318,522	24,373	43,544	19,171	263,215
Aircraft hull	98,811	501	10,067	98,310	88,243	49,461
Marine hull	21,815	7,846	2,726	13,969	11,243	13,662
Goods in transit	40,293	1,087	4,885	39,206	34,320	33,639
Fire and natural forces	1,521,343	1,033,949	323,257	487,394	164,138	40,806
Other damage to property	966,594	730,839	193,659	235,755	42,096	−194,087
Motor liability	473,708	431,380	58,358	42,328	−16,030	222,262
Aircraft liability	23,610	2,567	4,079	21,043	16,964	9,857
Liability for ships	10,031	16	1,628	10,015	8,387	7,793
General liability	349,710	48,314	44,601	301,395	256,794	162,082
Credit	2,185	−452	663	2,636	1,973	−993
Suretyship	84	7	28	78	50	402
Miscellaneous financial loss	84,558	109,523	19,417	−24,966	−44,383	77,137
Legal expenses	14	0	4	14	10	27
Medical assistance	4	4,649	2	−4,645	−4,646	65,691
Life	132,759	26,320	39,687	106,439	66,752	77,598
Total	**4,140,641**	**2,733,974**	**738,180**	**1,406,665**	**668,486**	**852,879**

NOTES TO THE CONSOLIDATED BALANCE SHEET

(24) Intangible assets

Intangible assets totalled SIT 107,646,000.

Movement in intangible assets

(SIT '000)	Licences and organisation expenses	Intangible assets in acquisition	Goodwill	Total
COST				
At 31 Dec 2004	97,704	0	808,817	906,521
Additions	24,439	50,285	0	74,724
Disposals	0	0	808,817	808,817
At 31 Dec 2005	122,143	50,285	0	172,428
VALUE ADJUSTMENT				
At 31 Dec 2004	49,608	0	0	49,608
Amortisation	15,174	0	0	15,174
Disposals	0	0	0	0
At 31 Dec 2005	64,782	0	0	64,782
NET BOOK VALUE				
At 31 Dec 2004	48,096	0	808,817	856,913
At 31 Dec 2005	57,361	50,285	0	107,646

In 2004 the consolidated companies created goodwill of SIT 808,817,000, which was decreased to nil in 2005 partly because of the adjustment in investments in affiliates and partly because of posting the goodwill of Tilia Ins Co against profit brought forward in the amount of SIT 339,772,000.

(25) Land, buildings and financial investments

(SIT '000)	2005	2004	Index
Land and buildings	2,300,177	2,360,275	97.5
– occupied by the companies	995,813	988,431	100.7
– not occupied by the companies	1,304,364	1,371,844	95.1
Financial investments in group undertakings and in associates	6,590,720	6,706,988	98.3
Other financial investments	48,221,203	45,786,498	105.3
Deposits with ceding undertakings	1,324,301	948,275	139.7
Total	**58,436,401**	**55,802,036**	**104.7**

Pursuant to SAS 32, the balance sheet item Land, buildings and financial investments comprises financial investments as well as investments in real estate occupied and deposits with ceding undertakings. At 31 December 2005, investments in buildings used for insurance operations totalled SIT 955,813,000 and are not included in the investment portfolio of the Group. Neither are deposits with ceding undertakings disclosed with financial investments.

Tangible fixed assets – land and building occupied by the companies
The acquisition cost of tangible fixed assets includes acquisition costs and direct expenses. Tangible fixed assets used by the companies in its activities are depreciated at the rate of 1.3-2 percent for buildings and nil for land.

Movement in tangible fixed assets used by the Companies in their activities

(SIT '000)	Land	Buildings	Total
COST			
At 31 December 2004	7,152	1,363,475	1,370,627
Direct additions	85,390	44,375	129,765
Disposals		85,390	85,390
Valuation	–21,979	637	–21,342
At 31 December 2005	70,563	1,323,097	1,393,660
VALUE ADJUSTMENT			
At 31 January 2004	0	388,370	388,370
Depreciation	0	17,976	17,976
Direct additions	0	4,715	4,715
Disposals	0	6,860	6,860
Valuation	0	–180	–180
At 31 December 2005	0	404,021	404,021
NET BOOK VALUE			
At 31 December 2004	7,152	975,105	982,257
At 31 December 2005	70,563	919,076	989,639

As per 31December 2005 Tilia Ins Co made a valuation of all land and buildings which resulted in separating land from buildings according to their historical cost. Therefore, Tilia Ins Co moved an item in the amount of SIT 85,390,000 to land that was previously accounted under buildings. Furthermore, after the valuation a correction in value of land in the amount of SIT 21,979,000 was made. According to prudent accounting principles, value decreases in assets were accounted for, while value increases were not.
Sava Re moved part of the investments in buildings from the liability fund to tangible fixed assets occupied by the Company in the amount of SIT 44,375,000.

Financial investments

Financial investments are recognised at cost plus relevant expenses related to their acquisition.

(SIT '000)	2005	2004	Index
Land and buildings	2,300,177	2,360,275	97.5
Debt securities	27,627,914	25,089,679	110.1
Shares	8,002,804	7,567,019	105.8
Deposits with domestic banks	16,872,673	19,047,458	88.6
Mutual funds	2,295,102	768,427	298.7
Loans	13,430	20,903	64.2
Total	**57,112,100**	**54,853,761**	**104.1**

The value of investments increased by 4.7 percent compared to 2004. The highest relative growth was recorded in investments in mutual funds. In absolute terms, the highest growth was with investments in debt securities, which increased on account of the substantially decreased investments in time deposits.

Long-term investments

(SIT '000)	
Land and buildings	2,300,177
Government securities	14,431,335
Other debt securities	7,675,376
Shares in associated companies	6,590,720
Other shares	924,425
Deposits in domestic banks and savings banks	4,466,750
Mutual funds	1,150,391
Other	13,430
Total	**34,001,089**

Short-term investments

(SIT '000)	
Land and buildings	0
Government securities	3,206,083
Other debt securities	2,315,120
Shares in associated companies	0
Other shares	487,661
Deposits in domestic banks and savings banks	12,405,923
Mutual funds	1,144,711
Other	0
Total	**19,559,498**

Long-term investments in shares of affiliated companies

(SIT '000)	Book value of investment	Share-holding	Voting shares	Total capital of affiliated company	Net profit for the year 2005
Maribor Insurance Company	7,048,690	45.64%	45.64%	15,444,445	2,576,567
Helios Insurance Company	364,322	29.64%	29.64%	1,229,157	32,456
Moja Naložba Pension Fund	88,688	20.00%	20.00%	443,440	–25,769

In 2005 there was an increase in the subscribed capital of Moja naložba in the amount of SIT 100,000,000. All shareholders participated in the increase according to their shareholdings. In 2005 Sava Re sold 5 percent of Osiguranje Helios.

Financial investments representing a material amount

Financial investments as per 31 December 2005 totalled SIT 57,112,100,000. The tables below show major investments in government securities, bonds of commercial banks, deposits with commercial banks and investments in land and buildings.

Long-term financial investments

(SIT '000)	Liability fund	Capital fund	Total 2005
Deposits in banks			
ABANKA Vipa d.d., Ljubljana	1,173,000	206,000	1,379,000
NLB d.d., Ljubljana	893,700	221,400	1,115,100
Bank bonds			
NLB d.d., Ljubljana	643,673	1,273,089	1,916,762
Nova KBM, Maribor	953,854	0	953,854
SOD d.d., Ljubljana	195,996	737,869	933,865
Mutual Funds			
Mutual Funds NLB, d.d., Ljubljana	556,803	178,292	735,095
Slovenian government securities			
Bonds	15,685,738	0	15,685,738
Land and buildings			
Land and buildings	946,708	357,656	1,304,364

Short-term financial investments

(SIT '000)	Liability fund	Capital fund	Total 2005
Deposits in banks			
Nova KBM d.d., Maribor	2,727,498	949,940	3,677,438
Probanka d.d., Maribor	1,724,950	1,276,800	3,001,750
ABANKA VIPA, d.d., Ljubljana	1,598,400	1,084,800	2,683,200
Bank Austria, d.d., Ljubljana	1,052,498	0	1,052,498
Deželna banka, d.d., Ljubljana	839,900	160,000	999,900
Banka Celje d.d., Celje	880,337	5,750	886,087
Slovenian government securities			
Bonds	2,594,127	272,194	2,866,321
Mutual Fund			
Domestic Mutual Funds	1,447,498	0	1,447,498

Deposits with ceding undertakings

In accordance with reinsurance contracts, part of the reinsurance premium is retained by ceding undertakings and is paid only after one year. Debtors in relation to such contracts increased by 39.6 percent to SIT 1,324,301,000 from the previous year.

Long-term subordinated debt

(SIT '000)	Form of investment	2005
ABANKA VIPA d.d., Ljubljana	bonds VIP3	3,828
ABANKA VIPA d.d., Ljubljana	bonds AB04	287,715
ZAVAROVALNICA TRIGLAV, d.d., Ljubljana	bonds ZT01	74,268
PROBANKA, d.d., Maribor	bonds PRB8	476,324
NLB, d.d., Ljubljana	bonds NLB13	276,738
NLB, d.d., Ljubljana	bonds NLB FLOAT 49	1,119,897
Total Subordinated Investments		**2,238,770**

Subordinated debt accounted to 3.9 percent of total investments.

(26) Debtors

(SIT '000)	2005	2004	Index
Debtors for insurance premiums	1,981,500	1,847,917	107.2
Debtors due from insurance brokers	18,922	19,467	97.2
Debtors for coinsurance premiums	1,731	318	544.3
Debtors for reinsurance premiums	4,261,042	5,536,063	77.0
Debtors for coinsurance claims	55	–	–
Debtors for reinsurance claim payments	1,311,636	2,634,840	49.8
Debtors for commission and other debtors relating to insurance business	744,977	1,006,614	74.0
Debtors arising out of financing	229,912	195,834	117.4
Other debtors	79,292	149,009	53.2
Total	**8,629,067**	**11,390,062**	**75.8**

At 31 December 2005, the consolidated companies had bad debts of SIT 2,444,176,000. Debtors yet to become due totalled SIT 6,184,891,000 SIT.

Debtors representing more than 1 percent of total assets

(SIT '000)	
Debtors for domestic reinsurance premium	
Maribor Insurance Company	2,349,650

(27) Diverse assets

In accordance with the internal chart of accounts, the companies disclose under diverse assets tangible fixed assets (equipment), cash and own shares.

Tangible fixed assets – equipment

The acquisition cost of operating fixed assets includes acquisition costs and direct expenses. Equipment used by the company is depreciated at the rates between 7 percent for equipment and 33 percent for computer hardware.

Movement in tangible fixed assets

(SIT '000)	Equipment and other tangible fixed assets
COST	
At 31 December 2004	653,920
Direct additions	138,319
Transfer from construction in progress	0
Disposals	43.432
At 31 December 2005	748,807
VALUE ADJUSTMENT	
At 31 January 2004	426,378
Depreciation	43,112
Valuation	405
Disposals	0
At 31 December 2005	459,171
NET BOOK VALUE	
At 31 December 2004	227,542
At 31 December 2005	289,636

Cash

Cash relates to cash in hand, in the transaction account and foreign-currency accounts of the companies. At the end of 2005 cash amounted to SIT 74,055,000.

Own shares bought

At 31 December 2005, the parent company held own shares of SIT 425,000 accounting for 0.0026709 percent of the share capital. Sava Re bought the own shares from its subsidiary Tilia Insurance Company.

(28) Deferred costs (expenses) and accrued income

(SIT '000)	2005	2004	Index
Deferred commission arising out of inwards business	1,256,006	1,350,215	93.0
Deferred commission arising out of outwards business	–117,274	–118,148	99.3
Other deferred costs	440,699	165,352	266.5
Accrued interest	657,067	711,665	92.3
Total	**2,236,498**	**2,109,084**	**106.0**

Prepayments and accrued income of SIT 2,236,498,000 comprise deferred commission (SIT 1,256,006,000), accrued interest on securities (SIT 657,067,000) and prepaid postal services, subscriptions and insurance premiums.
Deferred costs increased by 6 percent due to deferred acquisition costs.

(29) Capital and reserves

(SIT '000)	2005	2004	Index	Structure
Called-up capital	7,862,519	7,862,519	100.0	39.7%
General equity revaluation adjustment	25,441	25,441	100.0	0.1%
Specific equity revaluation adjustment	2,728,005	3,384,079	80.6	13.8%
Reserves	8,273,450	7,435,777	111.3	41.8%
– legal reserves	841,371	841,371	100.0	4.3%
– reserves provided for by the Articles of association	2,749,694	2,531,170	108.6	13.9%
– reserves for own shares	425	425	100.0	0.0%
– other reserves	4,681,960	4,062,811	115.2	23.7%
Net profit brought forward	365,370	6,954	5,254.1	1.9%
Profit for the financial year	527,920	607,746	86.9	2.7%
Minority interests	8,537	6,652	128.3	0.0%
Total	**19,791,242**	**19,329,166**	**102.4**	**100.0%**

Capital and reserves of SIT 19,791,242,000 include capital and reserves of Sava Re and minority interests relating to Tilia Insurance Company of SIT 8,537,000.
In 2005, badwill of SIT 1,542,591,000 was taken to the specific equity revaluation adjustment in order to rectify the incorrectly accounted for item in 2004. The correction had no effect on the result, but on the level of liabilities and assets.
In the year under report, no revaluation of capital and reserves was carried out. If such revaluation was carried out in order to maintain the purchasing power of capital and reserves in relation to the euro, the profit for the year would have been higher by SIT 259,555,000. If a revaluation was carried out on the basis of the increase in the consumer price index, the profit would have been lower by SIT 718,766,000.

(30) Net technical provisions

(SIT '000)	2005	2004	Index	Structure
Net provision for unearned premiums	9,009,788	8,988,001	100.2	21.1%
Net provision for outstanding claims	21,072,452	18,485,740	114.0	49.4%
Net mathematical provision	2,025,533	2,114,794	95.8	4.8%
Net provision for bonuses and rebates	62,088	11,687	531.3	0.2%
Equalization provision	7,693,994	8,121,877	94.7	18.1%
Provision for nuclear risks	2,299,904	2,252,661	102.1	5.4%
Earthquake provision	54,657	0	–	0.1%
Provision for unexpired risks	397,721	343,350	115.8	0.9%
Provision for currency risks	1,562	825	189.3	0.0%
Other provisions	0	14,781	–	0.0%
Total	**42,617,699**	**40,333,716**	**105.7**	**100.0%**

Net technical provisions increased by 5.7 percent in 2005. Provisions were established on the basis of internal rules and were approved by the Appointed Actuaries.
Incurred but not reported claims, fully consolidated at 31 December 2005, amounted to SIT 5,589,973,000.

IBNR compared to the gross provision for outstanding claims of Slovenian cedants

(SIT '000)	IBNR	Provision for outstanding claims	
	1	2	1/2
2004	5,303,283	22,643,672	23.4%
2005	5,589,973	26,869,401	20.8%

The gross mathematical provision and reinsurers' share by type of liability fund

(SIT '000)	Basic provision	Provision for birth	Total provision	Retention	Reinsurer's share
a) Endowment	930,022	3,170	933,192	933,192	0
b) Annuities	167,251	0	167,251	167,251	0
c) Credit – death, disability	1,178	0	1,178	1,044	134
d) Death	30,431	0	30,431	30,431	0
e) Pure endowment	752,294	16,849	769,143	769,143	0
f) Term life	69,618	2,627	72,245	72,245	0
g) Annuities	19,566	0	19,566	19,566	0
h) Death + critical illness	5,047	0	5,047	5,047	0
Total	**1,975,407**	**22,646**	**1,998,053**	**1,997,919**	**134**

The above table shows mathematical provisions by liability funds for Tilia Insurance Company. Sava Re does not establish this provision.

(31) Creditors

(SIT '000)	2005	2004	Index
Creditors relating to direct insurance business	207,404	160,661	129.1
Creditors for coinsurance premiums	5,163	0	–
Creditors for reinsurance premiums	1,754,623	3,173,496	55.3
Creditors for claim payments	3,113,980	4,773,201	65.2
Creditors for commission	1,428,280	1,964,185	72.7
Trade creditors	75,657	61,420	123.2
Creditors due to employees	104,056	82,475	126.2
Other creditors	133,169	193,851	68.7
Total	**6,823,332**	**10,409,289**	**65.6**

Creditors decreased by 34.4 percent compared to 2004. The main item of other creditors is the liability for tax on profit of SIT 190,834,000.

Creditors in excess of 1 percent of total assets

(SIT '000)	
Creditors for domestic claims	
Maribor Insurance Company	1,452,330

(32) Accrued costs (expenses) and deferred income

Accrued costs amounted to SIT 551,681,000. This item comprises deposits retained by reinsurers that are yet to be released (SIT 309,780,000) and accruals of SIT 241,901,000.

(33) Off balance sheet items

Off balance sheet items totalled SIT 3,633,303,000.

Below is a list of off balance sheet items in excess of 1 percent of total assets:

– debtors due from the Ministry of Finance for sales tax on reinsurance services of SIT 456,127,000;

– debtors due from the Ministry of Finance for tax on profit for the years 1998 and 1999, inclusive default interest, of SIT 729,621,000;

– unpaid recourse claims of SIT 1,098,353,000;

– potential debtors – value adjustments of SIT 1,170,754,000;

– unutilised tax loss of SIT 131,826,000.

In 2004 the consolidated companies had no loans guaranteed by securities.

The consolidated companies did not have subordinated debt or new debt in excess of 10 percent of total subordinate debt.

Tilia Insurance Company had no debtors relating to the administration of any mutual pension fund or creditors relating to the difference up to the guaranteed return of any mutual pension fund.

The consolidated balance sheet includes all creditors.

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(34) Earned premiums, net of reinsurance

(SIT '000)	2005	2004	Index
Gross premiums written	30,282,092	28,482,684	106.3
Gross premiums written from reinsurance/ retrocession	–4,140,639	–4,334,693	95.5
Gross premiums written from co-insurance	8,940	18,310	48.8
Change in the gross provision for unearned premiums	–77,946	–1,468,188	5.3
Change in the provision for unearned premiums – reinsurers' share	71,592	68,618	104.3
Earned premiums, net of reinsurance	**26,144,039**	**22,766,731**	**114.8**

Earned premiums, net of reinsurance grew by 14.8 percent compared to 2004. In the year under report, the consolidated companies wrote SIT 24,889,035,000 in premium on the domestic market and SIT 5,401,997 abroad.

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

The allocated investment return transferred from the non-technical account comprises investment return generated by investments supporting the liability fund of SIT 1,985,401,000.

(36) Claims incurred, net of reinsurance

(SIT '000)	2005	2004	Index
Gross claims paid	18,647,126	18,330,742	101.7
Subrogation recoveries	–484,824	–403,441	120.2
Gross claims paid by co-insurers	11,337	14,887	76.2
Gross claims paid by retrocessionaires	–2,733,974	–2,594,633	105.4
Change in the gross provision for outstanding claims	4,242,244	1,545,512	274.5
Change in the provision for outstanding claims – reinsurers' share	–1,655,531	–1,363,396	121.4
Claims incurred, net of reinsurance	**18,026,378**	**15,529,671**	**116.1**

Net claims incurred increased by 16.1 percent from the previous year. This is mainly due to the increase in the provision for outstanding claims.

(37) Change in other technical provisions, net of reinsurance

(SIT '000)	2005	2004	Index
Change in the provision for bonuses and rebates	–25,490	1,772	–
Change in the provision for nuclear risks	–47,242	–30,028	157.3
Change in the provision for unexpired risks	–54,372	–48,172	112.9
Change in the provision for currency risks	–736	29,954	–
Change in the mathematical provision	–460,296	–148,963	309.0
Change in the earthquake provision	–39,876	–4,428	900.5
Total change in other technical provisions, net of reinsurance	**–628,012**	**–199,865**	**314.2**

Details relating to amounts set aside as technical provisions are provided by the Appointed Actuary, who in accordance with the Rules on Establishing Technical Provisions calculates the required amount of these provisions.
The movement in other technical provisions was a growth of SIT 628,012,000. The bulk of this amount relates to the mathematical provision.
In 2005 Tilia Ins Co set up a provision for bonuses and rebates. There was a relative high growth in the earthquake provision and a marginal one in the provision for nuclear risks. The level of allowable additions to the provision for nuclear risks is annually advised by the GIZ Nuclear Pool. As in previous years, the consolidated companies opted for the lower reserving option because the provision had already reached a sufficient level.

(38) Net operating expenses

(SIT '000)	2005	2004	Index
Acquisition costs	804,376	539,737	149.0
Other operating expenses	3,475,571	3,065,282	113.4
Depreciation of operating assets	107,124	102,274	104.7
Labour cost	2,478,979	2,182,116	113.6
– salaries	1,793,849	1,555,443	115.3
– cost of social and pension insurance	384,252	329,987	116.4
– other labour cost	300,878	296,686	101.4
Cost of services of natural persons not related to insurance business	24,644	19,343	127.4
Diverse operating expenses	864,824	761,549	113.6
Net reinsurance commission	4,066,697	4,045,321	100.5
Total	**8,346,644**	**7,650,340**	**109.1**

In 2005 operating expenses increased by 9.1 percent. The cost of social insurance totalled SIT 293,654,000, while the pension insurance charge was SIT 41,940,000 SIT.

Depreciation of assets occupied by the Companies for their own activities

(SIT '000)	Base	2005	2004	Index
Intangible fixed assets	63,546	15,174	11,911	127.4
Buildings	741,818	18,025	19,416	92.8
Motor vehicles	64,809	6,471	5,811	111.4
Wood furniture	362,987	62,629	60,551	103.4
Other fixed assets	53,445	4,824	4,585	105.2
Total	**1,286,605**	**107,123**	**102,274**	**104.7**

Depreciation/amortisation of intangible and tangible fixed assets for own activities is accounted for as in the parent company. The total depreciation charge amounted to SIT 107,123,000, which is an increase of 4.7 percent over 2004.

Labour cost

Labour cost accounted for 29.7 percent of net operating expenses, which is 1.2 points more than in the prior year.

Management Board, Supervisory Board & Directors' Remuneration

(SIT '000)	Gross amount
Board of management	214,485
Supervisory board	17,336
Personal employment contracts	319,632
Total	**551,453**

At 31 December 2005, the consolidated companies employed 351 staff.

Educational profile as per 31 December 2005

Formal education	Total
Less than secondary school	36
Secondary school	167
Undergraduate degree	43
Graduate degree	95
Master's degree	10
Total	**351**

Diverse operating expenses

Diverse operating expenses comprise SIT 864,824,000, accounting for 10.4 percent of all expenses. Compared with 2004, these expenses increased by 13.6 percent.

(39) Other net technical charges

Other net technical charges comprise charges for preventive measures in the amount of SIT 1,556,000 and a contribution to the supervisory authority for the covering of losses caused by untraced and uninsured drivers in the amount of SIT 42,120,000. In 2005 these charges decreased by 13.4 percent from the previous year to SIT 137,134,000.

(40) Change in the equalization provision

The equalization provision was decreased by SIT 427,883,000 (pursuant to legal requirements). For details see comment under 17.

(41) Investment income

(SIT '000)	2005	2004	Index
Income from land and buildings	74,752	61,435	121.7
Interest income	2,481,881	2,826,747	87.8
Other investment income	718,528	413,432	173.8
– financial income from revaluation	629,890	378,967	166.2
– other financial income	88,638	34,465	257.2
Gains on the realization of investments	39,999	142,557	28.1
Total	**3,315,160**	**3,444,171**	**96.3**

Investment income was SIT 3,315,160,000, which is a decrease by 3.7 percent from 2004. This is mainly due to the lowering in interest rates, which resulted in a 13-percent decrease in interest income compared to the prior year.

Difference between the book value and fair market value

(SIT '000)	Book value	Fair market value	Difference
Debt securities of other issuers	6,656,732	6,697,520	40,788
Government debt securities	12,669,505	12,994,374	324,870
Equity securities	1,043,300	1,108,645	65,346
Total	**20,369,536**	**20,800,539**	**431,003**

(42) Investment charges

(SIT '000)	2005	2004	Index
Depreciation of non-operating assets	15,012	18,349	81.8
Interest and other cost of investments	554,679	535,794	103.5
Value adjustments on investments	0	494	–
Losses on the realization of investments	114,962	4,877	2,357.2
Total	**684,653**	**559,514**	**122.4**

Investment charges increased by 22.4 percent in 2005. The bulk relates to financial expenses from revaluation including primarily impairment losses on investments of SIT 336,951,000, among which are included losses of non-consolidated affiliates.

(43) Other charges for ordinary activities

Other charges for ordinary activities of SIT 397,256,000 include value adjustments on debtors made in accordance with internal rules.

(44) Extraordinary income

Extraordinary income of SIT 183,420,000 comprises recoveries from the bankruptcy estate of the KIH Bank of SIT 21,605,000, refunded default interest relating to the pending dispute with DURS (relating to payment of sales tax on insurance business) of SIT 88,807,000 and refunded legal expenses of SIT 52,096,000.

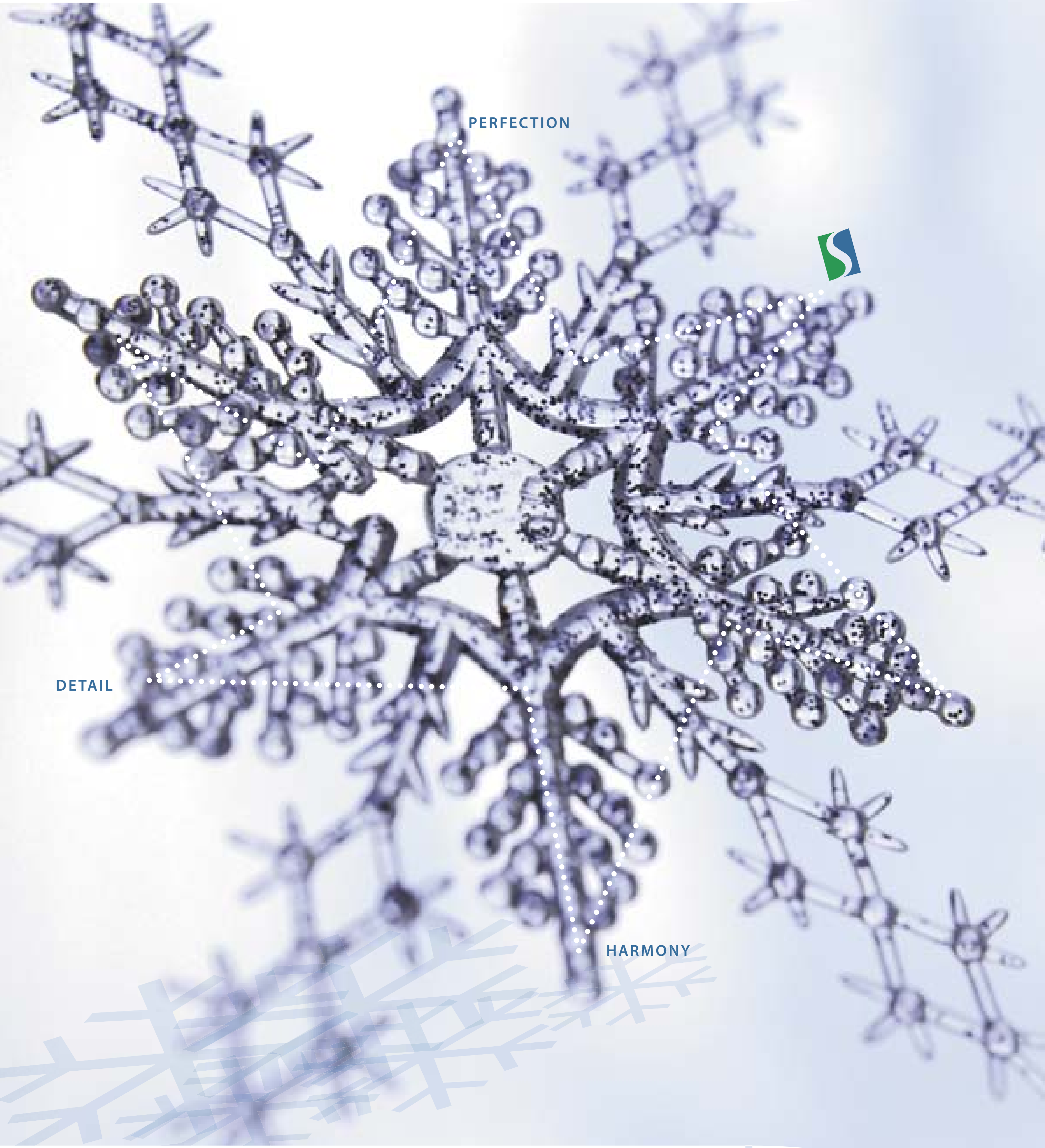
(45) Extraordinary charges

The main part of extraordinary charges of SIT 8,317,000 relates to diverse expenses from previous years.

(46) Gross profit

The group generated a gross profit for the year of SIT 1,365,235,000. The tax charge was SIT 593,292,000.

WHEN ADMIRING AN ICEBERG...



... DO NOT MISS THE LITTLE
TREASURES.

THE SLOVENIAN ECONOMY
Macroeconomic perceptions

Major economic indicators – development and forecast

	2003	2004	2005	2006 forecast
GDP				
GDP, real growth rate in %	2.7	4.2	3.9	4.2
GDP per capita, EUR	12,461	13,103	13,677	14,477
DOMESTIC DEMAND				
Private consumption, real growth rate in %	3.5	3.3	3.3	3.2
Public consumption, real growth rate in %	1.6	2.9	3.0	2,7
Gross investment, real growth rate in %	10.1	9.2	-3.0	5.4
INTERNATIONAL TRADE				
Exports of goods and services, real growth rate in %	3.1	12.5	9.2	7.4
Imports of goods and services, real growth rate in %	6.7	13.2	5.3	6.7
EMPLOYMENT				
Employment, growth rate in %	-0.2	0.4	0.7	0.4
Average gross salary, real growth rate in %	1.9	1.0	2.2	2.9
Unemployment rate (standardized by ILO definition) in %	6.7	6.3	6.5	6.6
INFLATION				
Consumer prices annual average, growth rate in %	5.6	3.6	2.5	2.2
INTEREST RATES				
Interest rates on short-term bank loans – nominal (average)	10.8	8.0	7.6	na
Interest rates on long-term bank loans – nominal (average)	12.6	7.9	7.7	na
EXCHANEG RATES				
SIT/EUR exchange rate, annual average	233.7	238.9	239.64	239.64
USD/EUR exchange rate	1.13	1.24	1.25	1.21

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

OUTLOOK

In May 2006 the European Commission and the European Central Bank issued a positive opinion for Slovenia to join the twelve-member euro zone as the thirteenth member in 2007. Thereby Slovenia's EU integration process will to be concluded and a new era of economic development will begin.

In 2005 exports to the European Union – Slovenia's long-standing business partner – accounted for over 70 percent of its total exports.

At the beginning of 2006, Slovenian economic growth was comparatively high, which might slightly push up the GDP growth rate.

Encouraging growth was recorded in exports of goods and services, industrial production and in service production – especially trade, tourism, transport and business services.

GLOSSARY OF TERMS

AFFILIATE	An enterprise in which Sava Re has significant influence (20–100 percent of voting shares).
ASSOCIATE	An enterprise in which Sava Re has significant influence but not control (20–50 percent of voting shares).
CAPITAL FUND	Assets representing the capital of the Company.
COMBINED RATIO	Ratio of net claims incurred plus net commission to net premium earned.
LOSS RATIO, GROSS	Ratio of gross claims paid to gross premiums written.
LOSS RATIO, NET	Ratio of net claims incurred including commission to net earned premiums.
LIABILITY FUND	Assets supporting technical provisions.
SUBSIDIARY OR GROUP ENTERPRISE	An enterprise in which Sava Re owns more than 50 percent of voting shares.

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