

SAVA Re INVESTMENT PAPER

»THE BIRTH OF
THE SECOND
LARGEST
INSURANCE
GROUP IN
SE EUROPE«



INVESTMENT PAPER



Pozavarovalnica Sava, d. d.

Key Data	
Ticker	POSR
Current price	EUR 7.2
Current multiples	P/E 4.46; P/GWP 0.25; P/B 0.41
Purchase price of Zavarovalnica Maribor	
Total deal size	EUR 65m
Financial construction	EUR 55m capital injection, EUR 10m internal cash flow
Valuation multiples	P/E 8.4; P7GWP 0.48; P/B 1.26
Resulting ownership	99% +
Synergy value	EUR 1.3 in 2013; EUR 6.5m in 2014; EUR 9.0m in 2015+
Transaction date	December 2012 signing, May/June 2013 payment
Additional share issue by Sava Reinsurance Company	
Additional num. of shares	Assuming EUR 8 price, then 6,875,000 shares
Pricing	Range EUR 7 to EUR 9 per share
Amount raised	EUR 55m
Issue date	May 2013
2013 forward multiples	P/E 4.40; P/GWP 0.26; P/B 0.51 (at price EUR 8)
2014 forward multiples	P/E 4.24; P/GWP 0.25; P/B 0.46 (at price EUR 8)
Investment thesis	
<p>Sava Reinsurance Company needs a capital increase to buy an additional stake in Zavarovalnica Maribor. Through consolidation and synergistic effects, Sava Reinsurance Company can improve Sava Re Group's bottom line and with it ROE to above 11%. Net income growth in the 2013 to 2015 period is expected to be 20%. Also, Sava Reinsurance Company will gain a significant share of the domestic insurance market in order to achieve economies of scale and attract more investor attention, which can improve the expected valuation multiple. The valuation of the Zavarovalnica Maribor stake is reasonable given the synergies, while given the forward multiples of the new Sava Re Group, the valuation seems attractive.</p>	

Prepared by: ALTA Invest d.d.

Analyst: Matej Šimnic, Sašo Stanovnik

Supervisory Authority: The Slovenian Securities Market Agency

Ljubljana, 17 December 2012

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1 COMPANY DESCRIPTION

Sava Reinsurance Company is the leading Slovenian reinsurer with a 31% domestic market share and is the largest locally-based non-captive reinsurer in the CEE region. It also transacts primary insurance business (life and non-life) in Slovenia and the Western Balkans (Croatia, Kosovo, Macedonia, Montenegro, and Serbia). The company has a 38-year history. In 1992 it wrote only reinsurance business, but then started to penetrate the insurance market in Slovenia and the Western Balkans.

Company Name:	Pozavarovalnica Sava d.d./Sava Reinsurance Company d.d.
Registered office:	Dunajska 56, 1000 Ljubljana, Slovenia
Website:	www.sava-re.si
Company ID:	5063825
Tax number:	17986141

1.1 MANAGEMENT AND SUPERVISORY BOARD

Members of management board have a five-year term. The current chairman's term started on 31 December 2008, as did the term of Jošt Dolničar, while Srečko Čebtron's term started on 1 February 2009, and Mateja Treven's term started on 3 February 2011. The Articles of Association state that there can be 2 to 5 members on the company's management board.

Management Board:	Supervisory Board
Zvonko Ivanušič (Chairman)	Branko Tomažič (Chairman)
Jošt Dolničar	Mateja Lovšin Herič (Deputy Chairperson)
Srečko Čebtron	Slaven Mičković
Mateja Treven	Gregor Hudobivnik
	Martin Albreht (employee representative)
	Samo Selan (employee representative)

Zvonko Ivanušič (Chairman of the Management Board, Sava Reinsurance Company)

- Joined Sava Reinsurance Company in 2002 as a Consultant to the Management Board. In 2004, he became Deputy Chairman of the Board, and in 2008 he assumed his current position.
- 2000 - Minister of Finance, Republic of Slovenia;
- 1997 – 2000 - Chairman of the Board of Zav. Slovenica;
- 1994 – 1997 - Chairman of the Board of Kmecka Družba;
- 1993 – 1994 - Managing Director of Belt Livar;
- Zvonko graduated in Economics from the University of Maribor and earned an MSc. from the University of Ljubljana.

Mateja Treven, CFA (Member of the Management Board, Sava Reinsurance Company)

- Joined Sava Reinsurance Company at the beginning of 2011. Prior to that, Mateja had served on the Supervisory Board of Sava Reinsurance Company and chaired its Audit Committee.
- 2010 - Consultant to the Board (Finance and Accounting), Publikum d.d.;
- 2006 - Member of the Management Board, Publikum d.d.;

- 2000 – 2006 - Head of Investments, Consultant to the Chairman of the Board (Finance and Accounting), Zavarovalnica Triglav;
- Mateja holds a degree in Economics from the University of Ljubljana and an MSc. from City University, London.

Srečko Čebren (*Member of the Management Board, Sava Reinsurance Company*)

- Srečko has been a Member of the Management Board of Sava Reinsurance Company since 2009. Prior to that, he was a Member of the Management Board of Zavarovalnice Maribor, starting in 2001.
- Starting his career with Generali in Trieste, Srečko spent much of his career in the international marketplace, from Zavarovalnica Tilia (Slovenia) and Unipol (Milano, Bologna and Moscow), to ICMIF (Manchester) and Generali (Trieste).
- He has over 30 years of experience in insurance.
- Srečko has a degree in Mining Engineering from the University of Trieste

Jošt Dolničar (*Member of the Management Board, Sava Reinsurance Company*)

- Jošt Dolničar has been with Sava Reinsurance Company starting in 2006 as Senior Executive responsible for the management of subsidiaries, and since December 2008 as a Member of the Management Board responsible for Group Support of Primary Insurance Subsidiaries, Risk Management, Actuarial Affairs, and Processes & IT.
- Before joining Sava Reinsurance Company, Jošt had worked for Zavarovalnica Triglav, his last appointment having been Executive Manager of Non-life Business.
- Jošt Dolničar graduated in law from the University of Ljubljana.

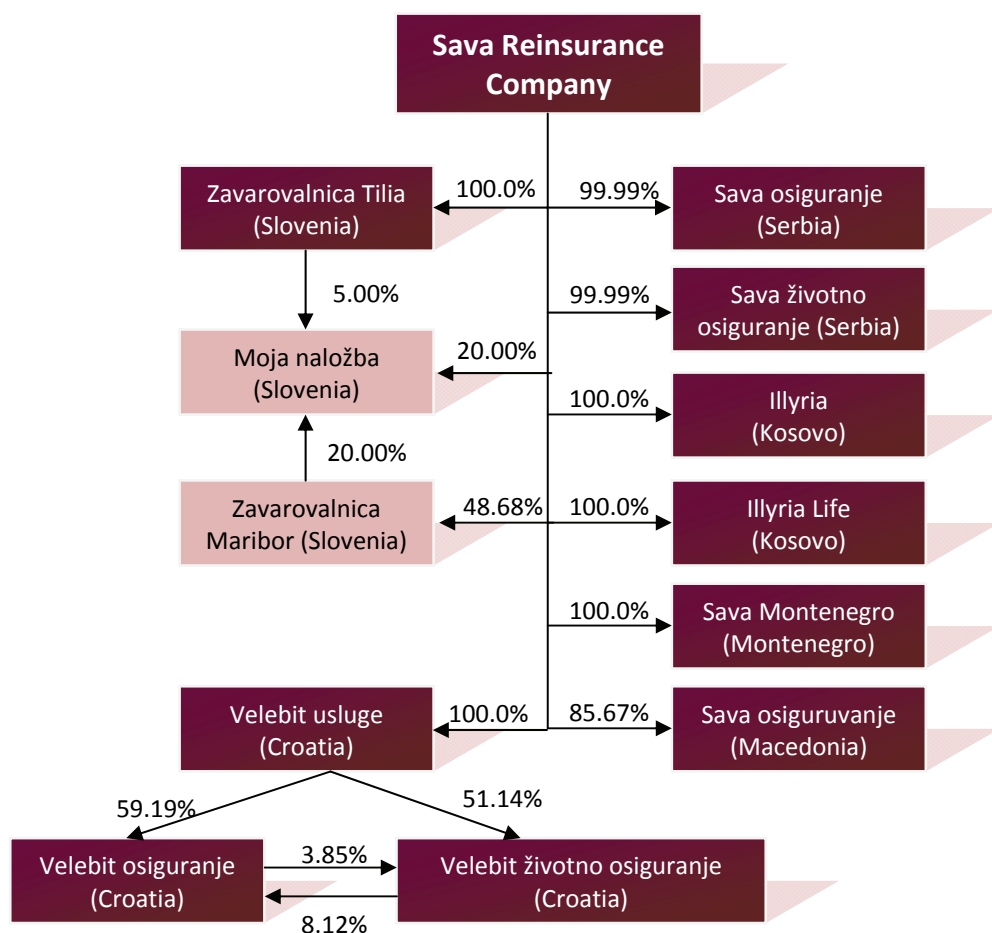
1.2 CREDIT RATING

While A.M. Best has just awarded an A- credit rating to Sava Reinsurance Company, S&P initiated its credit rating in 2005 with a BBB+ rating. On 24 September 2008, the rating was improved to A-, which was subsequently confirmed several times, only to be downgraded on 7 August 2012 back to BBB+. The main reason for the downgrade was connected to the sovereign downgraded rating and the negative outlook, as the connection between the state and Sava Reinsurance Company was deemed strong. The credit rating agency praised Sava Reinsurance Company's good competitive position, diversified insurance portfolio, and strong capitalization, but warned about its modest underwriting performance and lack of strong market position in at least one stable insurance market.

Rating agency:	Rating
S&P	BBB+ /negative/; November 2012
A.M. Best	A- ; October 2012

1.3 SAVA RE GROUP STRUCTURE

The Sava Re Group structure as at 30 November 2012 consisted of the controlling company Sava Reinsurance Company, nine insurers located in Slovenia and the SEE region, and two associate companies, one of which is Zavarovalnica Maribor.



Number of employees	30 Sep 2012	31 Dec 2011
Sava Reinsurance Company, Slovenia	66	66
Zavarovalnica Tilia, Slovenia	367	378
Sava osiguruvanje, Macedonia	119	120
Illyria, Kosovo	85	141
Sava Montenegro, Montenegro	152	140
Sava osiguranje, Serbia	241	266
Velebit osiguranje, Croatia	142	147
Velebit životno osiguranje, Croatia	78	79
Illyria Life, Kosovo	98	98
Sava životno osiguranje, Serbia	84	84
Total	1,443	1,530

Full-time equivalent basis.

1.4 GEOGRAPHIC ORIENTATION



The main market of Sava Reinsurance Company is its domestic market Slovenia, where the company headquarters are also located. In terms of subsidiary companies and insurance business (life and non-life), Sava Reinsurance Company is orientated in the SEE region, namely Croatia, Montenegro, Serbia, FYR Macedonia, and Kosovo. No expansion is envisioned by the management outside the current perimeters, only the strengthening of its position in the existing markets. On the other hand, the reinsurance business is more geographically diversified not only in other parts of Europe, but also in Asia, Africa, and the Americas. Here the management will continue to pursue better geographical diversification and is seeking promising new markets.

1.5 SHARE DATA

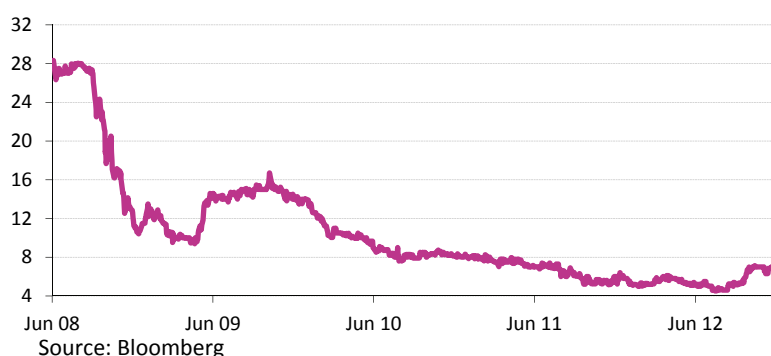
Share ticker:	POSR (Bloomberg POSR SV)
ISIN number:	SI0021110513
Number of shares:	9,362,519
Share capital:	EUR 39,069,099
Listing:	Ljubljana Stock Exchange (prime market)

Shareholder structure (Top 10 shareholders):	Number of shares	Stake
Slovenska odškodninska družba, d.d.	2,340,631	25.0%
Abanka d.d.	655,000	7.0%
Poteza Naložbe d.o.o. - in bankruptcy proceedings	468,125	5.0%
Pišljar Marjan	445,626	4.8%
NFD 1, stock subfund	437,007	4.7%
Nova KBM d.d.	435,925	4.7%
SOP Ljubljana	402,661	4.3%
Modra Zavarovalnica d.d. - ZVPS	320,346	3.4%
Zavarovalnica Maribor D.Z.D. - KS ŽZ	416,433	4.4%
KD Galileo, Fleksibilna struktura naložb	250,754	2.7%

Source: KDD (10 December 2012)

The current shareholder structure is fairly diversified. The state, with its different entities, funds, and majority state-owned banks, has an approximately 32% stake. Additionally, Zavarovalnica Maribor has a 4.4% stake. Abanka is a bank going through a process of raising capital that could encompass divestments, while Poteza Naložbe is in a bankruptcy procedure. Given the type of investors, Sava Reinsurance Company disclosed in its third quarter report that domestic banks own 14.4% of the company, while foreign banks own 0.8%. Domestic investment and mutual funds have a 13.2% stake in the company, those foreign have 0.4%, while domestic insurers and pension companies own 18.6%. Other financial institutions own 30.3% (2.3% of which foreign), while the remainder is owned by commercial companies and natural persons. Altogether, 3.7% of issued shares were owned by foreign investors as at 30 September 2012.

The stock price in the last year stagnated between EUR 5 - 6 until October, when the stock price significantly increased to above EUR 7. Looking at the SBI TOP, the main domestic stock index, Sava Reinsurance Company outperformed in the autumn months. The 3M return is 33.3%, the 12M return is 33.4%, while the 3YR return is -49.4%. The average daily trade volume amounts to EUR 8.7 thousand, or 0.017% of the issued amount. Liquidity is therefore small.

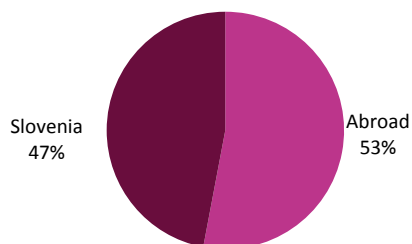


It should be noted that the price increase in the autumn months is the result of a positive turnaround of the overall Slovenian market, spearheaded by privatization and takeover speculations regarding some Slovenian blue chip companies. Before the autumn, Sava Reinsurance Company's stock price and the overall LJSE market was under the influence of severely negative investor sentiment and the overall low liquidity of the market. It should furthermore be noted that the volumes and turnover were higher in the price increase period in the autumn than in the previous price decrease period (from EUR 7 to EUR 4.5).

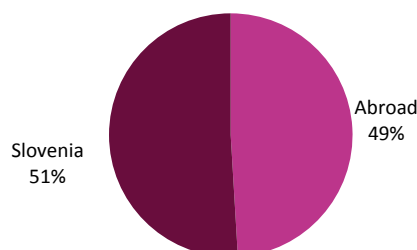
1.6 BRIEF SEGMENTAL AND PORTFOLIO DATA

Slightly less than half of gross premiums written are still generated in the domestic Slovenian market, namely 47% in 9M12, where they have an approximately 30.9% market share in reinsurance and a smaller 3.8% market share in insurance through ownership of Tilja, according to 2011 data. Out of 51% GWP generated abroad, 19 p.p. is generated in the SEE region through subsidiaries.

Gross written premiums in 9M12

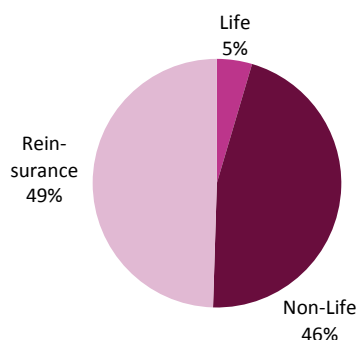


Gross claims paid in 9M12

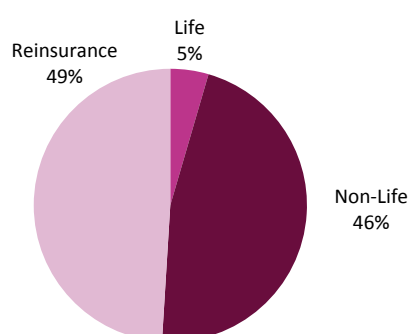


As regards the segmental GWP split, it generates around half in the reinsurance segment, approximately 46% in the non-life segment, while the life insurance segment is by far the smallest with only a 5% share in the total generated GWP.

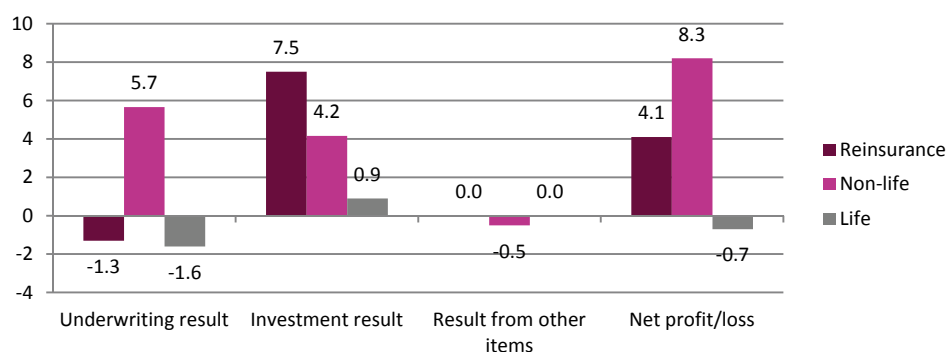
Gross written premiums in 9M12



Gross claims paid in 9M12



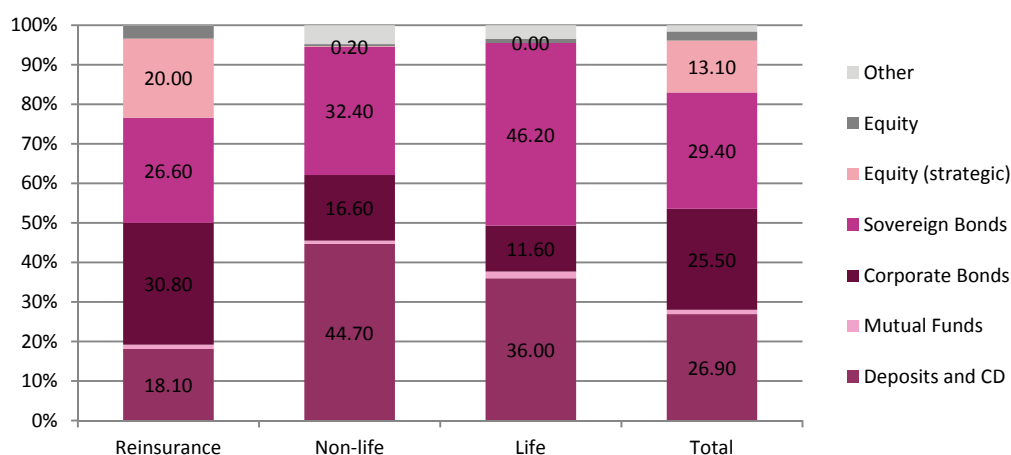
Segmental results in 9M12 (m EUR)



Source: Sava Reinsurance Company

Most of the Sava Re Group's portfolio is located in deposits, CDs, and government bonds, namely 56.3% of the portfolio. Here we must note that associate companies represent 13.1% of the portfolio. The rest is located primarily in corporate bonds and equity, or 25.5% and 2.3% respectively.

Portfolio structure on 30 September 2012



Source: Sava Reinsurance Company

Looking at different segments and excluding associates, the non-life investment portfolio is, as expected, very conservative with nearly half in deposits and CDs (here we note that in the region, deposit rates are quite high compared to the rest of Europe), while 32.4% is located in sovereign bonds. The life segment portfolio is also very conservative with 36.0% in deposits and 46.2% in sovereign bonds. Reinsurance without strategic investments has 18.1% in deposits, 26.6% in sovereign bonds, but 30.8% in corporate bonds and 3.3% in equity.

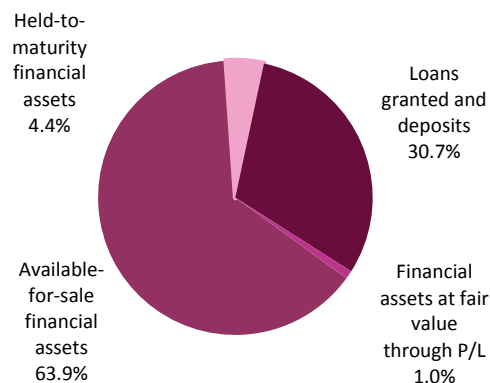
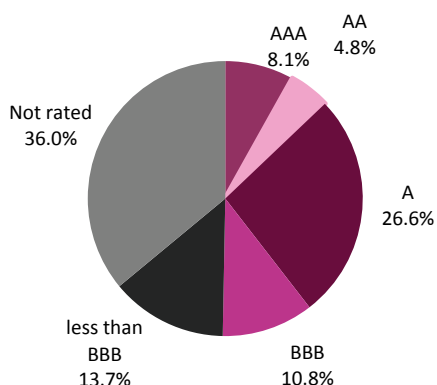
Portfolio return in 9M12

Asset class	Reinsurance	Non-life	Life	Total
Deposits and CD	1,578,514	2,411,332	312,209	4,302,055
Mutual funds	-855,813	-56,597	27,379	-885,031
Corporate bonds	2,455,623	687,473	149,481	3,292,576
Sovereign bonds	1,143,760	1,462,832	455,218	3,061,810
Equities (strategic)	4,769,208	0	0	4,769,208
Equities	-577,175	328,817	-41,596	-289,953
Other	-479	161,676	2,438	163,640
Total return before cost of financing	8,513,638	4,995,537	905,130	14,414,305
Total return after cost of financing	7,384,970	4,548,731	890,038	12,823,739

Source: Sava Reinsurance Company

The EUR 4.8m gained from equities (strategic) in 9M12 relates to net profit from associate companies (Zavarovalnica Maribor and Moja Naložba), which are consolidated using the equity method. We must note that there is an in-house portfolio management team managing all the assets of the Sava Re Group.

Portfolio structure as of 30 September 2012



Source: Sava Reinsurance Company

1.7 SOLVENCY

In recent years, Sava Reinsurance Company's solvency ratio decreased; however, it remained considerably above minimal requirements. Nevertheless, there should probably be more focus on the changes that will be seen in Solvency II. But for now, the Solvency II regulation was postponed. Here we note there are still some uncertainties as to how this will affect small insurers that are part of the Sava Re Group and what the results of possible capital reallocation for reinsurance operations will be.

Sava Re Group	2008	2009	2010	2011
Available solvency margin	144.4	126.9	122.0	136.2
Required solvency margin	58.1	66.4	74.1	79.4
Surplus	86.3	60.5	47.9	56.8
Solvency Ratio	248.5%	191.1%	164.6%	171.5%

Sava Reinsurance Company	2008	2009	2010	2011
Available solvency margin	76.1	57.3	41.8	41.2
Required solvency margin	16.2	18.7	20.2	21.6
Surplus	59.9	38.6	21.6	19.6
Solvency Ratio	469.1%	306.5%	207.2%	190.7%

Source: Sava Reinsurance Company

2 MACROECONOMIC ANALYSIS

Slovenia is a member of the European Union, the Eurozone, NATO, and the OECD. The rest of the region is moving toward European organizations and are therefore going through convergence processes. Here we must note that the differences are vast and that the lasting global turmoil has shown weaknesses in the region and considerably slowed the convergence process. We note that Croatia is scheduled to become a European Union member in mid 2013.

Expected GDP growth (%)	2011	2012E	2013E	2014E
Croatia	-0.01	-1.14	0.95	1.50
Macedonia	3.11	0.96	1.95	3.54
Montenegro	2.45	0.20	1.54	2.03
Serbia	1.62	-0.48	2.05	2.55
Slovenia	0.60	-2.22	-0.36	1.71

Source: International Monetary Fund, World Economic Outlook Database, October 2012

Slovenian and the Ex-Yugoslavia region (i.e. the SEE region) is, as is the rest of the world, facing a difficult macroeconomic situation. Growth rates have declined significantly from the period before 2009, while the pickup in economic activity was weak in the aftermath of the global and financial economic crisis. This is clearly seen in Slovenia, where a 7.84% decline in GDP in 2009 was followed by two years of weak growth (1.24% and 0.60%), while in 2012 we can again expect an approximately 1.5% decline in GDP (in 2Q12 GDP contracted by 3.2% YoY). For 2013 the expectations are that the economic decline will continue. The IMF expects a 0.36% decline in GDP while UMAR (The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia) expects a 1.4% decline in GDP for 2013. We believe the latter is more probable. In 2014 we could again see positive growth.

YoY growth rates (%)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Real GDP	2.5	1.6	0.8	-2.4	0.2	-3.2
Private consumption	1.7	0.7	2.2	-0.4	0.6	-3.0
Government exp.	-1.0	-1.5	-1.1	-1.3	0.0	-2.0
Gross investments	4.3	-3.1	-3.5	-15.4	-11.1	-22.1
Export	11.6	8.8	5.1	3.1	2.0	-0.5
Import	10.6	5.6	4.4	0.8	-1.1	-5.4

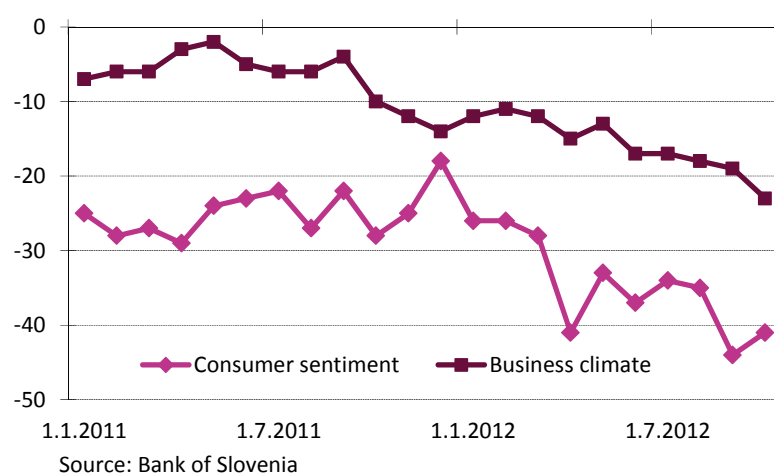
Source: Institute of Macroeconomic Analysis and Development

The main reason for the lag in economic activities is lending problems due to raising NPLs (reaching 20% in big banks) and the weak capital adequacy that still needs to be attended to. Namely, the Slovenian banks' balance sheet contracted by 1.5bn or 5.5% YoY in 9M12 as loans to the non-banking sector decreased by 5.7%, 2.0% for households and 8.4% for corporate clients. There has also been intensified competition for deposits, which led to an increase in interest rates on deposits. The construction sector is also in a difficult situation, as activity declined by 25% in 2011 and 17.3% in the first half of 2012, with an overall decline of 57% since mid 2008. Additionally, Slovenia is an export orientated country, with its main trading partners being Germany, the US, Italy, and France. The weakening of activity in these markets therefore is negatively influencing activity in Slovenia. Export activity was therefore a positive factor in 2010 and 2011 regarding Slovenian GDP, but in 2012 even this segment is weakening and is expected to turnaround only in mid 2013. As for domestic demand, this is

under pressure due to the intractableness of the recessionary environment, rising unemployment, fiscal retrenchment, and a drop in real wages.

The result of this adverse dynamic is an increased unemployment rate, which reached 11.7% in mid 2012 (the registered unemployment rate) and thereby increased by 2.6 p.p. on 2009. Since labour reform has still not been carried through and the legislation is quite rigid, we believe that unemployment will persist at these high levels. Labour competitiveness has not increased, but the government has pushed through lower corporate income taxes and tax relief for R&D.

Consumer sentiment and the business climate is therefore low and has been in a downward trend over the last two years.



The weak economic activity and banking problems are also the main causes of the credit downgrades seen in several countries in the region in the last year. Namely, S&P downgraded Slovenia in August 2012 from A+ to A, Moody from A2 to Baa2, and Fitch from A to A-. Here we also note that Serbia and Bosnia and Herzegovina will likely need a new IMF finance package (discussions are ongoing).

Credit ratings	S&P	Moody's	Fitch
Croatia	BBB- (negative)	Baa3 (negative)	BBB- (stabile)
Macedonia	BB (stabile)	n.a.	BB+ (stabile)
Montenegro	BB- (stabile)	Ba3 (stabile)	n.a.
Serbia	BB- (negative)	n.a.	BB- (negative)
Slovenia	A (negative)	Baa2 (negative)	A- (negative)

Source: Bloomberg, 6 November 2012

As for the rest of the region, the problems are similar and the GDP growth rate, although positive for some countries, is forecasted to be one of the lowest in a decade, surpassed only by 2009 data. For 2013, expectations are that the economies should improve, but only slightly. The IMF sees higher growth rates only after 2014.

- Croatia's economy could experience a slight boost if it becomes an EU member in 2013. Here as well, the county experienced a persistence of the recessionary environment, an unbearably large public sector, high unemployment (around 14%), and an uneven privatization process, which was only slightly counterbalanced by tourism sector gains.

- Kosovo is still dependant on foreign aid and inappropriate infrastructure, while the political situation remains problematic. Agriculture provides one-fifth of GDP and employs 16 to 17% of the workforce. It has an extensive informal and black economy and with it a high unemployment rate.
- Macedonia fared the best over recent years due to exports and FDI (also due to a low flat tax rate of 10%), while for the future, infrastructure projects are planned to boost the economy. On the other hand, the unemployment rate remains high (around 31% in 2011), while the informal economy is also large.
- The Montenegrin economy is also burdened by its informal economy (around 40% of GDP) and high unemployment (around 20%). The main positive factor for the economy is the tourism segment, which is on the rise. A restructuring process is still under way, as well as a privatization program. Montenegro also has an attractive flat tax rate of 9%.
- The Serbian economy also experienced a significant headwind after 2009 that stalled the economy from an approximately 5% growth rate to one barely positive (negative in 2012). The government responded, but structural reforms are slow, along with a rebalancing of the economy. Russia remains an important export and investment partner. Unemployment is high (above 20%) and the informal economy is strong. The government is ambitious with its growth target for 2013, especially since tough reforms will have to be passed, but they are based on low tax rates to attract investments, infrastructure projects, the breaking down of the informal economy, etc.

Inflation numbers are mostly under control in the mentioned countries, with the exception of Serbia, where inflation is still at a high level. Nevertheless, a drop in economic activity has lowered inflationary pressures.

Expected CPI (%)	2011	2012E	2013E	2014E
Croatia	2.26	2.99	3.00	3.00
Macedonia	3.90	2.00	2.00	2.00
Montenegro	3.08	3.41	2.97	3.49
Serbia	11.15	5.93	7.55	4.51
Slovenia	1.83	2.17	1.51	1.90

Source: International Monetary Fund, World Economic Outlook Database, October 2012

Slovenia had a current account surplus in 2011 and should sustain it in next couple of years. Croatia is maintaining a slight deficit as the tourism seasons are good, but declining imports due to lower consumption are also helping to lower the deficit. The high C/A deficit in Montenegro also poses a major risk for its economy. Serbia's C/A could, on the other hand, be positively biased (given current IMF forecasts), as Fiat production should start by yearend.

Current account (%)	2011	2012E	2013E	2014E
Croatia	-0.97	-1.17	-1.30	-1.45
Macedonia	-2.67	-3.97	-5.98	-5.74
Montenegro	-19.47	-20.02	-19.79	-18.91
Serbia	-9.50	-11.47	-12.59	-13.77
Slovenia	0.00	1.11	1.02	0.94

Source: International Monetary Fund, World Economic Outlook Database, October 2012

The Slovenian government budget deficit reached 5.5% of GDP in 2009. Although this was not an alarming amount in such times of severe global turmoil, the problematic fact is that even the pickup in the economic environment in 2010 and 2011 in comparison to 2009 did not improve the budget deficit. Namely, in 2011 the budget deficit was 6.4% of GDP. The reason for this is that big cost cutting in the public sector was mostly avoided and that several reforms were delayed or adopted only by diminishing the effects and influence of such reform. We note, however, that the government has enforced one wave of public spending cuts in 2012, namely an 8% cut in public salaries (the effective number is actually lower). The government is planning to lower the budget deficit to 3.5% of GDP for 2012 and 3% or less in 2013, but under the assumption that all planned reforms and public spending cuts are implemented in a timely matter. Additionally, the banking sector still needs a capital injection so we believe that without privatization and an assets sale (the Slovenian government is still heavily involved in the main Slovenian companies) there is risk of quite a higher budget deficit than planned by the government. Therefore, we can expect that the end year budget deficit will be higher than planned, namely around 4.0% in 2012 and 3.5% in 2013. It is likelier that the deficit might drop below 3% only after 2013.

Budget deficit (%)	2011	2012E	2013E	2014E
Croatia	-5.17	-4.40	-4.49	-4.54
Macedonia	-2.48	-2.55	-2.50	-2.20
Montenegro	-6.49	-5.07	-3.42	-2.26
Serbia	-4.20	-6.59	-5.87	-6.26
Slovenia	-5.61	-4.62	-4.43	-2.77

Source: International Monetary Fund, World Economic Outlook Database, October 2012

Here we must also note that the government debt levels of Slovenia are quite low at 47% of GDP (52% projected by the end of the year) and therefore far from problematic (below 60% of GDP, which is set by the Maastricht Treaty). Nevertheless, the trends are negative (the demographic trend, projections for retirement benefits etc.) and with further bank capital injections pending, this figure could surge in the following year, while the trend could cease only if proper reforms are passed (we note that the pension reform was successfully passed). Here we must note that if in the past the government was reluctant to give up its stakes in companies and thereby their influence on the economy, it seems that a positive side effect of this recession is an increased willingness regarding privatization, at least in the public rhetoric. We will see if this transforms into actions, although several smaller companies have been sold.

All other government budgets will also be under the influence of problematic and persistent global turmoil, on one hand, and the need for expenditure costs, on the other. Narrowing the budget deficit is the main goal, but difficult to achieve given the environment. In Croatia, the VAT tax rate was raised from 23% to 25% in March 2012 and several structural and economic policies are in the making. We see Croatia's pending entry into the European Union in 2013 as positive for the investment climate and economic activity.

Currency regimes	
Croatia	HRK; tied to the euro
Macedonia	MKD; managed floating currency regime - stable to the euro
Montenegro	Adopted the euro, not part of the euro area
Serbia	RSD; managed floating currency regime
Slovenia	Euro area

3 INDUSTRY ANALYSIS

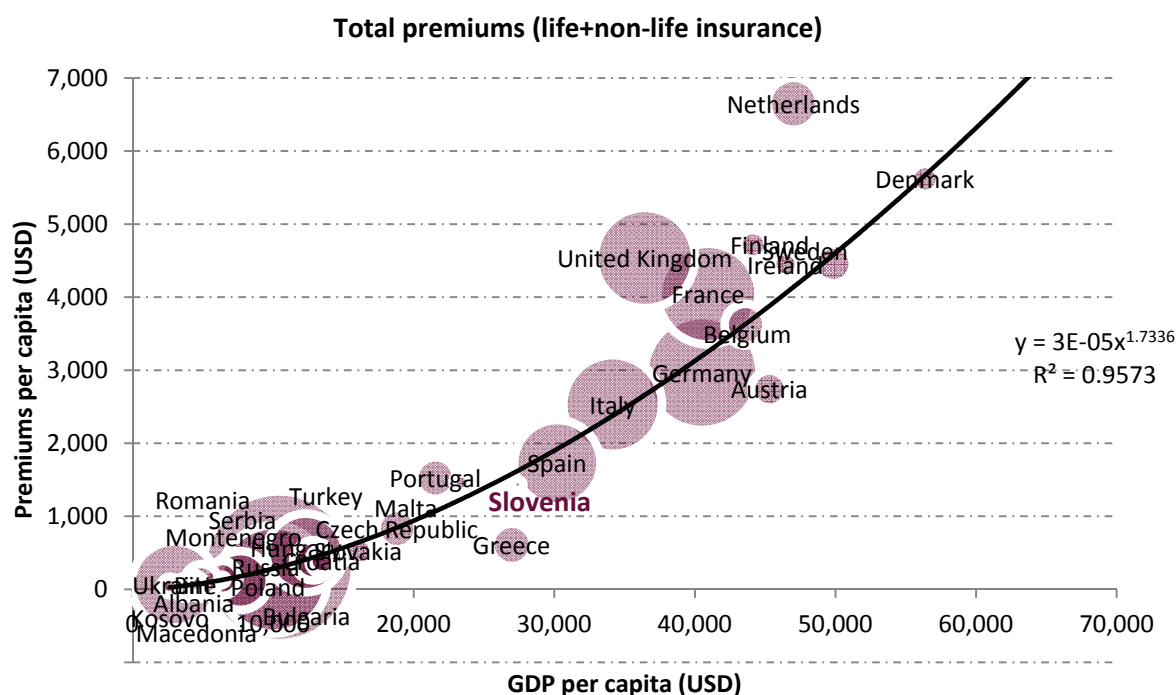
The regional top 100 SEE insurers had EUR 6.053bn of GWP in 2011, but this represented a 2.3% YoY decrease. The biggest insurance companies with corporate HQs in the SEE are (according to SeeNews):

- Zavarovalnica Triglav (EUR 697m of GWP);
- Croatia Osiguranje (EUR 370m of GWP);
- Adriatic Slovenica (EUR 266m of GWP);
- Zavarovalnica Maribor (EUR 263m of GWP); and
- Astra (EUR 234m of GWP).

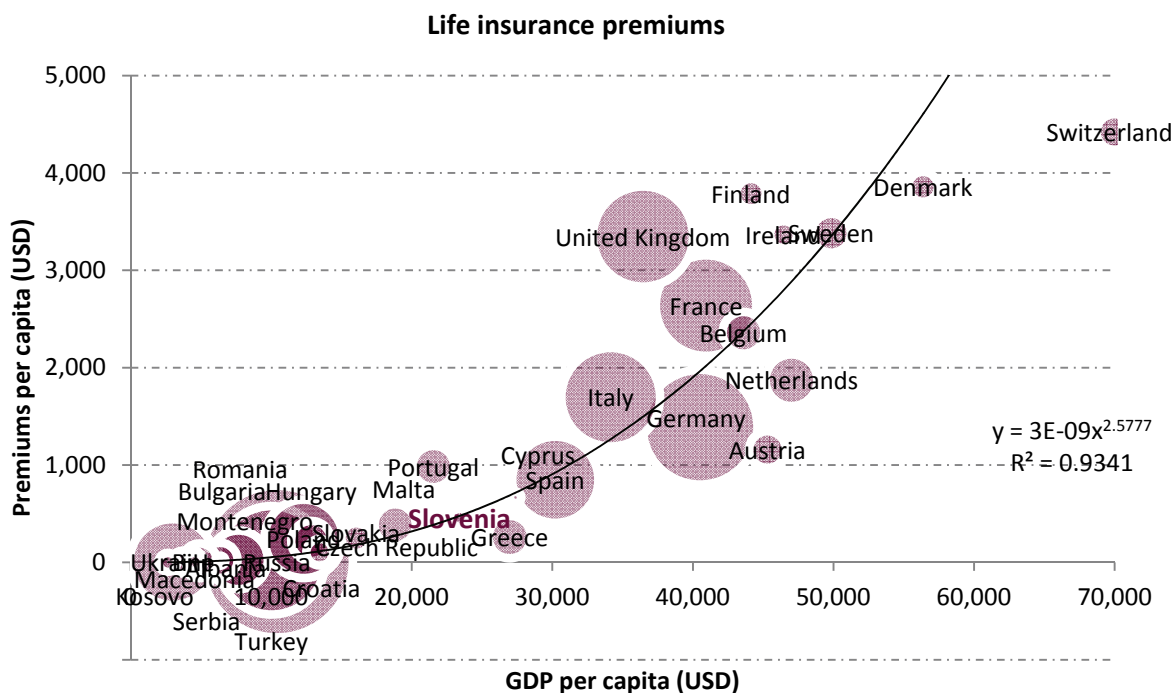
The CEE insurance market had a decade of amazing growth before the crisis (before 2007) driven by many key drivers:

1. The convergence process, since there were significantly different penetration rates between West and East and South East European markets, especially in the life insurance and health insurance segments. Here we must note that the differences are still vast and that we can expect that the conversion trend will continue in the future at a faster pace. Xprimm.com reported that CEE expenses per capita for insurance in 2011 were at EUR 253 per capita (Slovenia leads with EUR 1,046, followed by the Czech Republic at EUR 590 per capita).

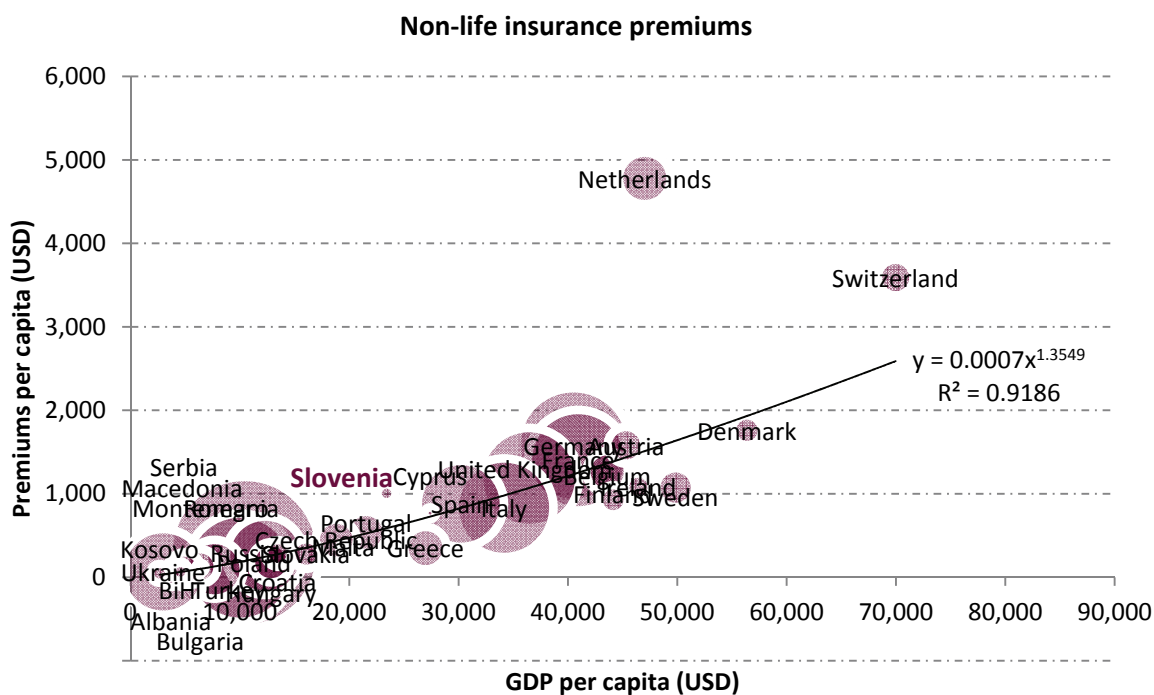
Insurance market regression between GDP per capita (x) and insurance density (y) shows the mutually tight relation and with it the prospects of undeveloped countries with low insurance density.



Source: Swiss Re, Sava Reinsurance Company, Triglav, Xprimm.com, Alta Invest estimates



Source: Swiss Re, Sava Reinsurance Company, Triglav, Xprimm.com, Alta Invest estimates



Source: Swiss Re, Sava Reinsurance Company, Triglav, Xprimm.com, Alta Invest estimates

2. The **increase in disposable income** and the wealth of households in Eastern and South Eastern Europe. This is a normal development in the insurance business as data underlines that the GWP per capita curve starts to significantly increase (non-linearly) after GDP per capita approaches USD 10,000 per capita. Higher wealth and disposable income makes people think about insurance. The Vienna Insurance Group also points out that MTPL growth can be seen not only due to under-penetration, but also due to the current old vehicle fleet in these countries.

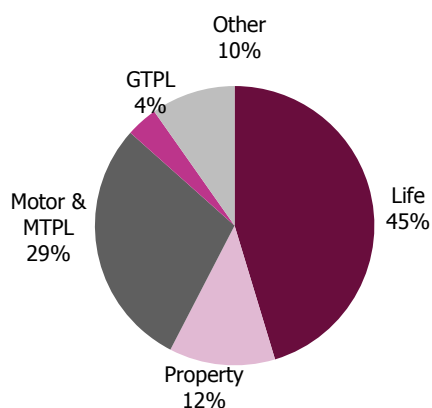
Insurance density (EUR)	
Austria	1.997
Slovenia	1.020
Czech Republic	568
Slovakia	381
Poland	356
Hungary	306
Croatia	286
Bulgaria	111
Montenegro	99
Romania	93
Serbia	75
BiH	65
Macedonia	51
Ukraine	48

Source: Zavarovalnica Triglav, Vienna Insurance Group

3. **Strong foreign direct investment in the region.** FDI in insurance increased due to the above-mentioned factors (making the region attractive for pursuing growth) and increased even more after the inclusion of several new countries in the European Union. **Consolidation** was also an important factor behind this. This is especially evident in the fact that big locally-owned insurance companies are now very scarce (PZU, Zavarovalnica Triglav, Croatia Osiguranje) and that international insurance companies are very present in the region (Allianz, Uniqa, Vienna Insurance Group, Generali etc.). In 2011 several foreign insurance companies entered Turkey, while VIG had acquisitions in Bosnia & Herzegovina and Poland. Further consolidation is possible in the following years, since also smaller players will need to expand to gain enough economy of scale or will exit due to unprofitable business.

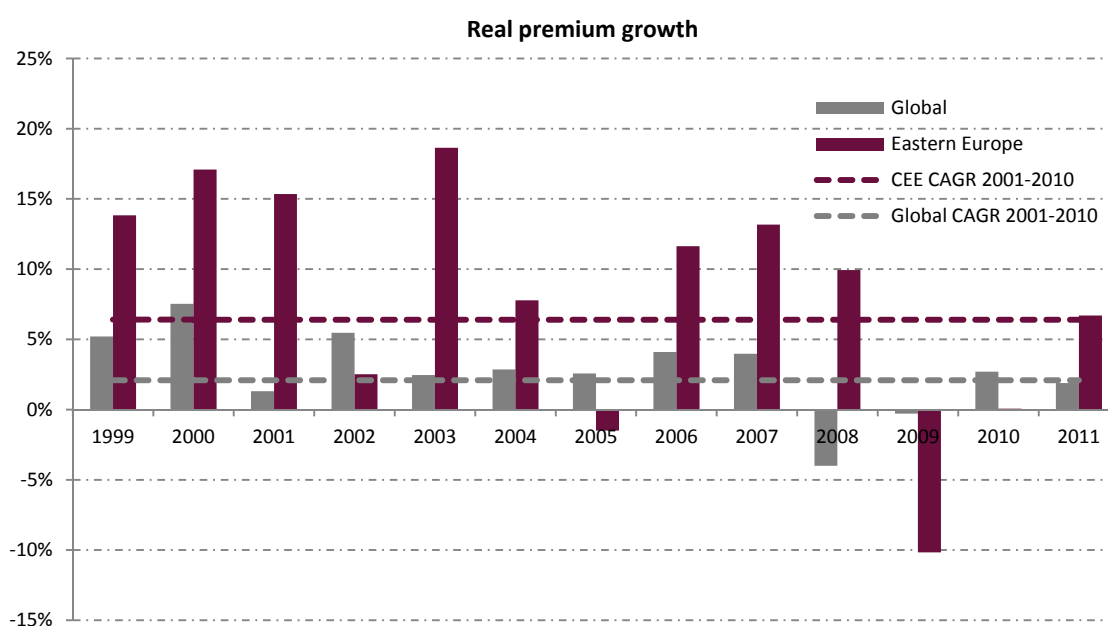
Below we can see the structure of the CEE market in terms of type of insurance, but we must note that the structure (especially the part of life insurance) varies significantly from country to country.

The GWP structure of CEE insurance (3Q11)



Source: Xprimm.com

The **debt crisis and recession affected these trends** and hit CEE insurance companies and their operations in the region. Especially the life insurance segment, seen before the crisis as the biggest future growth driver, experienced a setback since people are more concerned with employment and purchasing power than with paying into life insurance. KPMG points out that even in Poland (one of very promising insurance markets and by far the biggest in the CEE region), life insurance premiums dropped by a significant 22% (in PLN), despite their GDP actually maintaining growth in 2009. **Most of the CEE markets, therefore, went from high GWP growth levels into flat or even negative rates after the crisis.** This is a logical consequence of the economic environment and less experience with life insurance contracts. As mentioned, this is mostly due to the life insurance segment, so actually the difference in penetration rates between Western and Eastern and South-Eastern markets probably again increased. Additionally, motor insurance suffered also in some CEE countries, possibly due to lower credit activity and lower purchasing power (which also showed in a drop in vehicle sales growth).



Source: Swiss Re

We believe that above-mentioned **growth trends** that drove above average growth in the insurance sector before the crisis **will resume the once economies stabilize**. Additionally, this will also be driven by a stronger regulatory framework, also providing a better margin environment.

The country specifics where Sava Reinsurance Company is present are given in the following pages.

3.1 SLOVENIA

Slovenia	2011	2010	Market segmentation 2011	
Real change in GDP (%)	-0.2	1.4	Zavarovalnica Triglav	33.20%
GDP (m EUR)	35,639	35,416	Adriatic Slovenica	12.70%
Registered unemployment rate (%)	11.8	10.7	Zavarovalnica Maribor	12.60%
Average inflation (%)	1.8	1.8	Vzajemna	11.90%
Population (m)	2.0	2.0	Modra zavarovalnica	6.70%
GDP per capita (EUR)	17,820	17,708	Zavarovalnica Tilia	3.80%
Insurance premiums (m EUR)	2,092	2,094	Other insurers	19.20%
Insurance premiums – non-life (m EUR)	1,454	1,438		
Insurance premiums – life (m EUR)	638	656	Non-Life insurance	69.5%
Insurance premium per capita (EUR)	1,046	1,047	Life insurance	30.5%
Premium/GDP (%)	5.9	5.9		
Average monthly net salary (EUR)	999	989		

Source: UMAR AZN

- A highly concentrated market, on one hand, with a 70% market share in the hands of four players, but with international presence, on the other hand (Generali, Ergo, Wiener Stadtische, Grawe – the only exception is Uniqa, which is not present).
- Rising unemployment continued to affect life insurance, where companies in 2011 collected 2.7% less premiums than in 2010. That drop offset the 1.1% growth in the non-life segment.
- The largest non-life segment in 2011 was health insurance, followed by motor third party liability insurance and motor casco insurance (MTPL and motor casco have a 31% and 27% GWP share in non-life).
- The negative trend continued also during the first half 2012, although some insurance companies managed to gain market share, offsetting the market trend.
- Given current GDP projections, we expect that the overall growth of the Slovenian insurance market in 2012 will be slightly negative. This downward trend is likely to continue in 2013.

Slovenia – Tilia:

- Profitability increased in the last few years due to a better loss ratio, but Sava Reinsurance Company deems profitability can further increase in the following years due to a decrease in the cost ratio. Namely, in 2010 net profit was at EUR 1.5m, in 2011 it was EUR 2.3m despite a 1.7% lower GWP, as gross claims fell by 3.3% YoY. In 1H12, Tilia had EUR 48.1 of GWP, EUR 30.2m of gross claims, and EUR 3.1m of net profit, of which, net investment income was EUR 1.5m.
- The target market share is 5%, achieved through innovative products and new technology (smart phones, the web, etc.).
- Additionally, the goal is to improve the premium collection process.
- Opportunity is seen in entering the health market.

Slovenia – Zavarovalnica Maribor:

- Performance in 1H12 improved compared to 1H11, as there were no major catastrophic events in Slovenia in the first half of the year. In 1H12 Zavarovalnica Maribor had a net income of EUR 6.6m and GWP of EUR 153.3m.
- In 2010, Zavarovalnica Maribor limited crop insurance, which negatively affected GWP but affected profitability positively. In 2011, net profit amounted to EUR 10.6m and stagnated compared to 2010, although GWP grew by 1.4% in 2011.

3.2 CROATIA

Croatia	2011	2010	Market segmentation 2011	
Real change in GDP (%)	0.3	-1.2	Croatia osiguranje	30.50%
GDP (m EUR)	46,101	45,917	Allianz Zagreb	11.20%
Registered unemployment rate (%)	17.9	17.4	Euroherc	10.90%
Average inflation (%)	2.3	1.1	Jadransko	7.00%
Population (m)	4.4	4.4	Kvarner VIG	4.90%
GDP per capita (EUR)	10,477	10,436	Velebit osiguranje	0.70%
Insurance premiums (m EUR)	1,229	1,268	Velebit životno	0.10%
Insurance premiums – non-life (m EUR)	902	931	Other insurers	34.60%
Insurance premiums – life (m EUR)	327.0	337.0		
Insurance premium per capita (EUR)	279	288	Non-Life insurance	73.4%
Premium/GDP (%)	2.7	2.8	Life insurance	26.6%
Average monthly net salary (EUR)	747	733		

Source: DZS, HUO

- The weak economic recovery in Croatia negatively affected the insurance market, which continued to contract. With insurance premiums decreasing by 1.1% (-3% in EUR), the negative trend continued for a third year in a row.
- Among non-life premiums, auto insurance (motor casco and MTPL) still accounts for more than 40%.
- The negative trend has continued also in 2012. In the first three quarters, GWP decreased by 1.7%.
- Although it is expected that the Croatian insurance market will continue to grow, the negative macroeconomic environment is likely to push growth rates to the low single digits.
- Price competition is difficult due to tenders and MTPL tariffs.

Croatia – Velebit osiguranje:

- The company had a 0.7% market share in Croatia and 1.0% in non-life.
- The cost ratio improved in 2011, but net loss nevertheless increased from EUR 2.0m in 2010 to EUR 2.5m in 2011. Namely, the market remains difficult due to competition, tenders, MTPL commissions, etc. Additionally, there was a large impact due to premium impairments. GWP, on the other hand, increased by 6.0% YoY in 2011 to EUR 9.0m.
- Sava Reinsurance Company plans to improve the cost effectiveness of business, decreasing cost ratios and increasing agents' productivity, while reducing exposure on the part of investment.
- Sava Reinsurance Company believes that there can be high premium growth based on non-MTPL products.

- Sava Reinsurance Company is also assessing the possibility of a branch of Tilia following entrance into the European Union.

Croatia – Velebit životno:

- Sava Reinsurance Company had a 0.09% market share in Croatia or 0.33% in non-life.
- The environment remains difficult. In 2011, there was a 16.7% drop in GWP and a EUR 1.3m net loss.
- Sava Reinsurance Company plans cost rationalization, while accelerating sales with alternative distribution channels and new innovative products.

3.3 KOSOVO

Kosovo	2011	2010	Market segmentation 2011	
Real change in GDP (%)	5.3	4.6	Illyria	23.00%
GDP (m EUR)	4,486	4,113	Sigma	12.80%
Registered unemployment rate (%)	45	45	Sigal Uniqa	11.10%
Average inflation (%)	7.3	3.5	ElSig	10.50%
Population (m)	2.2	2.2	Siguria	10.20%
GDP per capita (EUR)	2,039	1,870	Other insurers	32.50%
Insurance premiums (m EUR)	79	72		
Insurance premiums – non-life (m EUR)	78	71		
Insurance premiums – life (m EUR)	1.0	1.0		
Insurance premium per capita (EUR)	36	33	Non-Life insurance	98.7%
Premium/GDP (%)	1.8	1.8	Life insurance	1.3%
Average monthly net salary (EUR)	342	286		

Source: Central Bank of the Republic of Kosovo, Statistical Agency of Kosovo

- The insurance market in Kosovo is among the most underdeveloped in the region. Accordingly, growth therein remained strong in 2011. Overall insurance premiums increased by 9.7% YoY.
- The characteristics of the market are in line with the very low density. MTPL policies accounted for 59% of the total GWP, while there is only a marginal presence of life insurance.
- In 2012, the insurance market in Kosovo continued with high single digit growth. In comparison to 2011, when non-MTPL insurance actually contracted, during the first eight months of 2012, this segment grew by almost 50%.
- Although growth could somewhat slow down, it is very likely that the convergence process in the insurance market in Kosovo will continue in the next few years.
- There is no external insurance distribution system, while supervision is still in the early stages and therefore unpredictable.

Kosovo – Illyria:

- Illyria had a 24.3% market share in Kosovo, with 23.3% in non-life.
- GWP for Illyria increased by 6.7% YoY in 2011, but gross claims paid increased by 12.1% YoY. Net loss deteriorated from EUR 0.5m to EUR 2.4m. In 2012, results improved. Here we note that there was a management change in 2011. This led to an overhaul of the insurance company.

- The main goal of Sava Reinsurance Company is to retain its reputation as a market leader and implement suitable products for non-MPTL growth.

Kosovo – Illyria Life:

- 100% market share in the life insurance market.
- Growth is still high, 39.6% YoY in 2011, while the insurance is achieving a slight profit. This proves its cost effectiveness.
- Nevertheless, Sava Reinsurance Company will try to additionally improve the cost structure, while accelerating sales by alternative distribution channels and implementing suitable low-budget products.

3.4 MACEDONIA

Macedonia	2011	2010	Market segmentation 2011	
Real change in GDP (%)	2.3	1.8	Vardar	18.20%
GDP (m EUR)	7,310	6,905	Eurolink	11.30%
Registered unemployment rate (%)	31.2	32	Sava osiguruvanje	11.30%
Average inflation (%)	3.9	1.6	QBE	10.90%
Population (m)	2.0	2.0	Osiguritelna Polisa	8.40%
GDP per capita (EUR)	3,655	3,453	Other insurers	39.80%
Insurance premiums (m EUR)	110	105		
Insurance premiums – non-life (m EUR)	102	99		
Insurance premiums – life (m EUR)	8.1	5.8		
Insurance premium per capita (EUR)	55	53	Non-Life insurance	92.7%
Premium/GDP (%)	2.0	1.5	Life insurance	7.3%
Average monthly net salary (EUR)	348	334		

Source: NIBM, Zavod za statistiku Republike Makedonije

- The recovery of economic conditions in Macedonia has been slow, however, it is hard to see this in the insurance market, where life insurance premiums in 2011 rose by more than 40%. Although overall growth was only around 4.8% (non-life grew by 3%), the Macedonian market was still amongst the fastest growing in the SEE region. The strong growth was mainly a result of new companies entering the market and new government measures that positively affected the MTPL insurance segment.
- The MTPL segment is also the largest in the insurance portfolio and in 2011 accounted for 48% of the total non-life GWP in Macedonia. Among the largest are property insurance and motor casco insurance. We note that the percentage of uninsured cars is still not decreasing.
- The strong growth of life insurance premiums continued in 2012, while growth in the non-life segment slowed in comparison to the figures for 2011.
- We expect that the Macedonian insurance market will continue to grow, however, rates could somewhat stabilize in the next two years.
- Supervision and the market remains unpredictable, especially due to the harsh competition.

Macedonia – Sava Osiguruvanje:

- Market share is decreasing in Macedonia, where the company had an 11.3% market share in insurance (12.2% in non-life).
- In 2011, GWP decreased by 17.4% YoY, while net loss widened from EUR 1.5m to EUR 2.7m. GWP decreased due to the tender system.
- In 2011, there was a decrease in MTPL tariffs, bad debt, and real estate impairments, etc. At the same time, there was a management change.
- In the following years, Sava Reinsurance Company will focus on improving receivables management and cost optimization, on the one hand, while also creating new distribution channels and products.

3.5 MONTENEGRO

Montenegro	2011	2010	Market segmentation 2011	
Real change in GDP (%)	2.5	2.5	Lovćen osiguranje	45.40%
GDP (m EUR)	3,273	3,104	Sava Montenegro	16.00%
Registered unemployment rate (%)	18.9	19.7	Delta Generali osiguranje	11.00%
Average inflation (%)	3.1	0.7	Uniqa neživotno osiguranje	10.30%
Population (m)	0.6	0.6	Grawe osiguranje	7.60%
GDP per capita (EUR)	5,455	5,173	Other insurers	9.70%
Insurance premiums (m EUR)	65	62		
Insurance premiums – non-life (m EUR)	56	54		
Insurance premiums – life (m EUR)	9.0	8.0		
Insurance premium per capita (EUR)	108	104	Non-Life insurance	86.2%
Premium/GDP (%)	2.0	2.0	Life insurance	13.8%
Average monthly net salary (EUR)	484	479		

Source: NBCG, MONSTAT

- Macroeconomic conditions in Montenegro improved and the insurance market grew by 4.8%. Life insurance premiums increased by 12.5%, while the non-life segment contributed 3.75%.
- The majority share of non-life insurance is still dominated by compulsory MTPL insurance (46% of the total market). In this area there is tough competition in terms of commissions.
- Strong growth continued in 2012, with strongest growth in the non-life segment.
- Although the insurance market in Montenegro is among the more developed markets in the region (except for Slovenia and Croatia), high growth numbers, especially in the life insurance segment, are likely to continue.

Montenegro – Sava Montenegro:

- Sava Montenegro has an 18.6% market share in non-life insurance and is 16.0% overall. It has a strong brand in the market.
- In 2011, Sava Montenegro achieved 6.7% YoY growth of GWP, while the bottom line showed a nice turnaround from a loss of EUR 2.0m to a profit of EUR 1.9m.
- Sava Reinsurance Company continues to focus on cost efficiency and new distribution channels in order to cut costs and improve technical results. Additionally, it has implemented stricter controls regarding general liability underwriting.

3.6 SERBIA

Serbia	2011	2010	Market segmentation 2011	
Real change in GDP (%)	2.0	1.0	Dunav	26.90%
GDP (m EUR)	32,993	29,525	Delta Generali Osiguranje	17.20%
Registered unemployment rate (%)	24.4	19.6	DDOR	19.00%
Average inflation (%)	7.0	6.2	Wiener	9.00%
Population (m)	7.1	7.3	Uniqa Neživot	5.30%
GDP per capita (EUR)	4,633	4,045	Sava osiguranje	2.10%
Insurance premiums (m EUR)	562	550	Sava životno osiguranje	0.10%
Insurance premiums – non-life (m EUR)	464	459	Other insurers	20.40%
Insurance premiums – life (m EUR)	98	91		
Insurance premium per capita (EUR)	79	75	Non-Life insurance	82.6%
Premium/GDP (%)	1.7	1.9	Life insurance	17.4%
Average monthly net salary (EUR)	389	330		

Source: Serbian National Bank

- Due to increasing exports, economic conditions in Serbia improved during 2011 and also resulted in insurance market growth. Total insurance premiums increased by 2.2%. Non-life insurance grew by 1.1%, while life insurance premiums surged by 7.7%.
- Five types of non-life insurance accounted for 74% of the portfolio (accident insurance, motor casco, fire & allied perils, other types of property insurance, and motor liability insurance). With a 32.6% share, motor third party liability (MTPL) insurance remained the most widespread insurance in Serbia. Here we note that there is intensive competition for MTPL commissions.
- While in nominal terms the Serbian insurance market in 2012 has still maintained strong growth, in euro terms, the market contracted by 6% in the first half the year.
- Due to weakening macroeconomic conditions, insurance market growth is likely to slow down, while in euro terms the contraction is likely to continue.

Serbia – Sava osiguranje:

- Sava Reinsurance Company has a 2.6% market share of the non-life segment in Serbia.
- In 2011, GWP decreased by 25.4% YoY, but business remained slightly profitable with an 82.3% YoY increase in net profit. There was a limitation on MTPL growth due to high distribution costs.
- In the future, it will seek for cheaper MTPL distribution channels, while also focusing on profitability through cost rationalization.
- We note that Sava Reinsurance Company is seeing Serbia as the biggest exchange risk of all other Western Balkan markets.

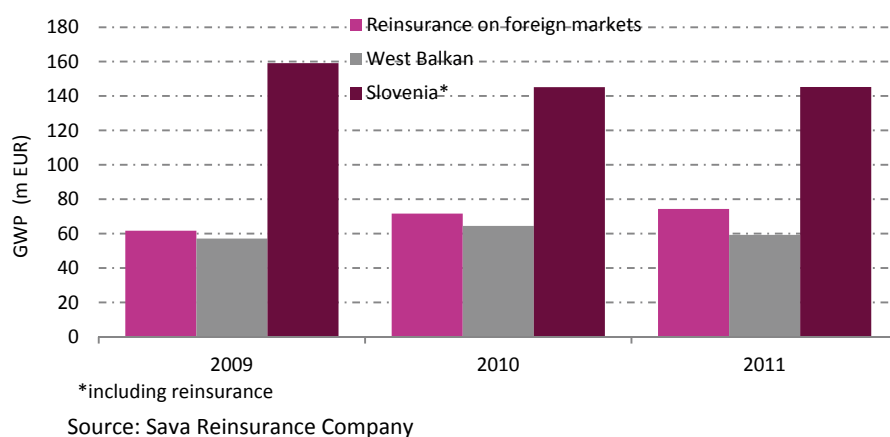
Serbia – Sava životno osiguranje:

- In Serbia, Sava Reinsurance Company has a 0.6% market share in life.
- GWP growth in 2011 was a high 60.7% YoY, but it continued to have a net loss of EUR 0.9m. In 2011, the company replaced management and implemented new products (bancassurance, credit life, whole life, etc.).

4 INVESTMENT THESIS AND RISKS

4.1 INVESTMENT THESIS

The dominant domestic position in reinsurance and gradual global diversification: In 9M12, Sava Reinsurance Company generated EUR 106.9m of GWP in reinsurance or 49.5% of total GWP. The local Slovenian market has only two reinsurance companies, Sava Reinsurance Company and Triglav Re (owned by Zavarovalnica Triglav). Of the two, Sava Reinsurance Company has a market share of around 53.5%. If we consider the other reinsurers that operate in the Slovenian market, Sava Reinsurance Company's market share amounts to 31%. For the reinsurance segment, expected growth rates in terms of gross premium written will stand at around 3-4% (2012-2014). The Sava Re Group's new strategy indicates that the reinsurance segment will lower its current dependence on the domestic market and try to substantially increase the share of written premiums from foreign markets (including emerging markets, such as China, India, S. Korea, etc., through reinsurance brokers). In the next 2-3 years, reinsurance GWP growth in Slovenia is therefore likely to be negative, whereas combined GWP from foreign markets could grow between 3% and 5% annually, as Sava Reinsurance Company is pursuing promising new markets. Market share should remain around 30% in the domestic reinsurance market.

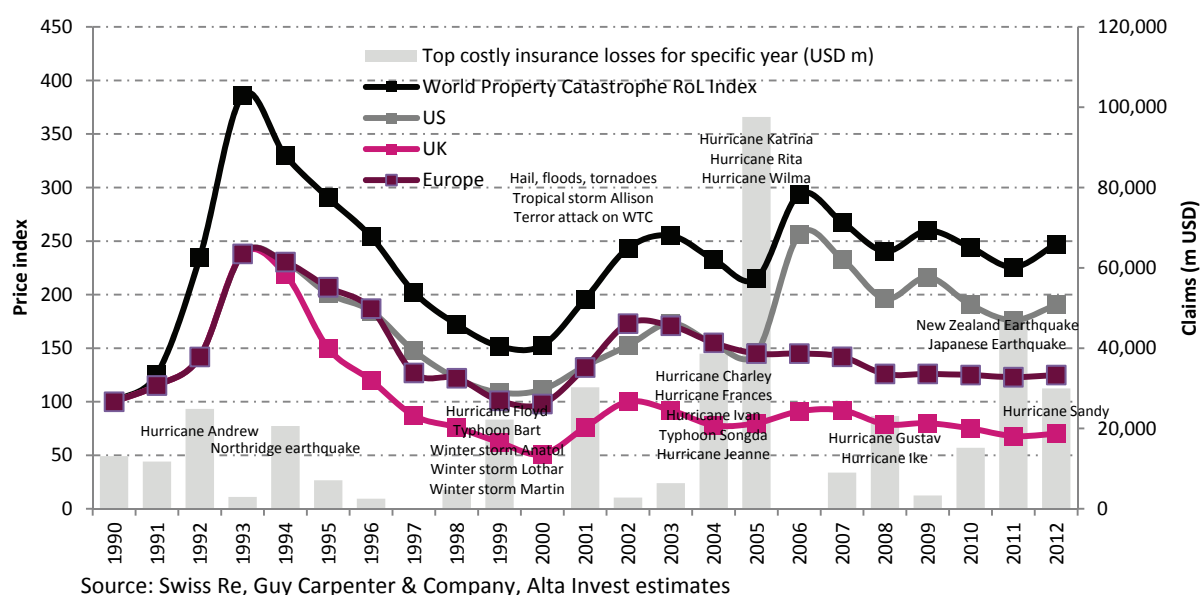


On the domestic insurance market, the Sava Re Group has only a 3.8% market share through the insurance company Tilia (a 4.7% market share in non-life). We note, however, that through ownership of Zavarovalnica Maribor (the third largest insurance company in the domestic market) it would gain an additional 12.6% market share and become the second largest insurer. The largest player on the domestic market would remain Zavarovalnica Triglav, with its 38% market share.

Reinsurance pricing spikes are an opportunity for new players: From the claims perspective, 2011 was one of the costliest years on record. According to Guy Carpenter & Company, there were USD 100 billion of globally insured catastrophe-related losses, with 70% associated outside of US. The higher rate of catastrophic events led to an increase of insurance rates in specific markets and created an opportunity especially for reinsurers who are looking to expand to new markets. This environment also stimulated new capital to enter the reinsurance market. Moody's calculated that since 2011 around USD 6 billion new capital has entered the reinsurance sector. This was also an opportunity for smaller players, such as Sava Reinsurance Company. Although entering new markets can be difficult and

risky, it can also be very profitable. Among the most attractive regions after the 2011 events were especially Asian markets, where reinsurance prices rose due to earthquakes in Japan and New Zealand, and the flooding in Thailand. Although new capital is preventing prices from increasing and at the start of autumn 2012 some reinsurance companies reported that they expect the market to remain flat, hurricane Sandy is likely to significantly affect the pricing dynamic in 2013. It is very likely that also in the future there will be opportunities on the global reinsurance market, however, there could be some changes with the adoption of Solvency II at the start of 2016.

Catastrophic events are affecting reinsurance pricing



Growth through regional presence: In 9M12, Sava Reinsurance Company generated EUR 43.7m of GWP in the region, or 18.7% of total GWP. In comparison, Tilia (a Slovenian insurance company) had a GWP of 65.4m or 28.0% of total GWP. So the Sava Re Group has, through its subsidiaries, a presence in the SEE region and with this a significant growth potential since insurance and reinsurance services are still underdeveloped in the region. Management still continues to believe that focusing on these markets is an appropriate long-term strategy, but currently growth is more organically-based as Sava Reinsurance Company is focused on the consolidation of previous expansion and weak due to the adverse environment (especially for life insurance).

Country	Insurance premium per capita (EUR)	Premium/GDP (%)
Serbia	79	1.7
Kosovo	36	1.8
Macedonia	55	2.0
Montenegro	108	2.0
Croatia	279	2.7
Slovenia	1,046	5.9

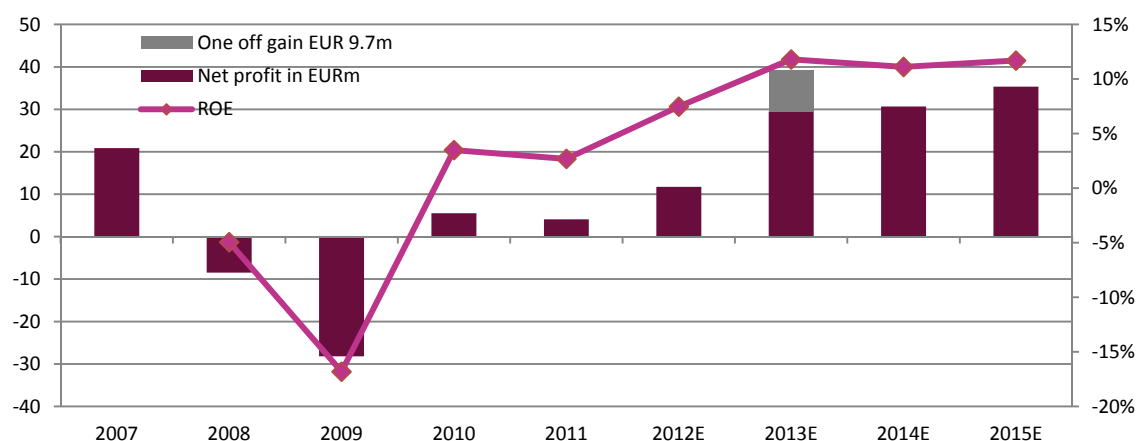
Source: Sava Reinsurance Company (2011 data)

The potential is clearly seen in the underdevelopment of the market in terms of consolidation, insurance penetration, and the legal framework. Although the current global turmoil has slowed or stopped convergence processes, we believe it will continue in the

following years, and insurance penetration with it. This will bring back and accelerate GWP growth, but for Sava Reinsurance Company to reach profitability in the region, its economy of scale will also have to increase. Additionally, focus on market niches could prove to be the right strategy in the region.

Here we must note that regional opportunities for growth of net income are seen from two sources: improving penetration and growth of GWP, on one hand, and cost rationalizations and increasing economies of scale to improve combined ratios, on the other. The Sava Reinsurance Company management deems that non-life SEE business can become profitable in 2012, as can life in 2015.

Increasing profitability: The focus of the insurance company has changed in recent years. There is more emphasis on smaller market opportunities, while also trying to improve economies of scale and cost optimization. While in 2008 and 2009 the Sava Re Group still posted losses, it recorded EUR 6.0m of net income in 2011 (with minority owners EUR 4.0m), and then in 9M12 it had EUR 12.5m of net income. The trend is therefore encouraging, as TTM ROE is increasing and the peer gap average is decreasing.



Source: ALTA Invest

Possible synergies from Zavarovalnica Maribor and further improvement in profitability from regional subsidiaries can additionally boost Sava Reinsurance Company's bottom line in the following years.

Zavarovalnica Maribor: Sava Reinsurance Company currently owns 48.68% of Zavarovalnica Maribor, while NKBM owns 51.0%. Zavarovalnica Maribor is the third largest insurance company in Slovenia (nearly tied with the second largest). Acquiring the second half would allow Sava Reinsurance Company to strengthen its insurance presence in Slovenia, consolidate the insurance company, enforce cost rationalization processes, and additionally create synergistic effects. Acquiring Zavarovalnica Maribor would also mean avoiding the risk of losing profitable reinsurance business in Zavarovalnica Maribor.

On the other hand, Sava Reinsurance Company would need to obtain financing through a capital injection with all its adverse effects, especially the possible dilution of current shareholders. But this can be avoided by participating in raising capital, as current shareholders will retain pre-emptive rights.

The growth rates of both companies versus the Slovenian market can be seen in the tables below:

Non-Life	Sava Re Group (Tilia)		Zavarovalnica Maribor		Sava Re Co & ZM		vs. Slo. mkt.
	GWP (m EUR)	Growth (%)	GWP (m EUR)	Growth (%)	GWP (m EUR)	Growth (%)	p.p
2007	48.6	11.1%	170.7	10.8%	219.3	10.9%	2.5
2008	57.4	18.1%	185.9	8.9%	243.3	10.9%	3.8
2009	61.9	7.8%	199.0	7.1%	260.9	7.2%	2.4
2010	63.7	2.9%	188.3	-5.4%	251.9	-3.4%	-3.0
2011	68.9	8.2%	187.8	-0.2%	256.7	1.9%	0.7

Life	Sava Re Group (Tilia)		Zavarovalnica Maribor		Sava Re Co & ZM		vs. Slo. mkt.
	GWP (m EUR)	Growth (%)	GWP (m EUR)	Growth (%)	GWP (m EUR)	Growth (%)	p.p
2007	9.5	20.90%	63.7	13.1%	73.2	14.1%	1.4
2008	10.9	14.4%	66.0	3.6%	76.8	5.0%	-0.5
2009	10.4	-4.7%	67.0	1.6%	77.4	0.7%	2.7
2010	10.2	-1.5%	71.3	6.4%	81.5	5.3%	1.2
2011	10.3	0.8%	75.4	5.7%	85.7	5.1%	7.8

Total	Sava Re Group (Tilia)		Zavarovalnica Maribor		Sava Re Co & ZM		vs. Slo. mkt.
	GWP (m EUR)	Growth (%)	GWP (m EUR)	Growth (%)	GWP (m EUR)	Growth (%)	p.p
2007	58.1	12.60%	234.3	11.4%	292.5	11.7%	1.9
2008	68.3	17.5%	251.8	7.5%	320.1	9.5%	2.9
2009	72.2	5.8%	266.0	5.6%	338.3	5.7%	3.0
2010	73.8	2.2%	259.6	-2.4%	333.4	-1.4%	-2.4
2011	79.2	7.2%	263.2	1.4%	342.4	2.7%	2.8

Source: Sava Reinsurance Company, ALTA Invest

The alternative is to dispose of this stake, which would give Sava Reinsurance Company a significant cash flow to the Sava Re Group, but would, given current results (the ROE of Zavarovalnica Maribor is above the ROE of Sava Reinsurance Company business), lower the profitability of the Sava Re Group and its presence in the domestic Slovenian market. Part of the cash flow would probably be used for dividend payment and part for strengthening other segments of the Group.

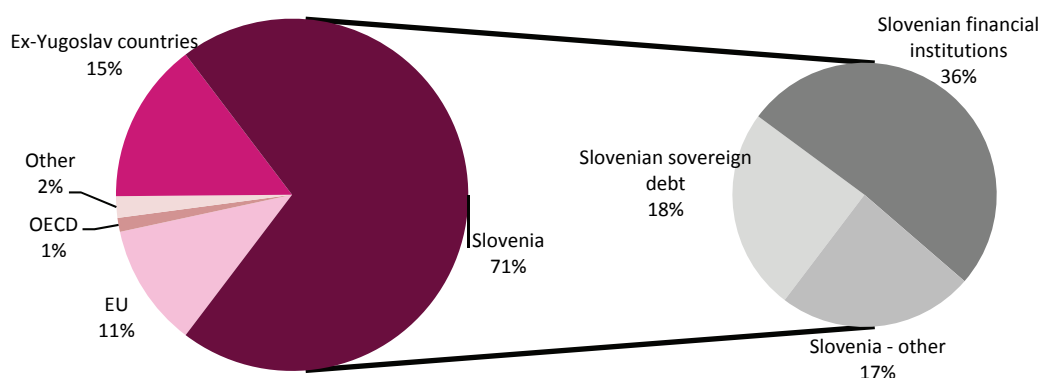
Strong local brand names: On the domestic insurance market, Sava Reinsurance Company has a known brand name, Tilia. Additionally, Zavarovalnica Maribor is also an established insurance name.

4.2 RISKS

The possibility of a downgrade: The credit ratings of Slovenia have a negative outlook and we believe Slovenia's credit rating will further deteriorate as the banking sector remains weak. This would also bring down the rating of Sava Reinsurance Company, as already seen in 2012. Namely, in August 2012 S&P lowered Sava Reinsurance Company's credit rating from A- to BBB+, with a negative outlook, which was tied to the sovereign downgrade. The rating and negative outlook were confirmed in November. Additional downgrades would have especially hurt the reinsurance business, which is the main driver of the profitability of the Sava Re Group, as a good credit rating is a big factor in gaining new customers in foreign markets, such as Asia and Latin America. This would therefore hamper reinsurance growth and possibly profitability. Additionally, we must also note that the portfolio has EUR 50m exposure to Slovenian bonds. Any sovereign downgrade would mean higher bond yields and lower bond prices. This would have a negative effect on the investment portfolio but is somewhat limited due to the lower duration of the portfolio.

The management has stated that although Sava Reinsurance Company's rating was lowered from A- to BBB+, the potential loss of business could be only up to 10m. So it is claiming that the risk is limited. Sava Reinsurance Company also obtained an AM Best Rating in October 2012, which is on an A- level. Since the mentioned credit agency uses a different methodology for estimating credit risk, this fact will help to limit the negative effects on the reinsurance growth of the potential downgrade of the Slovenian sovereign rating to the company's rating by S&P's methodology.

High Slovenian exposure: Regional diversification of Sava Re Group's investment portfolio is increasing, however the core is mainly still allocated in Slovenia. Although only around 18% is invested in Slovenian government bonds, a much larger part is also in different financial institutions (mainly in deposits, but a large part is in the Slovenian branches of foreign banks). We currently do not expect any extreme scenarios regarding financial conditions in Slovenia, however, the weak macroeconomic environment and the low level of diversification still pose some threat to the stability of Sava Re Group's investment portfolio.



Source: Sava Reinsurance Company (1Q12 data)

The region is still unstable and subsidiaries could need capital injections: Although the region presents an opportunity for above average growth of Sava Reinsurance Company, the SEE region is also a highly macroeconomically and politically unstable region with the legal systems and controlling mechanisms still in their early stages of development (the lag in development varies from country to country). This is more visible regarding profitability, as the regional companies and subsidiaries are known for having difficulties transferring a potential good top line into a good bottom line. Tight cost control is needed and a better legal framework, which is only slowly improving in the EU conversion processes.

Since 18.7% of total GWP is made in the SEE region and an even greater share of Sava Reinsurance Company value is directly related to SEE region growth, any form of economic slowdown and wealth growth stagnation would and is having a negative impact on the value of Sava Reinsurance Company share price. This was clearly seen in the last few years where the economic slowdown or even recession hampered GWP growth (especially in life), while the lack of economies of scale impacted profitability. Namely, results for 2010 and 2011 have shown all the risks involved with regional expansion as regional subsidiaries negatively contributed to Sava Reinsurance Company's bottom line. Therefore, the region did not contribute to shareholder wealth in 2010 and 2011. In 1H12 the situation improved, although operations in Croatia and Macedonia are still in the negative regarding net income figures. 2013 could prove to be another macroeconomically difficult year. Additionally, subsidiaries in the SEE could need capital injections, although there are only a few small capital injections planned for 2013 and 2014 (and none thereafter). Just recently, Sava Reinsurance Company had to post EUR 2m in Sava osiguruvanje a.d., Skopje.

A high combined ratio and low profitability: In the previous years (2008-2009), the combined ratio of the Group remained elevated, which, together with impairments, pushed Sava Re Group into a net loss. The plans of the management were to improve the ratio and with it profitability (long term ROE is planned to be above 11%) and an improvement was seen last year. However, long-term sustainability still remains questionable and with it the risks of not improving profitability. Namely, Sava Re Group's future performance depends on economic and political stability in SEE region, which remains adverse. Also, the smallness of the insurance company and its market shares prevents it from sufficiently utilizing economies of scale; it is more likely to be a niche player. Hence, a return to stable, long-term profitability could take longer than expected given the current situation.

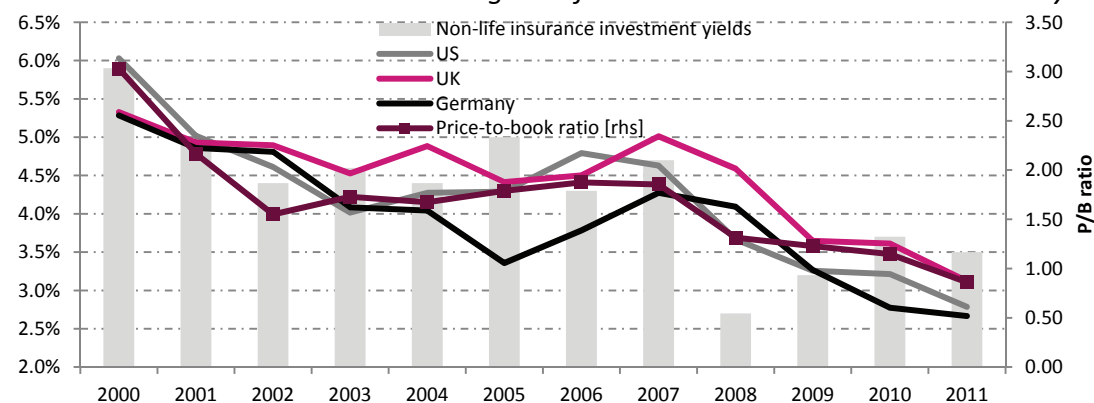
No dividend payments: Due to unresolved doubts regarding Solvency II, during 2012 management did not propose any dividend payment. This is a limited factor for some investors, especially since some other competing insurance companies offer a favourable dividend yield. Additionally, no dividend payment means no floor for the stock price, which could give some assurance to investors in the current negative environment.

Nevertheless, dividends are an important goal of the company. It is targeting a dividend payout of 20% of the parent company, Sava Reinsurance, provided that the solvency ratio does not drop below 200%. Thus, this weakness will most likely be off the table in the following year. Accordingly, Sava Reinsurance Company could start paying dividends in 2014.

The low rate environment could negatively affect long-term investment revenues. Over the last few decades interest rates in OECD countries (with the exception of the rates on the

European periphery, where also default risk increased) have been trending downward and negatively affecting investment income from the fixed income part of the portfolio. This is especially affecting the future return on assets that are invested in the current environment (reinvestment activity and growth of premiums). Since it is hard to predict which scenario we will see in the next few years, insurance companies (especially in the life segment) are in a difficult position and have to look for higher interest rates in long-term bonds or keep money in deposits or high quality short-term zero-yield bonds. Although the re-pricing of products can somewhat offset lower investment income, it cannot prevent the overall effect on profitability and also puts pressure on valuations in the insurance industry.

A low interest rate environment is negative for valuation in the insurance industry



Source: Swiss Re

4.3 SWOT ANALYSIS

Strengths	Weaknesses
An already established insurer in fast-growing SEE markets.	Hard to utilize economy of scale due to the small volume and low market share
Strong position in the domestic reinsurance market with a 31% market share	The SEE region is difficult due to the high level of macroeconomic fluctuations and effects on profitability.
Flexibility in gaining business in the foreign reinsurance market (3-5% CAGR planned)	The low-rate environment is influencing investment results.
Reinsurance premiums are on the rise in world markets.	High Slovenian portfolio exposure (fixed income)
Already owning 49% of Zavarovalnica Maribor means that it is familiar with the company and its perspective.	No dividend payments
Opportunities	Threats
Increasing the profitability of subsidiaries	Rating downgrades influencing reinsurance business on foreign markets
SEE Growth through improving insurance penetration and improvement in the legal framework	Continuation of the adverse macroeconomic situation would suspend growth and cause the need for capital injections to subsidiaries.
Gaining market shares and geographically diversifying would statistically improve underwriting results.	Ambiguities related to the adoption of the Solvency II Directive
Better influence on ZM business versus the current status quo with NKBM	Loss of reinsurance business in Slovenia in the event of the sale of ZM
Synergistic effects through ZM consolidation would improve profitability and enable a dividend payout.	The post-acquisition process fails in terms of cost and economic cannibalism

Coloured text – related to the potential acquisition of Zavarovalnica Maribor

5 COMMENT ON THE MOST RECENTLY PUBLISHED RESULTS

(m EUR)	9M11	9M12	YOY	3Q11	2Q12	3Q12	QoQ	YOY
GPW	202.3	215.9	6.7%	53.8	66.1	57.4	-13.3%	6.7%
NPE	177.0	184.0	3.9%	60.0	61.3	65.2	6.3%	8.8%
Claims	104.3	112.0	7.4%	37.9	33.0	43.6	32.0%	15.0%
<i>Claims Ratio*</i>	58.9%	60.9%		63.2%	53.8%	66.8%		
Net Expenses	60.3	60.1	-0.3%	20.2	22.4	20.2	-9.9%	-0.1%
<i>Expense Ratio*</i>	34.1%	32.7%		33.7%	36.5%	30.9%		
Net income	3.3	12.5	272.8%	-1.5	6.6	1.8	-72.6%	
<i>Margin</i>	1.7%	5.8%		-2.8%	10.0%	3.2%	-68.4%	

* For this calculation, we use our own ALTA Invest methods, which are not completely comparable to those used by Sava Reinsurance Company.

During the first nine months of 2012, the Sava Re Group wrote GWP of EUR 215.9m, or 6.7% more than in the same period of the previous year. Among the most important markets/segments, the highest growth was achieved by Sava Reinsurance Company (+12.1%) and in the Slovenian insurance market through Tilia (+5.9%). The largest YoY decrease in GWP was in Macedonia (-6.9%) and in Serbia (-22.5%). Sava Reinsurance Company explained that these drops were a result of focusing on profitability, which led to excluding major loss-making policyholders from the portfolio.

Life insurance GWP grew by 3.2% YoY in 9M12, non-life by a modest 0.5% YoY, while reinsurance GWP grew the most, namely by 13.6% YoY.

Non-consolidated in EUR	9M12 GWP	9M11 GWP	YoY
Sava Reinsurance Company, Slovenia	124,390,521	110,933,925	12.1%
Zavarovalnica Tilia, Slovenia	65,441,938	61,776,282	5.9%
Sava osiguruvanje, Macedonia	8,888,864	9,546,155	-6.9%
Illyria, Kosovo	8,642,730	11,146,645	-22.5%
Sava Montenegro, Montenegro	8,503,431	7,716,522	10.2%
Sava osiguranje, Serbia	8,333,941	9,324,668	-10.6%
Velebit osiguranje, Croatia	6,970,905	7,006,058	-0.5%
Velebit životno osiguranje, Croatia	1,052,094	688,770	52.7%
Illyria Life, Kosovo	727,776	704,376	3.3%
Sava životno osiguranje, Serbia	562,634	409,657	37.3%

Consolidated in EUR	9M12 GWP	9M11 GWP	YoY
Reinsurance	106,859,295	94,075,762	13.6%
Non-life insurance	99,143,275	98,653,207	0.5%
Life insurance	9,850,275	9,545,105	3.2%
Total	215,852,845	202,274,074	6.7%

Due to higher retention rates, the Sava Re Group's NWP increased by 8.3% YoY. Sava Re Group's gross claims paid increased by 1.8%, while net claims paid increased by 4.0%, and

amounted to EUR 184m. This increase also affected the net loss ratio, which increased from 58.5% in the first nine months of 2011 to 62.9% for the same period this year.

The negative effects of the higher net claims was offset by lower net operating expenses, which totalled EUR 59.1m and decreased by 2%. Accordingly, the reported net expense ratio improved from 35.6% to 33.8%. The net combined ratio for the first nine months improved by 0.5 percentage points and fell to 97.9%.

Non-consolidated in EUR	9M12 Claims	9M11 Claims	YoY
Sava Reinsurance Company, Slovenia	53,636,419	50,992,706	5.2%
Zavarovalnica Tilia, Slovenia	30,743,925	30,675,494	0.2%
Sava osiguruvanje, Macedonia	4,743,555	5,368,008	-11.6%
Illyria, Kosovo	4,292,795	5,138,859	-16.5%
Sava Montenegro, Montenegro	2,876,016	2,791,797	3.0%
Sava osiguranje, Serbia	3,335,537	4,930,529	-32.3%
Velebit osiguranje, Croatia	2,508,588	2,337,416	7.3%
Velebit životno osiguranje, Croatia	225,214	97,787	130.3%
Illyria Life, Kosovo	34,171	25,445	34.3%
Sava životno osiguranje, Serbia	56,373	4,325	1203.4%

Consolidated in EUR	9M12 Claims	9M11 Claims	YoY
Reinsurance	46,927,923	42,667,124	10.0%
Non-life insurance	44,480,840	48,125,063	-7.6%
Life insurance	4,320,056	3,245,428	33.1%
Total	95,728,819	94,037,615	1.8%

Improvement was also seen on the investing side of operations. Net investment income amounted to EUR 12.8m, or was almost three times higher than in the same period last year. Reported annualized investment return improved from 1.7% to 4.3%. Another very important source of income was also the associate companies, which contributed EUR 4.8m. A large return was also recorded from sovereign bonds (EUR 3.1) and corporate bonds (EUR 3.3m).

In the first nine months of 2012, Sava Re Group generated a net profit of EUR 12.5m, which represents a surge of 273% compared to the same period last year. Namely, in 9M11 Sava Re Group reported a net profit of only EUR 3.3m. From the 3Q12 perspective, this was stronger in terms of GWP and net income.

At the end of the third quarter, Sava Re Group's assets stood at EUR 634.1m, and YoY increased by 9%. The majority of premiums written was allocated to assets available for sale, which increased by 12.4% from the beginning of the year. Sava Reinsurance Company is still focusing on safe fixed income investments and decreasing exposure to equity markets. During the first nine months, technical reserves increased by 13.2% to EUR 390m. Technical reserves to GWP stood at 161%. Shareholders' equity increased by 12.7% to EUR 164m. Part of the increase (EUR 6.1m out of EUR 18.4m) should also be attributed to other comprehensive income, especially to the revaluation of AFS.

6 INVESTMENT THESIS FOR BUYING A STAKE IN ZAVAROVALNICA MARIBOR

6.1 DESCRIPTION OF ZAVAROVALNICA MARIBOR

Company Name:	Zavarovalnica Maribor d.d.
Registered office:	Cankarjeva ulica 3, 2507 Maribor, Slovenia
Website:	www.zav-mb.si
Company ID:	5063400
Tax number:	44814631

Zavarovalnica Maribor is the third largest insurance company in Slovenia, but has no international business or subsidiaries. It has a 12.6% market share in Slovenia (12.9% in non-life, 11.8% in life for 2011), and is almost tied with the second largest insurance company, Adriatic Slovenica. The company has 10 business units and 56 representative offices, with the majority in the eastern part of Slovenia.

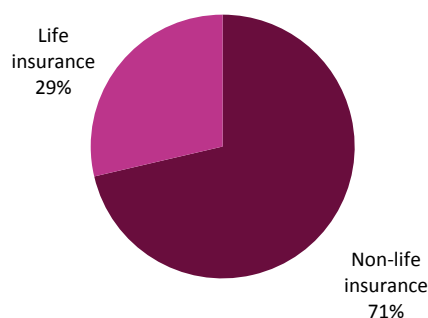
The results of the company have improved in the last couple of years, as the domestic market price was subdued.

We note that 28% of Sava Reinsurance Company's reinsurance GWP is due to Zavarovalnica Maribor business and that it had a EUR 9.5m of net profit, which is close to Sava Reinsurance Company's net profit (without Zavarovalnica Maribor). Thus, Zavarovalnica Maribor will greatly contribute to Sava Re Group's consolidated GWP and net income.

(m EUR)	Net profit	Equity	GPW	ROE (%)	No. of employees
2007	4.155	51.123	234.348	6.02%	889
2008	2.792	51.378	251.845	4.50%	899
2009	-0.555	67.314	266.041	-0.91%	907
2010	10.595	77.867	259.599	14.60%	897
2011	10.557	87.540	263.244	12.76%	879

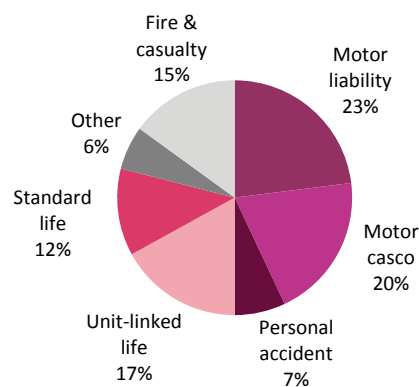
Source: Zavarovalnica Maribor annual reports

Gross written premiums 2011



Source: Zavarovalnica Maribor

Gross written premiums 2011



Shareholder structure:

Shareholder	Number of shares	Stake
Nova KBM d.d.	6,350,988	51.0%
Sava Reinsurance Company	6,062,316	48.7%
Other investors	40,527	0.3%

Source: ALTA Invest

Due to the above 51% ownership of Nova KBM d.d. (the second largest Slovenian bank), Zavarovalnica Maribor is a part of NKBM Group.

6.2 DEAL VALUATION

NKBM's 51% stake in Zavarovalnica Maribor is to be bought for EUR 65m. The deal implies the following valuation of TTM P/E 8.4 and P/B 1.26 and forward 2012 P/E of 15.5 and P/B of 1.26. Here we must note that the Zavarovalnica Maribor forward valuation multiples are based on their management plans, but that these include two catastrophic events per year. In 9M12 there were no catastrophic events, but there was one in 4Q12. Therefore, 4Q12 will be a weak quarter, but despite this, Zavarovalnica Maribor will end the year in exceptionally good condition.

		TTM 9M		2012E		2013E		2014E		2015E	
Transaction value for 50.99% of ZM	(m EUR)	P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B
	60	7.8	1.16	14.3	1.17	13.6	1.07	12.9	0.99	12.3	0.92
	61	7.9	1.18	14.5	1.19	13.8	1.09	13.2	1.01	12.5	0.93
	62	8.0	1.20	14.7	1.21	14.0	1.11	13.4	1.02	12.7	0.95
	63	8.2	1.22	15.0	1.22	14.3	1.13	13.6	1.04	12.9	0.96
	64	8.3	1.24	15.2	1.24	14.5	1.15	13.8	1.06	13.1	0.98
	65	8.4	1.26	15.5	1.26	14.7	1.16	14.0	1.07	13.3	0.99
	66	8.6	1.28	15.7	1.28	14.9	1.18	14.2	1.09	13.6	1.01
	67	8.7	1.30	15.9	1.30	15.2	1.20	14.4	1.11	13.8	1.03
	68	8.8	1.32	16.2	1.32	15.4	1.22	14.7	1.12	14.0	1.04
	69	8.9	1.34	16.4	1.34	15.6	1.24	14.9	1.14	14.2	1.06
	70	9.1	1.36	16.6	1.36	15.8	1.25	15.1	1.16	14.4	1.07
	71	9.2	1.37	16.9	1.38	16.1	1.27	15.3	1.17	14.6	1.09
	72	9.3	1.39	17.1	1.40	16.3	1.29	15.5	1.19	14.8	1.10
73	9.5	1.41	17.4	1.42	16.5	1.31	15.7	1.21	15.0	1.12	

Source: Sava Reinsurance Company, ALTA Invest calculations

If we consider the projections of the management of Sava Reinsurance Company regarding Zavarovalnica Maribor, the multiples are lower, yet it needs to be underlined that these projections only include limited synergistic values in the beginning years, as well as the negative effects that will be incurred in seeking to improve the quality of the portfolios.

	(m EUR)	2012E		2013E		2014E		2015E	
		P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B
Transaction value for 50.99% of ZM	60	14.3	1.17	7.4	1.01	9.5	0.91	9.2	0.83
	61	14.5	1.19	7.5	1.02	9.6	0.93	9.3	0.84
	62	14.7	1.21	7.6	1.04	9.8	0.94	9.5	0.86
	63	15.0	1.22	7.8	1.06	10.0	0.96	9.7	0.87
	64	15.2	1.24	7.9	1.07	10.1	0.97	9.8	0.88
	65	15.5	1.26	8.0	1.09	10.3	0.99	10.0	0.90
	66	15.7	1.28	8.1	1.11	10.4	1.00	10.1	0.91
	67	15.9	1.30	8.2	1.12	10.6	1.02	10.3	0.93
	68	16.2	1.32	8.4	1.14	10.7	1.03	10.4	0.94
	69	16.4	1.34	8.5	1.16	10.9	1.05	10.6	0.95
	70	16.6	1.36	8.6	1.18	11.1	1.06	10.7	0.97
	71	16.9	1.38	8.7	1.19	11.2	1.08	10.9	0.98
	72	17.1	1.40	8.9	1.21	11.4	1.09	11.0	0.99
	73	17.4	1.42	9.0	1.23	11.5	1.11	11.2	1.01

Source: Sava Reinsurance Company, ALTA Invest calculations

If, however, the after-tax synergies projected by management in the 2013 to 2015 period are added to the current projections for Zavarovalnica Maribor (the status quo scenario), the multiples would be as shown in the table below.

	(m EUR)	2012E		2013E		2014E		2015E	
		P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B
Transaction value for 50.99% of ZM	60	14.3	1.17	11.8	1.06	7.6	0.93	6.7	0.82
	61	14.5	1.19	12.0	1.08	7.7	0.95	6.8	0.83
	62	14.7	1.21	12.2	1.10	7.8	0.96	6.9	0.85
	63	15.0	1.22	12.4	1.11	7.9	0.98	7.1	0.86
	64	15.2	1.24	12.6	1.13	8.1	0.99	7.2	0.87
	65	15.5	1.26	12.8	1.15	8.2	1.01	7.3	0.89
	66	15.7	1.28	13.0	1.17	8.3	1.02	7.4	0.90
	67	15.9	1.30	13.2	1.19	8.4	1.04	7.5	0.91
	68	16.2	1.32	13.4	1.20	8.6	1.06	7.6	0.93
	69	16.4	1.34	13.6	1.22	8.7	1.07	7.7	0.94
	70	16.6	1.36	13.8	1.24	8.8	1.09	7.8	0.95
	71	16.9	1.38	14.0	1.26	9.0	1.10	8.0	0.97
	72	17.1	1.40	14.2	1.27	9.1	1.12	8.1	0.98
	73	17.4	1.42	14.4	1.29	9.2	1.13	8.2	0.99

Source: Sava Reinsurance Company, ALTA Invest calculations

6.3 FINANCING STRUCTURE

The currently envisioned financial structure of buying NKBM's 51% stake in Zavarovalnica Maribor is as follows:

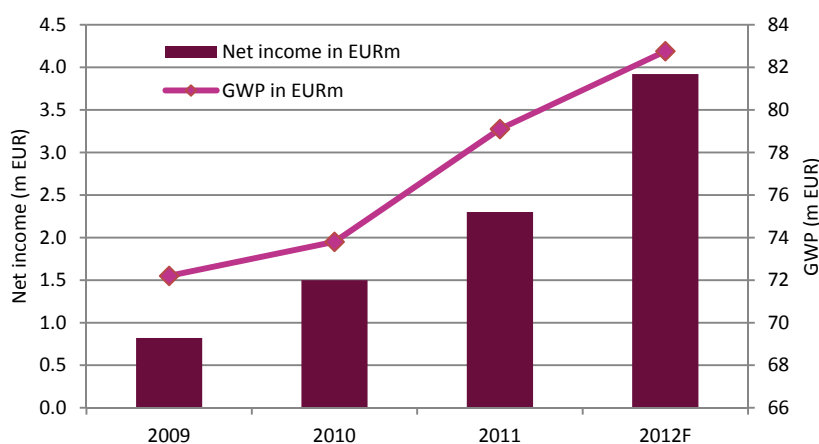
- EUR 10m through internal reserves and the cash flow of Sava Reinsurance Company and subordinated debt;
- EUR 55m through a Sava Reinsurance Company capital increase.

Additionally, the acquisition of Zavarovalnica Maribor is envisioned in two steps. The 51% stake will be initially bought by Slovenska odškodninska družba (Slovenian Restitution Fund; SOD) and the Sava Re consortium, of which SOD will contribute EUR 55m and Sava Reinsurance Company EUR 10m (up to EUR 6m will be raised by means of subordinated debt). After the transaction, Sava Reinsurance Company will have a 60.47% stake (48.68% before the transaction) in Zavarovalnica Maribor, while SOD will hold 31.21% of the shares. SOD will then issue a call option to Sava Reinsurance Company for its entire EUR 55m Zavarovalnica Maribor stake, exercisable during 2013 (for a partial or whole amount). This will enable Sava Reinsurance Company to gain financing through a capital injection process. If Sava Reinsurance Company does not exercise the option, Slovenska odškodninska družba can tender the nearly 100% stake to all interested parties. Therefore, in the event that the shareholder assembly of Sava Reinsurance Company does not vote in favour of raising capital in the amount of EUR 55m or in the event of unsuccessfully raising capital, a part of the Zavarovalnica Maribor stake will again be on sale to the highest bidder in 2013 (the seller will be SOD).

6.4 SYNERGY ASSESMENT

Sava Reinsurance Company sees several sources of synergy from the acquisition of Zavarovalnica Maribor. Here we must note that as Sava Reinsurance Company already owns 48.68% of the insurance company, it has more knowledge about the insurance company, and possible opportunities and risks. The post-acquisition process therefore has a better chance of success. Additionally, some of the cost optimization processes and actions that will be applied to Zavarovalnica Maribor have already been implemented in the current Sava Re Group operations. Operations in Tilia have improved over the last few years.

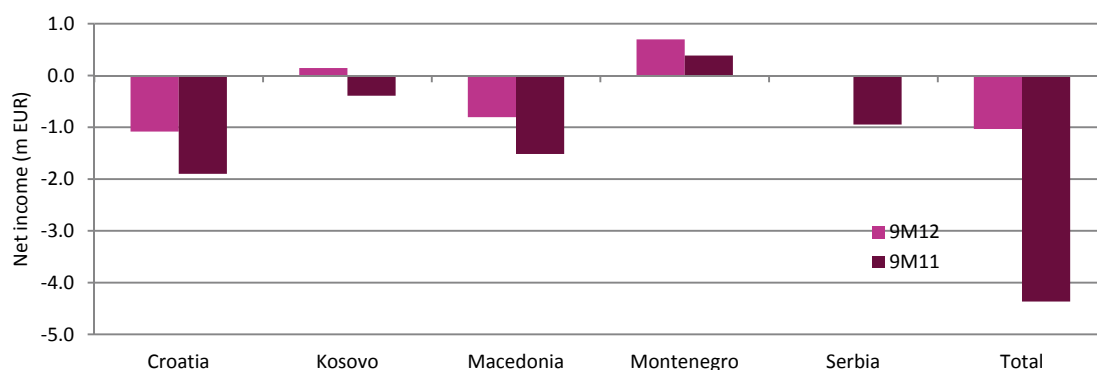
The financial results of Zavarovalnica Tilia



Source: Sava Reinsurance Company

Tilia's improvement is a result of the implementation of several optimization processes. Firstly, some of the products were re-tailored, such as motor casco and general liability, by enforcing stricter rules for authorizations, unprofitable agriculture and credit insurance were cancelled, proper pricing and discount policies were implemented, and deductibles were reshaped (the level of administration for low claims was decreased). Secondly, underwriting was systematically analysed in order to improve information about the profitability of clients, business lines, and distribution channels. Thirdly, stricter rules were applied, while at the same time commissions were more directly linked to the results of specific products. Fourthly, more IT automation was applied, especially for underwriting process and claims processing, including fraud detection. Fifthly, the Sales and Claims Departments were reorganized.

Operations abroad (SEE market subsidiaries) have also shown significant improvement over recent years, although management recognizes that there is still room for further improvement on the cost side, and also regarding the top line, when the macroeconomic situation eventually improves.



Source: Sava Reinsurance Company

1. Gaining control over Zavarovalnica Maribor:

- Thus far, the 48.68%:50.99% position in Zavarovalnica Maribor, as regards Sava Reinsurance Company and NKBM, with some decisions needing a 75% vote in favour, basically means that there is no actual tight control over the company by any of the two large shareholders. Zavarovalnica Maribor is more valuable if one owns both halves rather than if one owns only one part.
- With acquisition, Zavarovalnica Maribor gains a stable shareholder structure.
- With 100% ownership, Sava Reinsurance Company will have much greater control of the company and its management. This can unlock Zavarovalnica Maribor's value in Sava Reinsurance Company's balance sheet. This locked value is clearly seen in the fact that recent interest in the 51% stake in Zavarovalnica Maribor was similar to the current Sava Reinsurance Company market capitalization.

2. Quality Synergies / Quality optimization:

- Optimization of the product mix. Sava Reinsurance Company will carry out a comparison of the profitability of the products in the same business line sold by both insurance companies in order to keep only the best products. This will be carried out in the first six months, thereafter the focus will shift to new products developed through joint development.

- Optimization of the sales network will be carried out such that only the top performers and most cost-effective solutions are retained.
- The reshaping of underwriting will be carried out through a statistical profitability analysis (per business line / geography / distribution channel) in order to readjust pricing.
- Better control over the entire underwriting process through IT automation will be carried out. Firstly, automation of retail underwriting and claims processes will be implemented in order to ensure that all mass business flows through the system. Secondly, “no payment” and “blacklist” controls will be implemented. Thirdly, tighter control will be implemented with regard to discounts on insurance contracts.
- The net loss ratio can be improved to over 2.0 p.p. which translates to EUR 5.0m pre-tax per annum on Zavarovalnica Maribor’s portfolio by 2015.

3. Cost synergies / Cost optimization:

- Once full control over Zavarovalnica Maribor has been secured, Sava Reinsurance Company would introduce a cost rationalization program to further reduce the cost ratio. It is expected that Sava Reinsurance Company's experience with the reorganization of other subsidiaries in recent few years will also positively affect the claims ratio.
- The merger of back-office procedures (finance/accounting, processing/IT, actuarial/underwriting, HR/legal, claims management) and activities and the elimination of some parallel activities (Solvency II, R&D) can provide significant cost savings, which are estimated at EUR 2.66m for first year, EUR 3.46m for 2014 and 2015, and EUR 4.36m thereafter. We note that a joint distribution network headcount would amount to 314 employed agents, 88 employees in branches and representative offices, and 400 contract workers in external distribution channels.

<i>Back office integration timeline</i>	<i>1H2013</i>	<i>2H2013</i>	<i>1H2014</i>
Finance	■	■	
HR/Legal	■	■	
Accounting	■	■	■
Document processing	■	■	■
Actuarial	■	■	■
Optimization of the Slovenian life segment	■	■	■
IT migrations	■	■	■
Underwriting	■	■	■
Claims management	■	■	■

- The integration of IT systems can provide IT savings of up to EUR 0.5m per annum. Here we note that most Tilia and Zavarovalnica Maribor systems are the same or similar, which makes such integration easier. The savings will come from the cancellation of Tilia’s overlapping licenses.
- Tilia and Zavarovalnica Maribor together have 45 offices, with the former focusing on south-east Slovenia, and latter on north-east Slovenia. Nevertheless, 16 of such offices overlap. The elimination of unnecessary assets through combined coverage of the same regions with one business unit will save on costs. The estimated annual pre-tax cost savings are EUR 100 thousand. Additional cost savings (office related operating

expenses) related to the optimization of the combined branch network are EUR 90 thousand per year.

- Overall improvement in the expense ratio (the above-mentioned items) can translate into savings estimated at EUR 3.38m in 2014 and EUR 5.05m after 3 years, per annum.
- In 2014, management also estimates EUR 2.0m in pre-tax savings due to the freeing up of capital due to the optimization of the life segment in Slovenia.
- On the other hand, at first, the cost rationalization process will also create some one-off costs related to labour optimization (in the 2013 to 2015 period, the overall pre-tax costs are estimated at EUR 1.94m) and IT integration (EUR 0.4m in the first two years).

4. A bancassurance relationship with NKBM:

- There are discussions in place to conclude a general agreement on cooperation between Sava Reinsurance Company and NKBM regarding different segments.
- There will be more focus in order to increase the motivation and commitment of NKBM to improve the bancassurance model. Namely, currently only low volumes are gained through the NKBM network (EUR 0.25m). The main reason for the low volumes is NKBM management's previous low level of commitment to bancassurance products, which was also evidenced in its employees' motivation scheme (commissions were not passed on to the sales staff), the too complex products (for a bank network), and due to the fact that the legislation was not supportive of bancassurance activities (no tax benefits, only licensed agents could sell insurance products, etc.).
- Sava Reinsurance Company management believes that some of the above-mentioned bancassurance problems will be solved, so it believes that NKBM will have a better commitment to improving volumes (incentive schemes, etc.). Additionally, special products for this distribution channel will be developed that are more suitable for a banking network. Commissions will be based on product sales plus extra performance bonuses linked to actual volumes and quality delivered (lower loss ratios will translate into higher commissions). This will provide significant additional future cash flows for the bank and significant growth potential for Zavarovalnica Maribor.
- Simple, low commission products designed for this channel will be developed in order to improve sales growth.
- A better bancassurance relationship with NKBM can provide EUR 10-15m of GWP to Sava Reinsurance Company per annum and a net profit of 3-4m. For now, Sava Reinsurance Company management is more conservative and estimates only EUR 0.5m of pre-tax profit per year by 2015. This means EUR 1-2m of GWP per year.

5. Know-how sharing:

- Know-how and best practices will be shared between Tilja and Zavarovalnica Maribor.
- Additionally, know-how can be applied subsequently to SEE operations (subsidiaries) in order to improve top-line growth and cost efficiency.
- Joining product development with a larger pool of resources can unlock potential ideas for GWP growth.

Overall estimated synergies from the acquisition of Zavarovalnica Maribor amount to:

Pre-tax synergies (m EUR)	Area	2013	2014	2015	2015+
Cost reductions	employee synergies	2.66	3.46	3.46	4.36
	IT savings	0.10	0.30	0.50	0.50
	rent optimization	0.10	0.10	0.10	0.10
	office savings	0.09	0.09	0.09	0.09
Quality optimization	products				
	underwriting	1.00	2.00	5.00	5.00
	IT/Processes				
	people/organization				
Bancassurance	bancassurance with NKBM	0.10	0.30	0.50	0.50
One-offs	capital release	0.00	2.00	0.00	0.00
	Total	4.05	8.25	9.65	10.55
One-off costs	severance payments	1.38	0.26	0.30	
	IT integration	0.10	0.30		
	capital increase costs	1.00			
Tax	tax rate	17%	16%	15%	15%
Effect on 51%		0.80	3.92	4.77	5.38
Effect on 100%		1.57	7.69	9.35	10.55
After-tax synergies		1.30	6.46	7.95	8.97

Here we must note that we applied an additional EUR 1.0m of one-off costs related to the whole capital increase and acquisition costs. Additionally, we must recognize that post-acquisition processes are always difficult and therefore actual and planned synergies are often different. Therefore, we mostly applied a sensitivity analysis to valuations in terms of a different percentage of the mentioned synergies realized.

NPV of the mentioned synergies, assuming 0% terminal growth and a 10.58% cost of capital, are:

	2013	2014	2015	2016	TV
NPV of synergies	1.2	5.6	6.2	6.3	59.6

Sensitivity tables of the value of synergies per share, assuming a different percentage of materialization of synergies and a different share count following capital injection:

			Materialization of synergies (% of management guidance and NPV)										
			50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
			39.3	43.2	47.1	51.0	55.0	58.9	62.8	66.7	70.7	74.6	78.5
Price per share and new share count	7.0	17.2	2.28	2.51	2.74	2.96	3.19	3.42	3.65	3.87	4.10	4.33	4.56
	7.2	17.0	2.31	2.54	2.77	3.00	3.23	3.46	3.69	3.92	4.16	4.39	4.62
	7.4	16.8	2.34	2.57	2.80	3.04	3.27	3.51	3.74	3.97	4.21	4.44	4.67
	7.6	16.6	2.36	2.60	2.84	3.07	3.31	3.55	3.78	4.02	4.26	4.49	4.73
	7.8	16.4	2.39	2.63	2.87	3.11	3.35	3.59	3.83	4.07	4.30	4.54	4.78
	8.0	16.2	2.42	2.66	2.90	3.14	3.38	3.63	3.87	4.11	4.35	4.59	4.83
	8.2	16.1	2.44	2.69	2.93	3.18	3.42	3.66	3.91	4.15	4.40	4.64	4.88
	8.4	15.9	2.47	2.71	2.96	3.21	3.45	3.70	3.95	4.19	4.44	4.69	4.93
	8.6	15.8	2.49	2.74	2.99	3.24	3.49	3.74	3.99	4.23	4.48	4.73	4.98
	8.8	15.6	2.51	2.77	3.02	3.27	3.52	3.77	4.02	4.27	4.53	4.78	5.03
9.0	15.5	2.54	2.79	3.04	3.30	3.55	3.80	4.06	4.31	4.57	4.82	5.07	

Source: ALTA Invest calculations

Sensitivity tables of the value of synergies per share (in the 2013 to 2016 period, without terminal value), assuming a different percentage of materialization of synergies and a different share count following capital injection:

			Materialization of synergies (% of management guidance and NPV)										
			50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
			10.1	11.1	12.1	13.1	14.1	15.2	16.2	17.2	18.2	19.2	20.2
Price per share and new share count	7.0	16.5	0.61	0.67	0.73	0.80	0.86	0.92	0.98	1.04	1.10	1.16	1.22
	7.2	16.3	0.62	0.68	0.74	0.81	0.87	0.93	0.99	1.05	1.11	1.18	1.24
	7.4	16.1	0.63	0.69	0.75	0.81	0.88	0.94	1.00	1.07	1.13	1.19	1.25
	7.6	15.9	0.63	0.70	0.76	0.82	0.89	0.95	1.01	1.08	1.14	1.20	1.27
	7.8	15.8	0.64	0.70	0.77	0.83	0.90	0.96	1.02	1.09	1.15	1.22	1.28
	8.0	15.6	0.65	0.71	0.78	0.84	0.91	0.97	1.04	1.10	1.16	1.23	1.29
	8.2	15.5	0.65	0.72	0.78	0.85	0.91	0.98	1.05	1.11	1.18	1.24	1.31
	8.4	15.3	0.66	0.73	0.79	0.86	0.92	0.99	1.06	1.12	1.19	1.25	1.32
	8.6	15.2	0.67	0.73	0.80	0.87	0.93	1.00	1.06	1.13	1.20	1.26	1.33
	8.8	15.0	0.67	0.74	0.81	0.87	0.94	1.01	1.07	1.14	1.21	1.28	1.34
9.0	14.9	0.68	0.74	0.81	0.88	0.95	1.02	1.08	1.15	1.22	1.29	1.35	

Source: ALTA Invest calculations

6.5 ACQUISITION RATIONALE

The rationale behind the acquisition of Zavarovalnica Maribor:

- I. synergies between the Sava Re Group (especially Zavarovalnica Tilia) and Zavarovalnica Maribor;
- II. increased market share in Slovenia required to achieve economies of scale resulting in synergies;
- III. increased market share in Slovenia and SEE will make the Sava Re Group more attractive to foreign investors, pushing up premium income, market capitalisation and likely also trading volume;
- IV. attractive post-acquisition Group multiples.

I. Synergies. Synergies are described in detail in section 6.4.

II. Becoming bigger in Slovenia. Through the acquisition of Zavarovalnica Maribor, Sava Reinsurance Company will significantly increase the domestic insurance market share. Thereby, it will progress from 7th to 2nd largest insurance player on the domestic market. This will not only make the Sava Re Group more attractive to investors wanting to get exposure to the Slovenian insurance market, but more importantly achieve economies of scale in Slovenia, both providing positive economic effects to the Group and creating synergies between Zavarovalnica Tilia and Zavarovalnica Maribor.

Company	Total GWP (k EUR)	Market share	Life (k EUR)	Market share	Non-life (k EUR)	Market share	Health (k EUR)	Market share
Zavarovalnica Triglav	775	37.0%	201	31.5%	494	48.2%	80	18.6%
Adriatic Slovenica	265	12.7%	13	2.0%	152	14.8%	100	23.3%
Zavarovalnica Maribor	263	12.6%	75	11.8%	188	18.3%	0	0.0%
Vzajemna Health	249	11.9%	0	0.0%	0	0.0%	249	58.0%
Modra zavarovalnica	140	6.7%	139	21.8%	0	0.0%	0	0.0%
Generali	86	4.1%	20	3.1%	67	6.5%	0	0.0%
Tilia	79	3.8%	10	1.6%	68	6.6%	0	0.0%
KD Life	62	3.0%	62	9.7%	0	0.0%	0	0.0%
Merkur	47	2.2%	40	6.3%	7	0.7%	0	0.0%
Other	126	6.0%	78	12.2%	49	4.8%	0	0.0%
Total	2,092	100.0%	638	100.0%	1,025	95.2%	429	100.0%
Tilia + Zav. Maribor	342	16.3%	85	13.3%	256	25.0%	0	0.0%

Source: Sava Reinsurance Company

III. Becoming bigger in SEE. Sava Reinsurance Company will also become the second largest insurance group (insurance and reinsurance GWP together) in SEE region, as can be seen in next table with data based on SeeNews. This will make the Sava Re Group more visible to foreign investors and more attractive as an investment. Theoretically, it should also improve the Sava Re Group valuation.

Rank 2011	Rank 2010	Company name	Country	GWP 2011	YoY change	P/L 2011
1	1	Zavarovalnica Triglav	Slovenia	696.7	-3.4%	43.8
2	2	Croatia Osiguranje	Croatia	370.3	-3.7%	10.4
3	3	Adriatic Slovenica	Slovenia	265.6	1.6%	17.7
4	4	Zavarovalnica Maribor	Slovenia	263.2	1.4%	10.6
5	5	Astra	Romania	233.5	-6.9%	18.8
6	7	Allianz - Tiriac Asigurari	Romania	208.0	-12.0%	5.7
7	8	Omniasig VIG	Romania	176.3	-16.9%	-42.0
8	9	Groupama Asigurari	Romania	164.0	-9.2%	-23.7
9	10	Dunav Osiguranje	Serbia	147.9	5.3%	2.6
10	14	Asigurarea Romaneasca - Asirom VIG	Romania	145.4	18.3%	1.7
23	25	Zavarovalnica Tilia	Slovenia	79.2	7.2%	2.3
3	3	Tilia + Zav. Maribor	Slovenia	342.4	3.0%	12.9
2013F		Sava Re Group + Zav. Maribor	Slovenia	504.4	n.a.	39.2

Source: SeeNews (2013F data Sava Reinsurance Company forecasts, limited comparability)
The data is unconsolidated, Zavarovalnica Triglav Group had EUR 989.3m of GWP in 2011.

IV. Expected multiple expansion. Although the consolidation and the increased number of shares may result in higher multiples for Sava Reinsurance Company in the short term and although Zavarovalnica Maribor takeover multiples are appropriate given current market conditions, the inclusion of Zavarovalnica Maribor into the Sava Re Group balance sheet with the resulting synergies will lower forward multiples of Sava Reinsurance Company and make them more attractive.

Forward multiples are low because of two effects, high EPS growth and potential P/E multiple expansion:

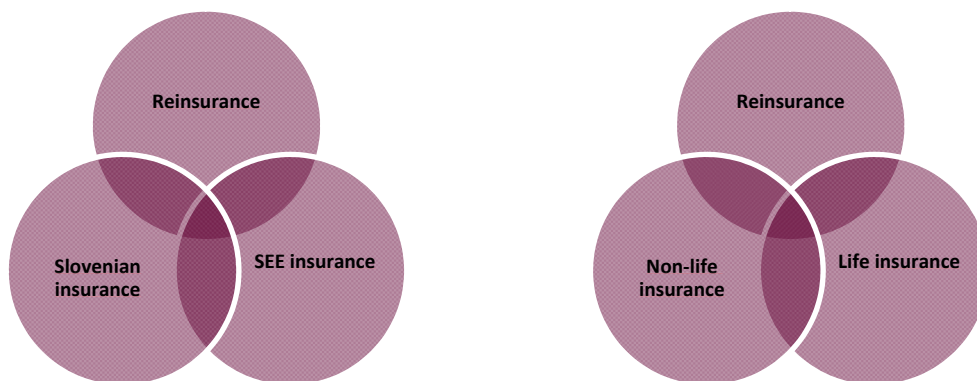
- The EPS increase as set out in section 7.2 is a combined result of synergies explained in section 6.5 and organic top-line growth seen by management in future years.
- With a higher ROE, higher P/B multiple is justified. In addition, better liquidity due to a higher share of foreign and domestic portfolio investors in the shareholder structure and higher market capitalization can expand the multiple. Dividend initiation can also help provide some floor for investors and confidence in the management that it will provide regular annual cash flow for investors. But the most important fact here is unlocking the value of Zavarovalnica Maribor in the Sava Re Group, currently unrecognized in full by investors, and a better spot in the sense that the second largest insurance group in SEE is in a better position to attract investors. Therefore, there is a better chance for multiple expansion, especially since current multiples are far below median peer multiples.

6.6 TIME SCHEDULE

- The acquisition deal between NKBM and Sava Reinsurance Company was signed on 11 December 2012.
- The Sava Reinsurance Company shareholder meeting for approving the capital injection is scheduled for 11 January 2013.
- The public offering is projected to be in May 2013.

7 MANAGEMENT GUIDANCE AND STRATEGY

The company's strategy in terms of geography and product lines can be represented as two three pillar structures:



Reinsurance is the most stable and profitable business segment. Here, the main focus will be to grow foreign premium income rather than domestic business. Slovenian insurance business is the second pillar with Tilia increasing profitability in the last few years. But this segment needs strengthening in terms of gaining market share as well as benefits from economies of scale. This is where Zavarovalnica Maribor fits the puzzle. The third pillar is SEE insurance where there is significant growth potential, but currently profitability is hard to achieve. Again, Sava Reinsurance Company management believes that one of the positive effects of taking over Zavarovalnica Maribor could be the transfer of good practices into this segment. In terms of product lines, non-life business is more stable and profitable, while the life segment has more growth potential but is less profitable due to the adverse environment and low business volume.

7.1 ADDITIONAL CAPITAL INJECTION

In order to gain financing for the stake in Zavarovalnica Maribor, Sava Reinsurance Company will have to increase its share capital. The key data for the capital increase is in the following table:

Capital increase	
Projected amount	EUR 55m
Price	EUR 7 to EUR 9
Number of shares	6,111,111 to 7,857,143

Given the fact that the exact price in the capital increase is not known in advance, only the price range, the number of shares after the increase can vary. This is shown in the table below. We note that the price range was framed considering both current market price dynamics and expectations of current shareholders.

Price at increase (EUR)	No. of shares (m)	Total count after increase
7.0	7.86	17.22
7.2	7.64	17.00
7.4	7.43	16.79
7.6	7.24	16.60
7.8	7.05	16.41
8.0	6.88	16.24
8.2	6.71	16.07
8.4	6.55	15.91
8.6	6.40	15.76
8.8	6.25	15.61
9.0	6.11	15.47

The capital increase will probably be carried out in at least two stages:

- In the first stage existing shareholders will have a pre-emptive right to buy shares in order to maintain their existing stake (on a proportionate basis). This phase will probably last 14 days.
- In the following phases remaining shares will be offered to all investors.

Currently, the additional share increase is planned for May 2013.

7.2 MANAGEMENT GUIDANCE

For 2012, the management of Sava Reinsurance Company has planned a YoY GWP growth of 4.6%, with a 2% YoY growth in reinsurance GWP, a more than 6% growth in non-life and more than a 16% growth in the life segment. Management also guided for a combined ratio of 97.8%, an improvement compared to 2011. This is mostly due to a better cost ratio, since they focused on lowering costs. ROE was planned at 6.6%, assuming a 3.4% return on the investment portfolio. Based on 9M12 results, we believe year-end results will exceed mentioned guidance.

The strategy of Sava Reinsurance Company is to consolidate the insurance sector, diversify insurance services and distribution channels, and diversify in terms of geographic exposure. They believe all above mentioned items will contribute to increase shareholder value.

Management guidance assuming successful Zavarovalnica Maribor acquisition and consolidation in 2013:

After ZM acquisition	2013E	2014E	2015E	CAGR
GWP	504.4	518.1	534.9	3.0%
GWP growth	87.5%	2.7%	3.2%	
Net profit/loss	39.2	30.7	35.3	9.5%*
Equity	252.6	283.2	316.0	11.8%
ROE	15.5%	11.4%	11.8%	

* CAGR adjusted for 2013 one-time gain due to revaluation of ZM

Source: Sava Reinsurance Company forecasts

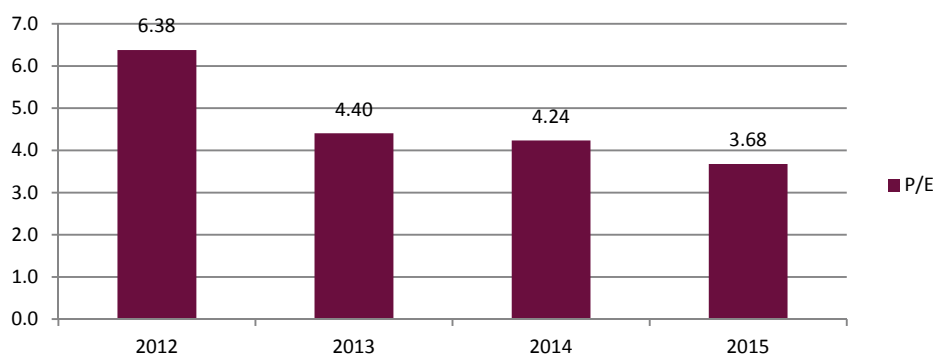
Note that Sava Reinsurance Company management included only half of the mentioned synergies in 2013 as the acquisition of Zavarovalnica Maribor could happen during 1H13. In addition, EUR 9.7m of profit is due to a revaluation effect of the current Zavarovalnica Maribor stake and therefore a one-off non-cash item. Adjusted figures would be EUR 29.5m of net profit and ROE of 11.7%.

7.3 FORWARD MULTIPLES

Given management guidance and capital injection in the amount of EUR 55m at a price of EUR 8 per share, we can calculate forward multiples for the Sava Re Group:

	2012E	2013E	2014E	2015E
GWP (m EUR)	269.0	504.4	518.1	534.9
GWP growth		87.5%	2.7%	3.2%
Net profit/loss (m EUR)	11.7	29.5*	30.7	35.3
Equity (m EUR)	166.5	252.6	283.2	316.0
ROE		15.5%	11.4%	11.8%
P/GWP (EUR)	0.28	0.26	0.25	0.24
P/E (EUR)	6.38	4.40	4.24	3.68
P/B (EUR)	0.45	0.51	0.46	0.41

Source: Sava Reinsurance Company forecasts, ALTA Invest calculations (*adjusted for one-off gain)



Source: ALTA Invest calculations



Source: ALTA Invest calculations

It must be noted that the forward multiples depend on the realization of the Sava Reinsurance Company plan, particularly on realising synergies and the difference between management guidance with and without Zavarovalnica Maribor (acquisition or status quo

scenario). For this end, we can treat this difference as synergy effects of the deal over the next years. Any change in the realization of such synergies affects forward multiples. This is shown in the table below, where even with modest synergies, the multiples of Sava Reinsurance Company are low.

Eff. synergy realization (%)	P/E			P/B		
	2013E	2014E	2015E	2013E	2014E	2015E
100%	4.40	4.24	3.68	0.518	0.467	0.420
90%	4.54	4.33	3.75	0.519	0.470	0.423
80%	4.69	4.42	3.83	0.521	0.472	0.426
70%	4.84	4.52	3.92	0.523	0.475	0.429
60%	5.01	4.62	4.01	0.525	0.477	0.432
50%	5.18	4.73	4.10	0.527	0.480	0.435
40%	5.37	4.84	4.19	0.529	0.482	0.438
30%	5.57	4.95	4.30	0.531	0.485	0.441
20%	5.79	5.08	4.40	0.533	0.488	0.444

Source: ALTA Invest calculations

7.4 EXIT STRATEGY

Although the Sava Re Group did not pay dividends in the last few years, management stated that the adopted dividend policy is to pay out 20% of net profit of the parent company Sava Reinsurance Company as long as the solvency ratio remains above 200%. Given management guidance for net profit of the company, this implies dividend implementation in the following years and a steady growth in the dividend per share amount.

Planned dividend amounts per share:

	2012E	2013E	2014E	2015E
Net profit (m EUR)	9.9	13.8	15.3	17.4
Assessed dividend per share* (EUR)		0.17	0.19	0.21
Dividend payout ratio		20.0%	20.0%	20.0%

* paid out in the following year

Source: Sava Reinsurance Company plans, ALTA Invest calculations

Sensitivity of dividend per share given different pay-out ratios:

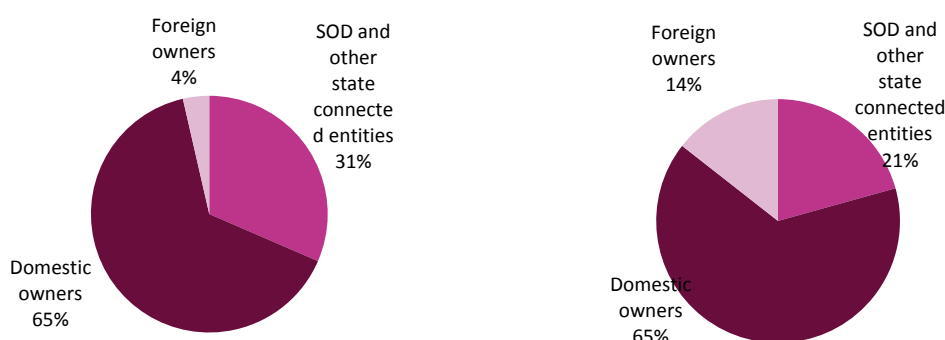
Dividend per share given different dividend payout ratios			
10.0% dividend payout ratio	0.08	0.09	0.11
15.0% dividend payout ratio	0.13	0.14	0.16
20.0% dividend payout ratio	0.17	0.19	0.21
25.0% dividend payout ratio	0.21	0.24	0.27
30.0% dividend payout ratio	0.25	0.28	0.32

Source: Sava Reinsurance Company plans, ALTA Invest calculations

Even though dividend policy can provide both a floor for the stock price and stable cash flow to investors, this is not the main envisioned exit strategy for investors. The main exit strategies are:

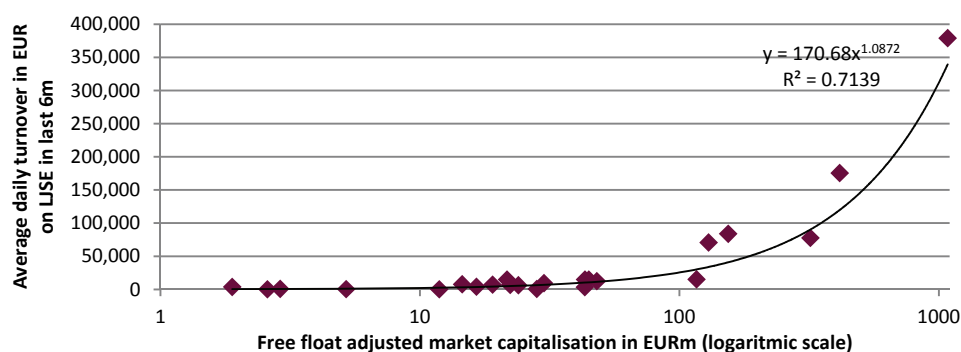
- Listing on a foreign stock exchange. Management will list Sava Reinsurance Company shares on at least one more stock exchange in the three years following the successful capital injection. The exchange will be selected based on costs, liquidity and especially based upon shareholder interest.
- State-owned funds and other government-related entities will tender their shares in the three years following the capital increase. That is to say, the government does not consider their stake in Sava Reinsurance Company as a strategic one, although this may change. Here, an important message will be the outcome of the capital increase, in which the government may opt to only partly exercise its pre-emptive right, emerging from it with a smaller stake. Any exit of state-owned entities after this capital raising would most probably attract more active long-term investors.
- If government entities do not participate in the capital increase (or do only partly), the Sava Reinsurance Company shareholder structure would change considerably with regard to foreign ownership. Currently, foreign investors hold less than 4% of Sava Reinsurance Company, while most likely this stake could surge over 17%. If we assume that as many as 65% of shareholders exercise their pre-emptive rights and that the remaining shares are bought by foreign investors, then foreign ownership could surge to 14.4%. If the Slovenian Restitution Fund does not participate in the capital increase, government interest will decrease from 31.49% to 20.7%, in favour of foreign investors (14.4%). A larger share of foreign investors would likely additionally improve the position of shareholders.

Current shareholder structure and possible future shareholder structure assuming a high 65% pre-emptive participation (one of which SOD) with the rest injected by foreign investors:



Source: KDD

It must also be underlined that another positive side effect of the capital increase is the increase in market capitalization and the already mentioned increased free float. Given our regression analysis of the most liquid stocks on the LJSE, we believe there is a positive correlation between free-float-adjusted market capitalization and stock turnover (and volumes).



Source: Bloomberg, ALTA Invest calculations

8 PEER COMPARISON

Sava Reinsurance Company operates in both, insurance and reinsurance business with almost an equal split. Geographically the split was again almost equal between a relatively mature domestic Slovenian market and foreign markets. Foreign insurance business is SEE orientated, while foreign reinsurance business are more diversified.

Due to the Groups' diversified operations, the peer group consists of the comparable insurers operating in CEE & SEE countries and reinsurers writing premium mostly in developed countries. Here we must note several important differences:

- The structure of GWP includes a small portion of life insurance business, which is the most underdeveloped segment in the region compared to Western and Central Europe (of which Slovenia is a part).
- Market capitalisation and GWP volume is smaller, resulting in modest economies of scale.
- The Group currently has two associate companies in its portfolio, Zavarovalnica Maribor and Moja Naložba. This affects both the income statement and the balance sheet.

Large Global Reinsurance peer comparison:

Name	Ticker	M Cap (m EUR)	Revenue T12M	Comb. ratio NL	Tot Assets (m EUR)	NI/Profit T12M	P/E	P/B
Swiss Re AG	SREN VX	20,228	25,701	89.8	174,596	3,398	5.6	0.79
Munich Re AG	MUV2 GR	23,737	66,138	110.5	258,636	3,345	7.0	0.88
Hannover Re	HNR1 GR	6,785	13,374	104.3	54,559	895	7.7	1.16
Talanx AG	TLX GR	5,229	N.A.	102.2	124,590	N.A.	N.A.	0.65
Everest Re Group Ltd	RE US	4,309	3,806	118.5	15,275	626	9.2	0.83
SCOR SE	SCR FP	3,930	8,524	103.8	32,128	496	7.6	0.86
Partner Re Ltd	PRE US	3,857	4,368	127.7	18,360	775	12.0	0.82
Axis Capital Holdings Ltd	AXS US	3,366	3,005	112.3	14,677	498	8.8	0.80
Renaissance Re Holdings Ltd	RNR US	3,000	978	118.6	6,829	494	9.7	1.18
Reinsurance Group of America	RGA US	2,927	7,300	N.A.	31,007	438	8.1	0.57
Validus Holdings Ltd	VR US	2,919	1,603	97.4	6,573	406	7.9	0.91
<i>Median</i>		3,930	5,834	107.4	31,007	562	8.0	0.83
Sava Reinsurance Company	POSR SV	67.4	249.9	97.9	634.1	15.1	4.5	0.41

Source: Bloomberg (last data)

Small Global Reinsurance peer comparison:

Name	Ticker	M Cap (m EUR)	Revenue T12M	Comb. ratio NL	Tot Assets (m EUR)	NI/Profit T12M	P/E	P/B
Lancashire Holdings Ltd	LRE LN	1,621	475	51.3	2,171	171	9.0	1.35
Arch Capital Group Ltd	ACGL US	4,671	2,520	99.6	14,671	553	11.4	1.21
Flagstone Reinsurance Holding	FSR US	N.A.	378	153.6	1,581	-26	N.A.	0.75
Montpelier Re Holdings Ltd	MRH US	940	610	131.1	3,145	215	8.6	0.80
Greenlight Capital Re Ltd	GLRE US	651	489	103.8	2,219	112	5.9	0.96
Platinum Underwriters Holdings	PTP US	1,127	579	145.3	3,489	164	9.7	0.82
Endurance Specialty Holdings	ENH US	1,318	1,689	112.9	7,576	129	19.6	0.72
Alterra Capital Holdings Ltd	ALTE US	1,715	1,274	102.9	8,336	175	11.8	0.76
Aspen Insurance Holdings Ltd	AHL US	1,703	1,722	115.6	7,951	225	8.8	0.73
<i>Median</i>		<i>1,469</i>	<i>610</i>	<i>112.9</i>	<i>3,489</i>	<i>171</i>	<i>9.4</i>	<i>0.80</i>
Sava Reinsurance Company	POSR SV	67.4	249.9	97.9	634.1	15.1	4.5	0.41

Source: Bloomberg (last data)

European peer comparison:

Name	Ticker	M Cap (m EUR)	Revenue T12M	Comb. ratio NL	Tot Assets (EUR m)	NI / Profit T12M	P/E	P/B
Zavarovalnica Triglav dd	ZVTG SV	346	986	76.6	3,118	50	7.3	0.75
PZU	PZU PW	8,615	4,497	82.1	13,808	781	10.6	2.58
FBD Holdings PLC	FBD ID	355	316	90.8	1,055	53	7.8	1.59
Vittoria Assicurazioni SPA	VAS IM	333	1,002	95.6	2,804	45	7.3	0.90
Vienna Insurance Group AG	VIG AV	4,782	10,384	93.9	41,775	435	8.8	0.93
UNIQA Versicherungen AG	UQA AV	2,003	6,152	105.5	29,853	-33	N.A.	1.29
Assicurazioni Generali	G IM	20,520	81,512	96.8	449,432	1,164	17.0	1.06
Mapfre SA	MAP SM	6,621	20,833	96.5	55,849	854	7.6	0.91
AXA SA	CS FP	30,179	101,472	99.4	756,105	2,911	17.0	0.71
Aegon NV	AGN NA	8,677	42,389	N.A.	369,274	1,227	8.5	0.36
Aviva PLC	AV/ LN	13,046	43,654	100.2	387,506	-764	N.A.	0.92
<i>Median</i>		<i>6,621</i>	<i>10,384</i>	<i>96.0</i>	<i>41,775</i>	<i>435</i>	<i>8.5</i>	<i>0.92</i>
Sava Reinsurance Company	POSR SV	67.4	249.9	97.9	634.1	15.1	4.5	0.41

Source: Bloomberg (last data)

Comparing Sava Reinsurance Company to Zavarovalnica Triglav, the largest insurance company on the local stock exchange, both recently successfully changed their focus to profitability and both have regional exposure (although Triglav is a much larger insurance company). The main difference is that Sava Reinsurance Company is more focused on reinsurance. In terms of P/E, P/B and P/GWP, Sava Reinsurance Company trades at a significant discount. This is the result of lower ROE (for P/B and P/GWP) and an uncertainty regarding a potential capital injection to acquire Zavarovalnica Maribor. Also we must note that the Zavarovalnica Triglav share has an around 6% dividend yield, while Sava Reinsurance Company does not have a dividend payment.

The peer comparison analysis shows that Sava Reinsurance Company currently trades at a discount on P/E, P/B and P/GWP. Given the lower ROE and no dividend yield, the discount of Sava Reinsurance Company's P/B ratios are only partially justified. In addition, profitability is improving (seen in 9M12 results and management expectations), while a dividend could be initiated in 2014. So the reasoning behind a discounted valuation is disappearing.

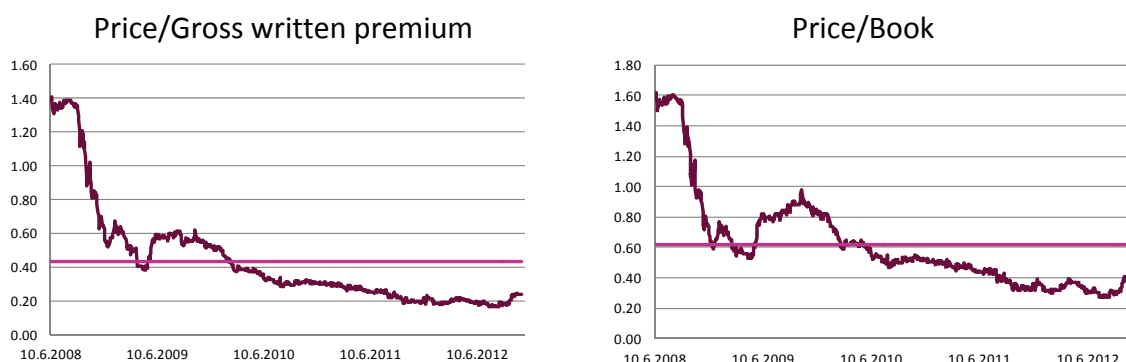
Joint Sava Reinsurance Company and Zavarovalnica Maribor forward multiples, including bigger share count and management forecasts, are:

	2013E	2014E	2015E
P/GWP	0.26	0.25	0.24
P/E	4.40	4.24	3.68
P/B	0.51	0.46	0.41

Source: ALTA Invest

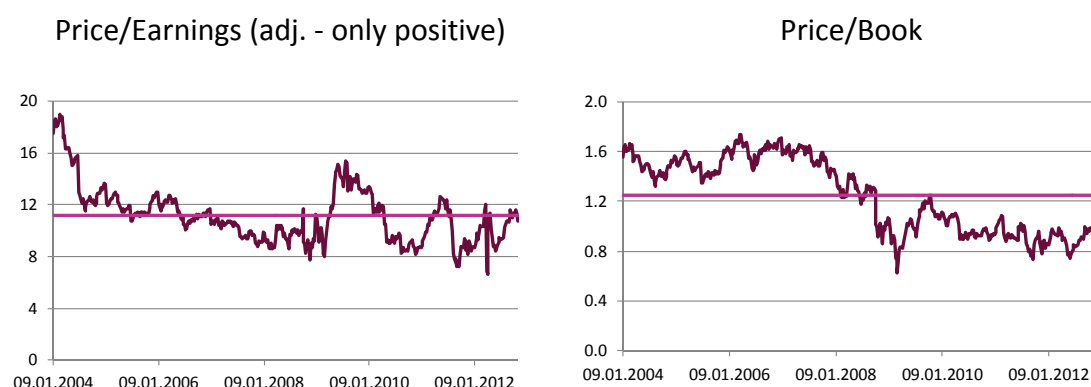
We again see joint that forward multiples are lower than current multiples and lower than peer median trailing multiples.

Historic valuation on P/GWP and P/B multiples also imply a current undervaluation of Sava Reinsurance Company, but we must note that in 2008 the Ljubljana Stock Exchange was still in a bubble due to specific country and capital market reasons, so overall sentiment was overly optimistic and overall valuation too high.



Source: ALTA Invest and Bloomberg

Looking at historic valuation multiples for insurance sector in Europe, we get the following graphs (based on Bloomberg Europe Insurance Index):



Source: ALTA Invest and Bloomberg

While P/E is moving mostly in the range between 8 and 16 from 2004 onwards, considering only the average P/E on companies in the index with positive EPS, the price book ratio has moved from around 1.4 to 0.9 after the global turmoil. Tougher conditions, a lower growth rate and stricter regulatory framework impacted potential and realized ROE and with it, the P/B ratio. Sava Reinsurance Company trades below these multiples.

Recent (2008–2012 period) M&A transactions and multiples have a median P/B multiple of 1.33 and P/E multiple of 13.4.

Target name	Acquirer name	Value (m EUR)	Payment type	Bought (%)	P/B	P/E
Friends Life FPG	Resolution	2,198.1	Cash & Stock	100	0.60	10.04
Alleanza Toro	Assicurazioni Generali	2,277.5	Stock	53	1.39	10.64
Paris Re Holdings	PartnerRe	924.8	Stock	77	0.77	
Brit Insurance Holdings	Apollo GM,CVC CP	1,010.8	Cash	100	0.87	11.54
Towarzystwo Ubezpieczeń i Reasekuracji WARTA	Talanx International	770.0	Cash	100	2.76	26.46
Atradius	Grupo Catalana Occidente	400.0	Cash	27	1.33	11.55
Towarzystwo Ubezpieczeniowe EUROPA	HDI Haftpflichtverband der Deutschen Industrie VaG	400.3	Cash	50	4.20	18.97
Paris Re Holdings	PartnerRe	228.2	Stock	17	0.86	
Brit Insurance	Fairfax Financial Holdings	238.8	Cash	100	0.56	7.76
Esure Insurance	Management Group, Motion Equity Partners	212.1	Cash	70	1.71	
Omega Insurance Holdings	Canopus Group	200.2	Cash	100	0.79	
Hardy Underwriting Bermuda	CNA Financial Corp	172.0	Cash	100	1.34	
Aksigorta	Ageas	160.9	Cash	31	1.66	14.51
Atradius	Inoc	137.0	Cash	9	1.33	11.58
DBV Holding	AXA	120.5	Cash	5	2.07	16.36
Firstassist Insurance Services	Cigna	81.7	Cash	100	2.66	
THB Group	AmWINS Group	34.1	Cash	100	1.17	377.92
Laguna Life	Enstar Group	15.0	Cash	100	0.50	
Hero Insurance Services	Capita	16.8	Cash	100	2.43	19.17
RAY Sigorta	Vienna Insurance	14.8	Cash	10	2.22	
RAY Sigorta	TBIH Financial Services Group	14.2	Cash	10	2.22	
Cash.life	Augur Capital Advisors	14.1	Cash	47	0.73	
Advent Capital Holdings	Fairfax Financial Holdings	12.5	Cash	15	0.86	
Agricultural Insurance	Agricultural Bank of Greece	6.6	Cash	16	1.26	
Mannheimer AG Holding	Die Continentale	n.a.	n.a.	92	2.18	
Middlesea Insurance Co	Mapfre	n.a.	n.a.	20	1.24	12.33
Jahorina Osiguranje	Vienna Insurance	n.a.	n.a.	92	2.43	66.02

Source: Bloomberg and ALTA Invest calculations (P/B and P/E)

9 SENSITIVITY ANALYSIS OF KEY VARIABLES

The acquisition will affect the Sava Re Group's strategy and long-term operations and hence also valuations of the company. Given the uncertainties surrounding different factors that may affect the valuation of Sava Reinsurance Company, sensitivity analyses are crucial since they are indicating how deviations from baseline scenarios will affect the valuation of the merged company and also give a more transparent picture of the rationale behind the transaction.

As already mentioned in the document, our baseline assumptions are:

- Capital increase of EUR 55m at EUR 8 per share
- hence a market price of EUR 8 per share at the time of the capital increase
- 100% synergy realization
- 20% profit payout ratio of parent company
- Sava Re Group holds 48.68% of Zavarovalnica Maribor and buys NKBM's stake
- 27% of reinsurance premium with a claims ratio of 59% comes from Zavarovalnica Maribor
- Cost of capital is set at 10.58%
- All sensitivity analyses indicate possible effects (in % of value) of different scenarios on valuation of Sava Re Group
- One-off gain in Sava Reinsurance Company's income statement as a result of acquisition and revaluation of already owned share of Zavarovalnica Maribor is excluded from valuations (EUR 9.7m).

From the perspective of creating value, realization of synergies (cost cutting and such like) is important, however, minor deviation from 100% realization will not considerably affect the valuation of the merged companies. A relative valuation indicates that the current price to expected earnings for 2014 in case of a EUR 55m capital increase priced at 8 would be 4.2 if Sava Reinsurance Company's management fully achieves planned positive effects of acquisition and 4.7 if there plans are realised only 50%.

		Synergy plan realisation (%)										
		50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
Capital increase (m EUR)	7.0	5.012	4.955	4.899	4.844	4.790	4.738	4.687	4.637	4.588	4.540	4.493
	7.2	4.948	4.892	4.837	4.783	4.730	4.678	4.627	4.578	4.530	4.482	4.436
	7.4	4.888	4.832	4.778	4.724	4.672	4.621	4.571	4.522	4.475	4.428	4.382
	7.6	4.831	4.776	4.722	4.669	4.618	4.567	4.518	4.470	4.423	4.376	4.331
	7.8	4.777	4.723	4.669	4.617	4.566	4.516	4.468	4.420	4.373	4.327	4.282
	8.0	4.726	4.672	4.619	4.568	4.517	4.468	4.420	4.372	4.326	4.281	4.237
	8.2	4.677	4.624	4.571	4.520	4.471	4.422	4.374	4.327	4.281	4.237	4.193
	8.4	4.631	4.578	4.526	4.476	4.426	4.378	4.330	4.284	4.239	4.195	4.151
	8.6	4.586	4.534	4.483	4.433	4.384	4.336	4.289	4.243	4.198	4.154	4.111
	8.8	4.544	4.492	4.441	4.392	4.343	4.296	4.249	4.204	4.160	4.116	4.073
9.0	4.504	4.452	4.402	4.353	4.305	4.258	4.212	4.167	4.123	4.079	4.037	

Source: ALTA Invest calculations (P/E for 2014 in case of individual scenario variables)

The same conclusion can be made with an equity valuation model where a 50% lower plan for realization of effective synergies would have a 8.2% negative effect on valuation.

		Synergy plan realisation (%)										
Capital increase price per share		50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
	7.0	-11.1%	-10.3%	-9.6%	-8.8%	-8.0%	-7.3%	-6.5%	-5.7%	-5.0%	-4.2%	-3.4%
	7.2	-10.4%	-9.7%	-8.9%	-8.1%	-7.3%	-6.5%	-5.8%	-5.0%	-4.2%	-3.4%	-2.6%
	7.4	-9.8%	-9.0%	-8.2%	-7.4%	-6.6%	-5.9%	-5.1%	-4.3%	-3.5%	-2.7%	-1.9%
	7.6	-9.2%	-8.4%	-7.6%	-6.8%	-6.0%	-5.2%	-4.4%	-3.6%	-2.8%	-2.0%	-1.2%
	7.8	-8.7%	-7.9%	-7.1%	-6.3%	-5.4%	-4.6%	-3.8%	-3.0%	-2.2%	-1.4%	-0.6%
	8.0	-8.2%	-7.4%	-6.5%	-5.7%	-4.9%	-4.1%	-3.3%	-2.5%	-1.6%	-0.8%	0.0%
	8.2	-7.7%	-6.9%	-6.1%	-5.2%	-4.4%	-3.6%	-2.8%	-1.9%	-1.1%	-0.3%	0.6%
	8.4	-7.3%	-6.4%	-5.6%	-4.8%	-3.9%	-3.1%	-2.3%	-1.4%	-0.6%	0.2%	1.1%
	8.6	-6.9%	-6.0%	-5.2%	-4.4%	-3.5%	-2.7%	-1.8%	-1.0%	-0.1%	0.7%	1.5%
	8.8	-6.5%	-5.7%	-4.8%	-4.0%	-3.1%	-2.3%	-1.4%	-0.6%	0.3%	1.1%	2.0%
	9.0	-6.2%	-5.3%	-4.5%	-3.6%	-2.8%	-1.9%	-1.0%	-0.2%	0.7%	1.5%	2.4%

Source: ALTA Invest calculations (% of lower or higher value of share in case of individual scenario variables)

Despite Sava Reinsurance Company's plans to integrate two successful insurers that will create value for new investors, the transaction itself is more in the hands of existing shareholders. The potential equity dilution is raising questions whether the acquisition will benefit current shareholders.

Here we must note that in the last few years, both majority owners of Zavarovalnica Maribor (Sava Reinsurance Company and NKBM) maintained a status quo, resulting in a strong business relation between Sava Reinsurance Company and Zavarovalnica Maribor. Hence the insurance company is still the largest single reinsurance client and is very important for Sava Reinsurance Company's profitability. Less influence (due to a new owner) on Zavarovalnica Maribor reinsurance decisions could mean that Sava Reinsurance Company may have to replace Slovenian reinsurance premiums with likely less profitable foreign reinsurance contracts. In addition, over the past few years, Zavarovalnica Maribor streamlined its insurance operations and started focusing on profitability. This process led to both a large improvement in Zavarovalnica Maribor's claims ratio and a positive effect on profitability of reinsurance resulting in better underwriting results for Sava Reinsurance Company's reinsurance segment.

As mentioned, the effect of dilution and higher profit generation in the upcoming years are much more attractive to investors buying new shares, however, the participation in the capital increase can easily offset the negative effects of dilution. Sensitivity analyses indicate that if newly issued shares are priced at EUR 7-8, existing shareholders should increase their holding position by 15-20%. Some dilution effects are therefore inevitable, but relatively easily avoidable.

		Increase of current shareholding										
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
Capital increase price per share	7.0	-41.9%	-31.4%	-20.8%	-10.3%	0.3%	10.8%	21.4%	32.0%	42.5%	53.1%	63.6%
	7.2	-40.0%	-29.8%	-19.5%	-9.3%	1.0%	11.2%	21.5%	31.7%	41.9%	52.2%	62.4%
	7.4	-38.1%	-28.2%	-18.3%	-8.3%	1.6%	11.6%	21.5%	31.4%	41.4%	51.3%	61.3%
	7.6	-36.3%	-26.7%	-17.0%	-7.4%	2.3%	11.9%	21.6%	31.2%	40.9%	50.5%	60.2%
	7.8	-34.6%	-25.2%	-15.9%	-6.5%	2.9%	12.2%	21.6%	31.0%	40.3%	49.7%	59.1%
	8.0	-32.9%	-23.8%	-14.7%	-5.6%	3.5%	12.6%	21.7%	30.8%	39.8%	48.9%	58.0%
	8.2	-31.2%	-22.4%	-13.6%	-4.8%	4.1%	12.9%	21.7%	30.5%	39.4%	48.2%	57.0%
	8.4	-29.6%	-21.1%	-12.5%	-3.9%	4.6%	13.2%	21.8%	30.3%	38.9%	47.4%	56.0%
	8.6	-28.1%	-19.7%	-11.4%	-3.1%	5.2%	13.5%	21.8%	30.1%	38.4%	46.7%	55.0%
	8.8	-26.5%	-18.5%	-10.4%	-2.3%	5.7%	13.8%	21.8%	29.9%	38.0%	46.0%	54.1%
	9.0	-25.1%	-17.2%	-9.4%	-1.6%	6.2%	14.1%	21.9%	29.7%	37.5%	45.4%	53.2%

Source: ALTA Invest calculations (% of lower or higher value of share in case of individual scenario variables)

10 BALANCE SHEET AND INCOME STATEMENT

Sava Re Group - STATEMENT OF FINANCIAL POSITION BY OPERATING SEGMENT: BALANCE SHEET – ASSETS

	as at 31 December 2011			as at 31 December 2010		
	Reinsurance	Non-life Insurance	Life Insurance	Reinsurance	Non-life Insurance	Life Insurance
ASSETS	417,051,465	203,991,844	55,339,001	418,350,613	193,420,334	55,904,513
Intangible assets	175,779	1,794,545	233,455	178,615	1,528,759	281,413
Property, plant and equipment	2,367,170	15,434,217	4,774,256	2,451,169	17,900,896	4,457,529
Deferred tax assets	4,064,272	342,089	121,052	2,073,687	154,793	7,601
Investment property	158,587	5,749,289	163,571	160,920	4,615,660	130,338
Financial Investments in associated companies	114,423,243	2,926,546	859,074	106,236,355	3,023,358	1,020,071
Financial Investments:	208,748,194	105,526,148	21,807,711	221,513,409	85,013,892	24,150,407
- In deposits and loans	57,859,936	52,987,374	7,212,843	83,453,132	43,942,058	9,939,799
- HTM	7,513,050	5,012,364	2,895,100	8,168,143	8,198,802	1,605,060
- AFS	143,375,208	44,238,494	10,269,917	129,892,133	29,732,181	11,605,880
- At fair value through P/L	0	3,287,916	1,429,851	0	3,140,851	999,666
Funds for the benefit of policyholders who bear investment risk	0	0	24,138,957	0	0	23,716,699
Amount of technical provisions ceded to reinsurers	17,615,761	25,645,091	53,573	17,526,300	25,313,293	39,281
Receivables	59,848,462	35,143,479	1,699,095	58,673,864	43,815,751	579,344
Deferred acquisition costs	9,305,676	6,565,482	377,652	9,191,801	7,926,464	200,576
Other assets	190,408	1,094,523	54,058	175,299	525,157	53,020
Cash and Cash Equivalents	153,912	3,385,873	1,056,547	169,193	2,614,674	1,180,681
Non-current assets held for sale	0	384,562	0	0	987,637	87,553
						1,075,190

Sava Re Group - STATEMENT OF FINANCIAL POSITION BY OPERATING SEGMENT: BALANCE SHEET - LIABILITIES

	as at 31 December 2011			as at 31 December 2010		
	Reinsurance	Non-life insurance	Life insurance	Reinsurance	Non-life insurance	Life insurance
EQUITY AND LIABILITIES						
Equity						
- Share capital	417,051,465	203,991,844	55,339,001	418,350,613	193,420,334	55,904,513
- Capital reserves	158,454,528	27,481,892	13,071,188	156,138,328	27,757,504	15,312,585
- Reserves from profit	39,069,099	42,750,538	22,086,990	39,069,099	38,436,078	21,516,950
- Treasury shares	33,003,753	0	57	33,003,752	0	56
- Fair value reserve	87,556,850	2,115,554	336,491	83,238,204	2,494,885	336,491
- Retained net profit or loss	-9,088,908	630,488	-400,356	-1,774	0	0
- Net profit or loss for the year	3,596,862	-12,788,554	-5,969,149	-2,767,816	2,074,151	244,490
- Translation reserve	4,318,647	-3,652,911	-2,261,027	0	-7,649,452	-4,057,899
	0	-1,573,223	-721,818	3,596,862	-5,919,962	-1,943,673
	158,454,530	27,481,892	13,071,188	0	-1,678,197	-783,830
<i>Equity attributable to equity holders of the controlling company</i>				156,138,328	27,757,503	15,312,585
<i>Non-controlling interest in equity</i>	0	0	0	0	0	0
Subordinate liabilities	31,220,817	0	0	31,177,758	0	0
Technical provisions	183,891,042	141,608,498	17,081,646	173,971,974	136,823,399	15,666,210
- Unearned premiums	40,897,411	53,660,457	379,712	41,861,443	52,522,521	319,067
- Mathematical provisions	0	0	16,503,688	0	0	15,228,730
- Provisions for claims outstanding	142,394,053	85,190,619	198,246	131,492,898	81,279,621	118,413
- Other technical provisions	599,578	2,757,422	0	587,633	3,021,257	0
Technical provisions of life insurance policyholders, who have assumed the risk	0	0	23,673,423	0	0	23,626,363
Other provisions	143,730	573,772	77,323	112,165	581,094	73,662
Deferred tax liabilities	0	0	0	86,161	39,013	61,436
Other financial liabilities	729	13,997,498	0	2,901,061	6,486,120	0
Liabilities for business operations	42,059,381	9,309,278	372,080	44,336,405	14,692,522	199,360
Other Liabilities	1,281,268	11,020,906	1,063,341	9,656,761	7,040,685	964,897
				10,123,890		15,931,853

Sava Re Group - STATEMENT OF FINANCIAL POSITION BY OPERATING SEGMENT: BALANCE SHEET - ASSETS

	On 30.9.2012	Total
EQUITY AND LIABILITIES		634.060.263
Equity		165.920.551
- Share capital		39.069.099
- Capital reserves		25.368.113
- Reserves from profit		90.331.903
- Treasury shares		-1.774
- Fair value reserve		-3.841.842
- Retained net profit or loss		4.008.814
- Net profit or loss for the year		12.383.397
- Translation reserve		-3.289.198
<i>Equity attributable to equity holders of the controlling company</i>		<i>164.028.512</i>
<i>Non-controlling interest in equity</i>		<i>1.892.039</i>
Subordinate liabilities		31.231.435
Technical provisions		363.383.033
- Unearned premiums		103.041.148
- Mathematical provisions		17.218.629
- Provisions for claims outstanding		240.093.257
- Other technical provisions		3.029.999
Technical provisions of life insurance policyholders, who have assumed the ri		26.631.201
Other provisions		841.270
Deferred tax liabilities		0
Other financial liabilities		3.145.648
Liabilities for business operations		33.672.693
Other Liabilities		9.234.432

	On 30.9.2012	Total
ASSETS		634.060.263
Intangible assets		18.098.049
Property, plant and equipment		24.261.730
Deferred tax assets		2.858.793
Investment property		5.591.397
Financial investments in associated companies		54.097.386
Financial investments:		352.656.537
- In deposits and loans		108.233.019
- HTM		15.625.642
- AFS		225.372.267
- At fair value through P/L		3.425.609
Funds for the benefit of policyholders who bear investment risk		27.127.565
Amount of technical provisions ceded to reinsurers		31.404.001
Receivables		97.090.066
Deferred acquisition costs		16.135.803
Other assets		1.090.647
Cash and Cash Equivalents		3.311.102
Non-current assets held for sale		337.188

Sava Re Group - INCOME STATEMENT

	as at 31 December 2011				as at 31 December 2010			
	Reinsurance	Non-life Insurance	Life Insurance	Total	Reinsurance	Non-life Insurance	Life Insurance	Total
EARNED PREMIUMS, NET OF REINSURANCE	122,486,683	100,070,517	12,690,308	235,139,209	123,497,230	96,085,241	12,394,003	231,874,029
Gross insurance premium written	140,350,370	126,411,157	12,882,226	258,415,194	142,861,784	125,757,228	12,532,979	259,103,050
- of this third-party clients	119,261,863	126,271,105	12,882,226	258,415,194	120,989,322	125,580,749	12,532,979	259,103,050
Written premiums ceded to reinsurers and co-insurers	-20,030,451	-25,379,571	-141,557	-24,406,133	-21,611,105	-25,243,014	-124,434	-25,301,152
Change in net unearned premiums	2,166,764	-961,069	-50,361	1,130,148	2,246,551	-4,428,973	-14,542	-1,927,869
NET CLAIMS INCURRED	-75,377,584	-56,354,647	-4,421,221	-136,168,165	-81,740,116	-55,739,316	-2,540,031	-140,009,961
Gross claims	-70,685,269	-64,230,826	-4,327,331	-128,376,839	-78,092,872	-64,442,773	-2,613,520	-131,269,604
Reinsurers and co-insurers shares	7,322,111	12,091,180	15,357	8,569,373	11,644,566	15,533,327	577	13,266,034
Change in net provisions for outstanding claims	-12,014,426	-4,215,001	-109,247	-16,360,699	-15,291,810	-6,829,870	72,912	-22,006,391
CHANGE IN OTHER TECHNICAL PROVISIONS	-263	944,778	-1,299,145	-354,630	1,185,050	-967,676	-1,926,812	-1,709,438
CHANGE IN TECH. PROV. OF THE INSURED WHO HAVE ASSUMED THE INV. RISK	0	0	-23,713	-23,713	0	0	-5,711,680	-5,711,680
OPERATING EXPENSES	-39,288,833	-46,408,509	-6,571,380	-87,921,117	-39,239,664	-43,870,376	-6,793,923	-85,287,685
- Depreciation and amortisation	-207,816	-1,548,494	-147,549	-1,912,368	-176,706	-1,721,678	-114,475	-2,014,450
OTHER TECHNICAL INCOME	4,140,288	6,703,495	48,552	6,425,806	4,741,369	6,652,290	30,942	6,631,556
OTHER TECHNICAL EXPENSES	-2,105,123	-8,863,858	-79,516	-10,941,003	-2,165,907	-7,491,095	-20,264	-9,627,586
TECHNICAL ACCOUNT	9,855,168	-3,908,224	343,885	6,156,387	6,187,962	-5,330,932	-4,567,765	-3,840,765
Income from investment in affiliates	4,540,448	0	0	5,241,763	0	210,210	0	5,055,301
Share in P/L of equity accounted associates	0	0	0	998,142	0	0	0	5,055,301
Investment income	8,437,718	5,884,968	3,733,425	17,780,524	9,831,163	5,182,893	5,110,395	19,895,359
- Interest income	7,210,411	4,737,035	1,078,567	12,712,017	6,431,313	4,218,525	1,105,344	11,547,097
Expenses for investment in affiliates	-5,156,439	0	0	-5,156,439	0	0	0	0
Expenses from financial assets and liabilities	-6,392,715	-1,919,255	-6,216,614	-14,164,756	-7,282,878	-1,154,265	-2,023,090	-10,235,493
- Interest expense	-1,762,193	-516,353	-47,812	-2,069,373	-1,543,868	-412,889	-25,251	-1,757,268
- Impairment loss on goodwill	-5,156,439	0	0	-5,156,439	-386,392	0	0	-386,392
NON-TECHNICAL ACCOUNT	1,429,012	3,965,703	-2,483,189	3,701,092	2,548,285	4,238,838	3,087,305	14,715,167

	as at 31 December 2011				as at 31 December 2010			
	Reinsurance	Non-life Insurance	Life Insurance	Total	Reinsurance	Non-life Insurance	Life Insurance	Total
Other income	10.733	578.577	13.499	762.087	87.439	398.461	0	477.851
Expenses for bonuses and rebates	-11.682	-256.188	0	-267.870	23.029	-744.937	0	-721.908
OTHER EXPENSES	-908	-2.557.819	-67.722	-2.626.450	-166	-1.766.394	-12.182	-1.789.999
RESULT OF OTHER ITEMS	-1.857	-2.235.430	-54.223	-2.132.233	110.302	-2.122.870	-12.182	-2.034.056
PROFIT/LOSS BEFORE TAX	11.282.322	-2.177.951	-2.193.527	7.725.246	8.846.549	-3.204.964	-1.492.642	8.840.346
CORPORATE INCOMETAX	-2.645.030	-946.315	-67.500	-3.658.845	-1.652.825	-1.552.161	-114.537	-3.319.676
NET PROFIT OR LOSS FOR THE BUSINESS SEGMENT	8.637.292	-3.124.266	-2.261.027	4.066.401	7.193.724	-4.757.125	-1.607.179	5.520.670

11 INVESTMENT PORTFOLIO STRUCTURE

REGIONAL STRUCTURE	30 September 2012
Slovenia	52.0%
European Union	21.6%
Ex-Yugoslavian countries	18.9%
Rest of Europe	2.2%
Asia	3.7%
Other	1.4%

Bond portfolio amounts to EUR 226.8m.

BOND STRUCTURE	30 September 2012
Sovereign bonds	53.5%
Corporate bonds	34.0%
Corporate covered bonds	6.7%
Corporate bonds with guarantees	5.7%

BOND STRUCTURE	30 September 2012
AAA	12.8%
AA	7.6%
A	41.1%
BBB	15.3%
Less than BBB	15.9%
No rating	7.3%

BOND STRUCTURE	30 September 2012
Australia corporate	2.0%
Austria sovereign	3.7%
Austria corporate	4.3%
Belgium corporate	4.1%
Cyprus sovereign	1.8%
Czech sovereign	3.6%
Czech corporate	2.0%
Montenegro sovereign	1.7%
Montenegro corporate	0.5%
Denmark corporate	3.0%
Estonia corporate	4.1%
Finland corporate	0.5%
France sovereign	2.7%
France corporate	2.0%
Croatia sovereign	6.6%
Croatia corporate	0.2%
Ireland sovereign	0.4%
Italy corporate	2.4%
China sovereign	2.0%
China corporate	1.6%
South Korea corporate	4.2%
Lithuania sovereign	1.8%
Luxemburg sovereign	2.2%
Luxemburg corporate	2.0%
Macedonia sovereign	2.7%
Germany sovereign	3.5%
Netherlands corporate	1.3%
Norway corporate	4.1%
Poland sovereign	6.0%
Poland corporate	2.5%
Russia corporate	3.3%
Slovenia sovereign	54.7%
Slovenia corporate – banks	33.4%
Slovenia corporate – government institutions	6.0%
Slovenia corporate – other	9.7%
Serbia sovereign	5.5%
Serbia corporate	0.9%
Sweden sovereign	1.3%
Sweden corporate	1.0%
Swiss corporate	3.4%
UK corporate	1.1%
US corporate	0.4%

Deposits amount to EUR 102.4m.

DEPOSIT EXPOSURE	30 September 2012
Slovenia	25.2%
Austria	21.1%
France	17.6%
Italy	9.9%
Russia	7.6%
Kosovo	5.1%
Serbia	3.8%
Montenegro	3.5%
Croatia	1.6%
Macedonia	1.3%
Hungary	1.0%
Germany	1.0%
Luxembourg	0.8%
Turkey	0.6%
Greece	0.2%

DEPOSIT MATURITY	30 September 2012
Call deposit	15.5%
0-3 months	15.7%
3-6 months	18.6%
6-9 months	17.8%
9-12 months	16.0%
12-15 months	11.5%
More than 15 months	5.0%

EXPOSURE TO SLOVENIA	30 September 2012
To banks	99.1m
To state	58.2m
Total	157.2m

EXPOSURE TO PIIGS	30 September 2012
Ireland sovereign	0.5m
Italy sovereign	2.1m
Total	2.6m

12 DISCLOSURE

GENERAL DISCLOSURE

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Based on the issuer's comments we have made the following changes to the document content:

- We have excluded comments and calculations of the alternative scenario, which is the sale of the Zavarovalnica Maribor stake.
- We have excluded the comparison of plans of the Sava Reinsurance Company excluding the purchase of Zavarovalnica Maribor and in the case of the sale of the Zavarovalnica Maribor stake.
- We have made changes to SWOT analysis

ALTA Invest, investicijske storitve, d.d. has performed services concerning financial instruments to the issuer under consideration herein within the past 12 months.

ALTA Invest d.d. and its affiliated legal entities do, however, have a financial interest as regards the financial instruments of the issuer as an underwriter of financial instruments the preparation of this document. Here return or remuneration is also tied to the success of the underwriter process.

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Sašo Stanovnik, Head of Research

Matej Šimnic, Analyst

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13 CONTACTS

ALTA INVEST, investicijske storitve, d.d.
 Železna cesta 18, 1000 Ljubljana, Slovenia
 T: +386 080 10 60
 +386 (0)1 3 200 300
 F: +386 (0)1 3 200 301
invest@alta.si
www.alta.si

SALES

Name	Position	Telephone	E-mail
Žiga Gregorinčič	Institutional Account Manager	+386 1 32 00 315	ziga.gregorincic@alta.si
Borut Volk	Director of Sales	+386 1 32 00 340	borut.volk@alta.si
Igor Taljat	Head of Institutional Trading	+386 1 32 00 390	igor.taljat@alta.si

RESEARCH

Name	Position	Telephone	E-mail
Sašo Stanovnik	Head of Research	+386 1 32 00 310	saso.stanovnik@alta.si
Matej Šimnic	Analyst	+386 1 32 00 311	matej.simnic@alta.si

EXECUTIVE

Name	Position	Telephone	E-mail
Aleš Škerlak	Executive Director Alta Group	+386 1 32 00 202	ales.skerlak@alta.si
Simon Mastnak	Executive Director Alta Group	+386 1 32 00 202	simon.mastnak@alta.si
Valter Grilanc	Executive Director Alta Invest	+386 1 32 00 300	valter.grilanc@alta.si
Matjaž Albreht	Executive Director Alta Invest	+386 1 32 00 300	matjaz.albreht@alta.si

ALTA IB

Name	Position	Telephone	E-mail
Jure Klepec	Director	+386 1 32 00 300	jure.klepec@alta.si
Jasna Hrnčič Brdnik	Senior Consultant	+386 1 32 00 300	jasna.brdnik@alta.si
Bine Pangršič	Senior Consultant	+386 1 32 00 300	bine.pangrsic@alta.si

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