2006

Komunálna poisťovňa a.s.

ANNUAL REPORT 2006

KOMUNÁLNA poisťovňa
VIENNA INSURANCE GROUP

Life is worth it!

What's the value of human life? Can it be expressed in monetary terms at all? Let's lighten up this notion with a bon mot by the American writer and playwright G.B. Shaw; in one interview he mentioned how once, when he was going for an evening walk in the suburbs, three muggers attacked him. The tallest one, a rough and unshaven guy, pressed a knife to his ribs and growled under his drunken breath the classic "brigand's" phrase: "if you value your life, give me all your money". The writer really did value his life and so dug down with his trembling hand into his breast pocket and pulled out all his momentary "assets": 358 dollars. Since he had nothing else of value on him, apart from this money, not even a watch, the muggers didn't even bother to round up this amount with any further loot. They took the money from his hands and walked off with a calm pace into the darkness. G.B. Shaw commented this memory with his own, special charm: "Whenever anyone asks me for the value of human life, I can feel the cold steel of the knife under my ribs and I immediately come up with the answer: 358 dollars".

Jokes aside, when opening up the question of the value of human life, our words usually dry up. We know that is has no equivalent. That's not its only unique feature. We would have a slightly better chance if we wanted to measure the value of property. Though even this is relative. For a loving mother, an inartistic drawing from the scrawling hand of her five-year-old son can be a more prized possession than Picasso's Demoiselles d'Avignon. However, we don't have to point out that the auctioneers in one of the world's top auction houses would see the matter in a slightly different light. So although human life cannot be quantified, we can assume that it's most reliable, albeit auxiliary and secondary, "coefficient" is money. If we agree on this concept, then many analogies come to mind. For example that it is human nature to protect what we value the most: after life or health, money is certainly on the next rung; for many people, it is even in first place. This is why money is an expression of our lifestyle, comfort, certitude, and security. Another important analogy is the word "vulnerability". We are aware of the fragility of our lives every day; the guardian angels which we used to see on coloured prints during our holiday visits at our grandmother's (for the most part, they were hovering over children who were crossing a crumbling bridge across a raging river) must have their hands full. And they seem to be lagging behind. And money is just

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as vulnerable. They are not only subject to inflation, crime but also counterfeiters. The counterfeiting "art" is at least as old as money itself. We are talking here about money as we know it today, of course; bank notes and coins. They have their own ancient and exciting history. For example, in the Pacific, the first form of payment was in the shape of stone discs about four metres wide. In Sudan, a thousand years ago, a hoe was the equivalent of money, in Ethiopia it was salt bars and in ancient Japan, shells. The counterfeiting of four-metre stone discs must have so tasking that honest work would probably have been worth more. Even today, it seems that money forgery is a science in itself. Luckily enough, we know how to protect ourselves. Only the most skilful money counterfeiters are able to figure out the security elements on today's bank notes, and only for a short time. The protective films, watermarks and refined grids make bank notes quite reliable "bodyguards", we can say with only slight exaggeration.

But how can we protect human life? No, it's unfortunately not within our human power to prevent deadly diseases, traffic accidents, natural disasters, accidents or other unpredictable "blows of fate". However, it is within our power to lessen the impact of these unpleasant events which are brought along by life, the player who never plays with exposed cards.

Of all the ways open to a reasonably minded person who wants to "protect" not only his life and property, but also his money, there is insurance. Metaphorically speaking, insurance offers a person something like a protecting hand; none of us know the "day and hour of reckoning", but we can rest assured that someone will be by our side when the worst happens. To support us. To stand beside us. And on top of all this: the money used to buy this notional protection is kept in good hands and is waiting for us. And this is the message with which we would like to conclude this contemplation of the value of human life and money. Because "protecting" human life and property doesn't have to– and indeed cannot – always mean preventing unpleasant events or even tragedies. But it does mean lessening their eventual consequences; helping out in times of need; and making people's lives a little more enjoyable, easier and carefree.

Perhaps in the end we will not answer the question on the value of human life. However, we can say for sure that **life is worth it!**

1. Introductory word by the Chairman of the Supervisory Board

Dear business partners, dear friends,

In 2006 Komunálna poisťovňa a.s. achieved good results as a standard as we got accustomed to with it in recent years. In business activity it notched interannual growth of the gross prescribed premium by 28 % in comparison with the year 2005. By its excellent business results in compulsory contractual insurance it supported Vienna Insurance Group in Slovakia in the achievement of business objectives especially in this market segment where VIG became a leader on the Slovak market. Komunálna poisťovňa contributed to the acquisition of this leading position by a significant share.

The insurance companies of Vienna Insurance Group in Slovakia (KOOPERATIVA poisťovňa, Komunálna poisťovňa, a.s. and KONTINUITA) achieved as at the end of 2006 more than 27 % share on the Slovak insurance market. The improvement of efficiency was undoubtedly caused also by the application of synergy effects under the leadership of KOOPERATIVA, thus causing the enhancement of the service quality for clients what secures a competitive advantage for Vienna Insurance Group on the insurance market of Slovakia.

For the year 2007 Komunálna poisťovňa had set ambitious objectives. The strategic vision is greater focus on the development of life insurance which is to find its firm position in the business structure of Komunálna poisťovňa Business service is aimed at efficient use of cross-selling means especially on continuously growing insurance stock in the segment of Compulsory Contractual Insurance.

In order to satisfy the requirements of clients and to balance the pressure of the competition all business activities shall be directed to the extent and innovation of the product portfolio under the market requirements with the use of know-how as well as experience of the whole concern.

Since the sale of products of bank-insurance proved very successful, the strategic cooperation with Dexia banka Slovensko, a.s. shall be developed further.

Dear business partner and friends,

to conclude, let me thank all of you who showed your trust to Komunálna poisťovňa. I would like to ensure you that your protection against unpredictable events is in good hands, that we deeply appreciate your trust, faithfulness, and loyalty and that it is a commitment for us for the future to provide quality modern services.

My sincere thank you is addressed also to the Board of Directors, the management and to all employees of Komunálna poisťovňa for the work performed on behalf of excellent business results. I do believe that we together can deepen efficient cooperation with excellent results within Vienna Insurance Group in Slovakia especially by following the started trend of back-office activity development. Concurrently, I would like to express the idea that the company shall further successfully follow the positive development.

Ing. Juraj Lelkes
Chairman of the Supervisory Board

2. Introductory word of the Chairman of the Board of Directors and General Director

Dear shareholders, dear business partners, dear colleagues,

I am submitting you the Annual Report of the company Komunálna poisťovňa a.s. in which we evaluate the results achieved in the course of the year 2006.

In the previous years, we have improved practically all economic and financial indicators with the year 2006 not being any exception when we closed it also with the growth of revenues and productivity. We have experienced a year in which all our employees showed that they were able to use the offered chances and materialize them into quality results. That is why I can say with pleasure that also last year our company managed to maintain the growing curve on the Slovak insurance market. That is why I would like to thank in this way to all employees of Komunálna poisťovňa for their commitment in everyday work.

I was also pleased by the fact that the insurance companies of Vienna Insurance Group in Slovakia again managed to increase their market share and strengthen their position on the Slovak insurance market.

I observe with delight that last year the share of our new production grew what in this indicator ranked us on the excellent fourth place among all insurance companies on the Slovak insurance market. We have confirmed a traditionally strong position in non-life insurance and in the field of motor third-party liability insurance.

Quality work of Komunálna poisťovňa was this time awarded by 5th place in the prestigious survey of the Trend magazine, Top Trend – Insurance Company of the year 2006.

Since the beginning of 2006 the concern Wiener Städtische has been operating under the umbrella brand of Vienna Insurance Group. In May 2006 a change of the business name of the company Wiener Städtische AG to WIENER STÄDTISCHE Versicherung AG VIENNA INSURANCE GROUP was approved. A new umbrella brand shall demonstrate a co-operation of insurance companies of the concern.

On the basis of the aforesaid, I can say that the year 2006 was successful in all fields of our activity including the creation of good starting points for the fulfillment of plans in 2007.

My thanks belong to the entire team of Komunálna poisťovňa which complied with the objectives and secured the fulfillment of the set tasks via the team work. That is why I consider necessary and very important to pay attention to the development of human resources and education of our employees for the future. I do believe that by the employment of common efforts we shall manage to achieve such results in order to be able evaluate the year 2007 even more positively than the previous one.

In this way I would like to assure our shareholders that the funds they invested in the past in our joint-stock company are being continuously appreciated and they are administered by the responsible qualified management. We highly appreciate your trust and we approach your property with maximum responsibility.

Let me use this opportunity to thank you – shareholders, business partners and members of the company bodies for the favour and trust you devote to our company. Your persisting belief in our abilities helps us better fulfil your ideas and expectations.

Ing. Pavol Butkovský
Chairman of the Board of Directors
and General Director

3. Mission of the company and the line of business

Komunálna poisťovňa a.s. is a commercial universal insurance company operating on the Slovak insurance market.

Its mission is to provide the clients with quality insurance protection and to secure their future via reliable appreciation of the deposited finances. Apart from its main mission, Komunálna poisťovňa a.s. follows also the objective concerning building stable and confidential relationships with customers not only by the creation and update of products according to their requirements but also via professional and highly expert approach.

Komunálna poisťovňa focuses on the insurance coverage of all areas with the main focus being non-life insurance for the wide range of potential prospects. In the past it specialized in the insurance protection of the communal sphere, nowadays it secures complex services for inhabitants, organizations, international and domestic entrepreneurial entities. Granting the awarded positions in the contest Insurance Company 2004 and 2005 was the confirmation of successful operation of Komunálna poisťovňa a.s. on the Slovak insurance market.

4. Background information

Komunálna poisťovňa a.s. was established by the memorandum of association of 19th October, 1993. The activity of the company was officially commenced on 1st January, 1994. The founder was Prvá komunálna banka a.s. (currently Dexia banka Slovensko a.s.). A year later the town of Banská Bystrica and the town of Brezno became its shareholders. In 1996 KOFIS, a.s. Žilina also became a shareholder. The share capital of the company was gradually increased from SKK 10 million to SKK 280 million.

With growing years, the insurance company was improving and strengthening its position on the Slovak insurance market while its quality and quantity grew continuously. The significant change occurred in 2001 when the company became a part of Vienna Insurance Group. This step was substantially reflected in further activities and ambitions of Komunálna poisťovňa. The strategic partnership helped use know-how, knowledge and experience which the company transferred to the form of the quality portfolio of products, highly quality services and care for clients and partners.

5. Corporate Identity

By the end of the third quarter of 2006, almost all members of Vienna Insurance Group received the information from Vienna headquarters about the change of the logo. This change affected also the logo of Komunálna poisťovňa. The original brand differed from the new one by colourity and arrangement of individual elements. The logo with two connected balls was reduced in proportion in comparison with the original one, it was shifted from the left to right side, and the heading insurance company was aligned according to the last letter in the word Komunálna. The logo was given also several new elements. They involve a red line and black inscription Vienna Insurance Group which is placed under the line. Their width is identical with the width of the original brand. Both elements fulfil the function of unifying signs for all group members. On the basis of the change of logotype the company prepared a new design manual.

6. Company data

Business name:	Komunálna poisťovňa a.s.
Legal form:	a joint-stock company
Registered office:	Dr. V. Clementisa 10, 821 02 Bratislava 2
Identification No.:	31 595 545
Year of establishment:	1994
Share capital:	SKK 280 million
Number of shares:	2,800 pcs
Kind, shape and form of shares:	ordinary, book-entered, registered shares
Nominal share value:	SKK 100,000
Line of business:	undertaking in the insurance industry on the territory of the Slovak Republic

The insurance activity pursuant to Act No. 95/2002 Coll. on Insurance Industry is:

- conclusion of insurance policies by the insurance company, insurance administration,
- provision of benefit from insurance policies and settlement of insurance claims.

The insurance activity includes:

- creation and use of technical reserves and guarantee fund of the insurance company,
- conclusion of insurance policies by the insurance company,
- conclusion of policies with the exclusive mediator of insurance,
- conclusion of policies with the insurance agent and broker,
- performance of activities related to the registration of the exclusive mediator of insurance.

7. Structure of the company

7.1. Shareholders' structure

Shareholders' structure	Shares in pieces	Portion in %
KOOPERATIVA poisťovňa, a.s. Bratislava, Štefanovičova 4	2,663	95.11
Dexia banka Slovensko, a.s. Žilina, Hodžova 11	131	4.68
Mesto Banská Bystrica	3	0.11
Mesto Brezno	2	0.07
Obec Štrba	1	0.03
Total	**2,800**	**100**

7.2. Equity stakes in other companies

Business name:	**Slovexperta, s. r. o.**
Legal form:	Limited liability company
Object of business:	Insurance brokerage
Year of establishment:	2002
Basic capital:	SKK 200,000
Percentage of share:	15 %

7.3. Bodies of the company

7.3.1. General Assembly

General Assembly (GA) is the supreme board of company. Stockholders execute their laws of the internal affairs by the General Assembly. The law of participation in the GA and law of the execution of all stockholders laws belong to all stockholders of the company, who has been singing on like stockholders in CD CP 5 days before the meeting of GA. GA decides in the cases determinated by law or statutes.

7.3.2. Supervisory Board

State as 31st December 2006:

Supervisory Board	
Ing. Juraj Lelkes	Chairman
Dr. Franz Kosyna	Deputy Chairman from 7/12/2006
Dr. Martin Simhandl	1st Deputy Chairman until 6/12/2006
Michal Sýkora	2nd Deputy Chairman until 6/12/2006
Gerhard Ernst	Member
Reinhard Gojer	Member from 7/12/2006
Dr. Mag. Heinz Jirez	Member until 6/12/2006
Ing. Peter Kňaze	Member
Mag. Claudia Stránský	Member
Mária Valábiková	Member

7.3.3. Board of Directors of the company, curriculum vitaes of the members

State as 31st December 2006:

Board of Directors

Ing. Pavol Butkovský	Chairman
Ing. Jozef Machalík	Member
Ing. Peter Poisel	Member until 13/12/2006

Ing. Pavol Butkovský
Chairman of the Board of Directors and General Director

1963, graduate of the Forestry and Wood Sciences and Technology University in Zvolen, Faculty of Wood Sciences and Technology, specialization in Wood Industry Economy and Management

Work experience:
- Drevoindustria, š. p. (from 1986)
  1987 – 1993, Economic Assistant
- Prvá komunálna banka, a. s.,
  1993 – 1996, Manager of the branch offfice
- Komunálna poisťovňa a.s.
  1996 – 2000, General Director and member of the Board of Directors
  from 10/03/2000, Chairman of the Board of Directors and General Director

Representations in bodies of other companies:
- KOOPERATIVA poisťovňa, a.s., 2002 – 2004, member of the Board of Directors
- Slovexperta, s. r. o., 2002 – 2004, Executive
- Slovenská kancelária poisťovateľov (Slovak Office of Insurers), member of the Board of Directors
- Slovenská asociácia poisťovní (SAP - Slovak Association of Insurance Companies), member of SAP Meeting
- Bulgarski Imoti, Sofia, from 2005, member of the Supervisory Board

He has been working in the insurance industry for 11 years.

Ing. Jozef Machalík
Member of the Board of Directors

1950, graduate of the Military Technical Academy Brno

Work experience:

- Komunálna poisťovňa a.s. (from 1996)
  Member of the Board of Directors and Managing Director Assistant
- KOOPERATIVA poisťovňa, a. s. (from 2003)
  1/1 – 31/12/2003, Director of the Division of Insurance Claim Settlement
  from 1/1/2004, Member of the Board of Directors and Director

Representations in bodies of other companies:

- Kniazha, Ukraine, Member of the Supervisory Board
- Slovexperta, s. r. o., Chairman of the Supervisory Board

He has been working in the insurance industry for 11 years.

Ing. Peter Poisel
Member of the Board of Directors

1953, graduate of the Slovak Technical University, Electrotechnical Faculty, Bratislava

Work experience:

- Slovenské rádiokomunikácie
  managerial functions in IT area
- 1990 – 1995, private entrepreneur
- KOOPERATIVA poisťovňa, a.s. (from 1995)
  1995 – 1998, Assistant of the President for Operation
  1998 – 2003, Director of the Section of Operation and Information Technologies
  from 10. 5. 2003 Member of the Board of Directors and Director

Representations in bodies of other companies:

- KONTINUITA poisťovňa, a.s., Member of the Board of Directors
- Slovenská asociácia poisťovní (Slovak Association of Insurance Companies), member of SAP Meeting

He has been working in the insurance industry for 12 years.

7.4. Management of the company

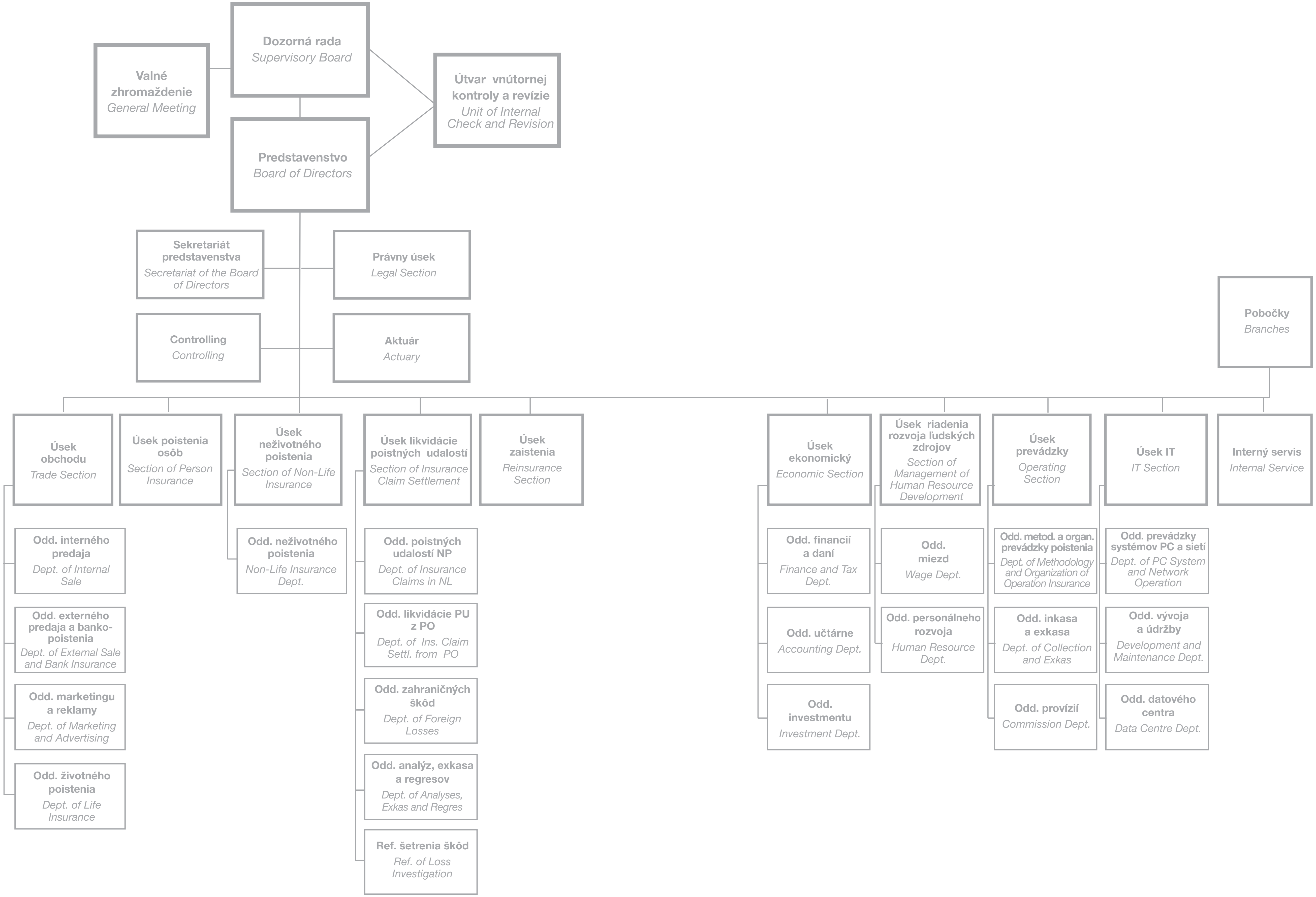
Directors of sections

Ing. Miroslav Pavlenka	Trade Section
Ing. Milan Tarčák	Unit of Internal Control and Revision
Mgr. Ilja Sulík	Legal Section
Ing. Alexander Bajzík	Section of Person Insurance
Ing. Martin Gergely	Section of Non-Life Insurance
Mgr. Peter Ďurík	Section of Insurance Claim Settlement
Ing. Ján Pavlík	Section of Reinsurance
Klaudia Volnerová	Economic Section
Ing. Zuzana Valachovičová	Section of Management of Human Resource Development
Ing. Hana Virgovičová (until 18/10/2006)	Operation Section
Mgr. Emília Dudášová (from 19/10/2006)	Operation Section
Ing. Vladimír Šmidt	Section of Information Technologies
Ing. Ľubomír Budzák	Section of Internal Service

Directors of branch offices

Mgr. Marian Hradecký	Banská Bystrica
Ing. Miroslav Láni	Bratislava
Andrea Xagoraris	Košice
Mária Valábiková	Nitra
Ing. Ľubomír Ortuta (until 30/6/2006)	Prešov
Ing. Monika Váhovská (from 1/7/2007)	Prešov
Ing. Ivan Lacko	Trenčín
Ing. Helena Ľuptáková (until 2/10/2006)	Žilina
Ing. Miroslav Dzurík (from 3/10/2006)	Žilina

7.5. Organizational structure



7.6. Commercial structure

Komunálna poisťovňa a.s. has a double-level commercial organizational structure.

Headquarters with the registered office at Ul. Dr. Vladimíra Clementisa 10 in Bratislava.
Branch offices with the registered offices in individual regions of Slovakia.

Komunálna poisťovňa provides quality and fast services via a developed commercial network which consisted of 7 regional directorates and 46 points of sale as at 31/12/2006 with registered offices in individual regions of Slovakia.

Map: *Regional layout of directorates of Komunálna poisťovňa.*

The headquarters of the company fulfils the function of a managing and coordination centre. Business service of Komunálna poisťovňa is managed from the headquarters of the company and besides own characteristic business processes it uses also knowledge from business activities and strategies of other companies of Vienna Insurance Group in Slovakia in its activity.

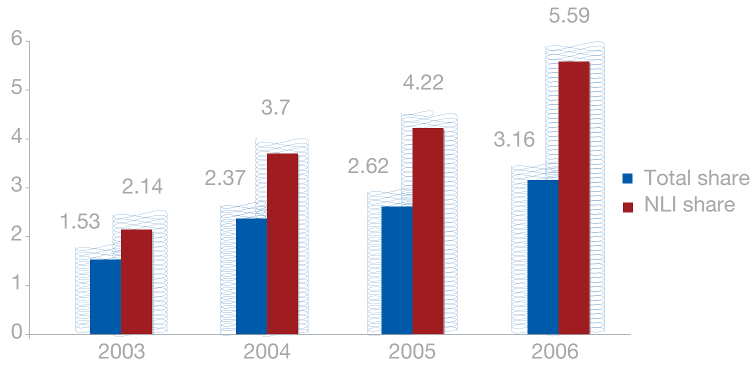
Besides own internal business network the company uses external distribution channels involving brokerage companies, sale mediators, leasing companies and car sellers. Dexia banka Slovensko a.s. also has been an important partner of Komunálna poisťovňa for several years already which uses the network of branches at the sale of selected insurances.

8. Market position

Komunálna poisťovňa a.s. is a progressively developing company with big growth potential. The results the company achieves speak for all. The market share of 0.96% in 2001 grew to current 3.16%, with minimum annual growth every year by 0.15% (2001 – 2002). Perfect position is permanently holded in segment of non-life insurance and it was estimated by 4th place in Slovak insurance market.

year	% Total share	% *NLI share
2006	3.16	5.59
2005	2.62	4.22
2004	2.37	3.70
2003	1.53	2.14

*NLI - non-life insurance



9. Vienna Insurance Group

Umbrella brand of Vienna Insurance Group

Since the beginning of 2006, the concern Wiener Städtische operates under the umbrella brand of Vienna Insurance Group. In May 2006 the change of the business name of the company Wiener Städtische AG to WIENER STÄDTISCHE Versicherung AG VIENNA INSURANCE GROUP was approved. A new umbrella brand should demonstrate a co-operation of insurance companies of the concern which operate on the local market within the successful strategy of several brands under the already established name and the established brand. Vienna Insurance Group is a big family in which every company of the concern has its own brand as a name and global (umbrella) brand of Vienna Insurance Group as a surname.

Vienna Insurance Group – a leading group in Central and Eastern Europe (CEE)

Vienna Insurance Group is by its volume of premium in the amount of ca EUR 5.9 billion a leading Austrian insurance group in Central and Eastern Europe and in comparison with other international insurance concerns it occupies the excellent second place in this region. The insurance companies of Vienna Insurance Group offer insurance services of high quality both in the field of life and non-life insurance. The highest objective is to maintain innovative local insurance solutions for all life situations and optimum service for customers.

Area coverage in 20 countries*

The employees of Vienna Insurance Group provide their customers in 20 states* of Central and Eastern Europe with optimum insurance protection. Outside its basic market in Austria, Vienna Insurance Group operates in Albania*, Bulgaria, Germany, Georgia, Croatia, Lichtenstain, Macedonia*, Poland, Rumania, Russia, Serbia, Slovakia, the Czech Republic, Turkey*, Hungary, the Ukraine and in Belarus. Moreover in Italy and Slovenia there are also branch offices.

Pure Play in CEE

Vienna Insurance Group is excellently located in the way it could participate in the growing living standard and the related increased need of insurance in the countries of Central and Eastern Europe. The share of the companies from Central and Eastern Europe on the total premium of the company is more than 50%. In the field of insurance against loss or damage/casualty insurance the share of Central and Eastern Europe is almost a half of the Group premium. No other international insurance group registered on an exchange achieves such high share of its premium in Central and Eastern Europe.

Standard & Poor's Rating A+

The excellent financial strength of Vienna Insurance Group was repeatedly evaluated by the international rating company Standard & Poor's in 2006 by “A+“ at stable forecast. This means that Wiener Städtische has the best rating of all Austrian insurance companies also in 2006. The decisive factors for attractive rating emphasized by S&P include competitive position of the concern, strong operative returns on key markets, excellent capital force and total conservative risk management even on new markets.

Share on Vienna stock-exchange

A share of WIENER STÄDTISCHE Versicherung AG VIENNA INSURANCE GROUP is registered on Vienna stock-exchange and it belongs to the highest capitalized securities achieving the highest turnovers. It is represented in ATX (Austrian Traded Index), the main index of Vienna stock-exchange.

Objectives and strategy of Vienna Insurance Group

Clear direction

Vienna Insurance Group has been following a clear strategy for many years which it successfully implemented also in the commercial year 2006. The basic competence of Vienna Insurance Group is insurance which is continually and permanently developed. Vienna Insurance Group would like to follow the well-established way of growth.

Clear ambitions

The management and employees are motivated to become leaders. Vienna Insurance Group endeavours to achieve a position among market leaders on all markets on which they are active. All acting is aimed at acquiring leading position at offer of services to the customer. It gives rise to the following basic strategies of Vienna Insurance Group:

- Building of leading position in Austria: Vienna Insurance Group tries to remain No. 1 on the market in Austria both in the field of both life and insurance against loss or damage/casualty insurance and they shall strengthen this position further.
- Targeted expansion in Central and Eastern Europe: in CEE Vienna Insurance Group follows the strategy of selective input on the market, related to the subsequent continual building of the market position. On their key markets – these are markets with high economic and political stability – Vienna Insurance Group tries to achieve the position among minimum the first five biggest insurers of the relevant country. In their effort to create the added value, Vienna Insurance Group leaves the achieved profits in the countries of Central and Eastern Europe in order to strengthen them further and in order to dynamically build the companies of the concern.

* with the reservation of Due Diligence and official permit

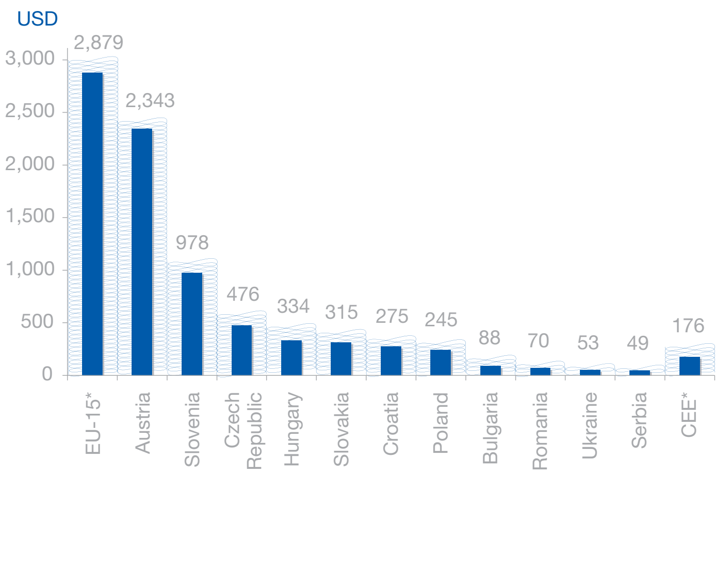
Clear principles of management

Fundamental strategies of Vienna Insurance Group are accompanied by the following principles of management which secure optimum approach to customers, mutual use of synergies and wide diversification of risk in the entire concern:

- **Global thinking** – local acting: Vienna Insurance Group follows the objective to support mutual exchange of know-how among all companies of the concern. In this way the experience and ideas of employees from individual markets shall be used in the entire concern. This applies in a way also to the concern management of Vienna Insurance Group. Every member of the Board of Directors is – additionally to the resort competences – responsible also for individual states of CEE and he/she is represented in the relevant companies of the concern in their Supervisory Board.
- **Multi-brand policy:** Within knowingly applied multi-brand policy on the part of Vienna Insurance Group, newly-acquired plants in fact keep their trademark. Those trademarks are excellently established on local markets and they are anchored in the awareness of the customers. The multi-brand policy is completed and supported by the umbrella brand of the concern of Vienna Insurance Group. Every company thus has own brand as a name and the umbrella brand as a surname thus proving its double potential in this way.
- **Sales via several distribution channels:** Vienna Insurance Group tries to maintain as good approach to customers as possible on all markets via the use of a wide selection of distribution channels thus fully use the business potential. The establishment of aggressive external service is considered the basis of the optimum sales structure.
- **Diversification:** The objective of Vienna Insurance Group is to keep risks on low level via a wide diversification in all spheres. It should be secured by the geographical diversification and wide variability of various distribution channels.

CEE – a market with growth potential

The CEE region offers to the insurance industry an extraordinary chance for growth. The expansion of Vienna Insurance Group to the states of Central and Eastern Europe is based on the business potential which in fact consists in two factors. The insurance density (premium per capita) in CEE is just a fraction of West-European level and recognizes above-average high annual additions. Furthermore, the fact that the welfare of inhabitants in CEE countries is evidently increasing due to fast growth of economy what leads to the above-average demand for financial services for securing living standard is another positive aspect. We have to proceed from the fact that the process of economic growth of the region shall last for longer period. Usually the insurance market grows in the dynamically developing economy much faster than the entire economy. Those factors make Central and Eastern Europe interesting for Vienna Insurance Group. Long-term growth potential of CEE region can be for example demonstrated on the insurance density. In CEE area it represents just 1/16 of West-European level, in 2005 in CEE states (except for Russia and Belarus) it achieved USD 176 on average against USD 2,879 on average in 15 EU countries.



VIENNA INSURANCE GROUP
State as at 31st December 2006

Country	Company	Main line of activity	Total shares
Austria	WIENER STÄDTISCHE Versicherung AG VIENNA INSURANCE GROUP	LI/NLI	
	Donau Allgemeine Versicherung AG	LI/NLI	89,47%
	Bank Austria Creditanstalt Versicherung AG	LI	90,00%
	Union Versicherung AG	LI	45,00%
Czech Republic	Kooperativa pojistovna a.s.	LI/NLI	87,67%
	Ceska podnikatelska pojistovna a.s.	LI/NLI	87,67%
Slovakia	KOOPERATIVA poistovňa a.s.	LI/NLI	100,00%
	Komunálna poistovňa a.s.	LI/NLI	95,11%
	KONTINUITA poistovňa a.s.	LI	100,00%
other CEE markets			
Bulgaria	Bulstrad Insurance & Reinsurance Plc. *	NLI	
	Bulstrad Life Insurance Joint-Stock Company *	LI	
	Bulgarski Imoti Non-Life Plc.	NLI	98,22%
	Bulgarski Imoti Life Plc.	LI	98,35%
Georgia	Georgian Insurance Pension Holding Ltd. *	LI/NLI	
	IRAO *	NLI	
Croatia	Kvarner Wiener Städtische osiguranje d.d.	LI/NLI	98,75%
	Cosmopolitan Life d.d. za osiguranje	LI	73,00%
	HELIOS Osiguranje d.d. *	LI/NLI	
Poland	TU Compensa S.A.	NLI	99,87%
	TU na Zycie Compensa S.A.	LI	100,00%
	TUiR CIGNA STU S.A.	NLI	92,77%
	Royal Polska TU na Życie SA	LI	95,44%
	BENEFIA TU Majątkowych S.A.	NLI	100,00%
	BENEFIA TU na Zycie S.A.	LI	100,00%
Romania	Omniasig S.A.	NLI	98,17%
	Omniasig Asigurari de Viata S.A.	LI	69,98%
	Unita S.A.	NLI	100,00%
	Agras Asigurare Reasigurare S.A	NLI	88,68%
Russia	MSK - Life	LI	25,01%
Serbia	Wiener Städtische Osiguranje a.d.o. Beograd	LI/NLI	100,00%
Ukraine	Versicherungs AG KNIAZHA	NLI	50,01%
	Versicherungsgesellschaft Globus	NLI	51,00%
	Geschlossene AG Versicherungsgesellschaft Jupiter	LI	73,00%
Hungary	Union Biztosito Zrt.	LI/NLI	100,00%
Belarus	SBA Zaso Kupala	NLI	94,50%
	ZASO Victoria	NLI	100,00%
other markets			
Germany	InterRisk Versicherung AG	NLI	100,00%
	InterRisk Lebensversicherung AG	LI	100,00%
Liechtenstein	Vienna-Life Lebensversicherung AG	LI	100,00%
branches			
Italy	Wiener Städische Versicherung AG Italia	LI/NLI	—
Slovenia	Wiener Städtische Zavarovalnica, Podružnica v Ljubljani	LI/NLI	—

* These shares on insurance companies are kept via Kardan Financial Services B.V. in which WIENER STÄDTISCHE Versicherung AG VIENNA INSURANCE GROUP has co-partnership of 40% as at 31/12/2006.

The exact list of all capital participations of Wiener Städtischen can be found in the Annual Report of WIENER STÄDTISCHE Versicherung AG VIENNA INSURANCE GROUP concern.

10. Report by the Board of Directors

10.1. Economic environment

Slovakia became a significant economic place on the map of East Europe and it belongs among the fastest growing economies in Central and Eastern Europe (three times faster than the EU average). In 2006 it achieved its strongest economic growth in all its history. The gross domestic product, i.e. the total production of goods and services in economy grew by 8.2 %, while the current record from 1996 equaled 8 %. The foreign investments in economy, full commissioning of production in automotive industry (PSA Peugeot Citroen in Trnava and Kia in Žilina) shall secure sustainable growth of economy also in the coming years.

Strong investment activity in economy, especially in the automotive and civil engineering industry helped reduce the unemployment rate which dropped to 9.4 %, high growth makes pressure on the growth of salaries, and higher taxes mean money for the state budget. Average inflation measured by the index of consumer prices achieved the value of 4.5%.

Slovakia even after the change of the government moreover continues in the enhancement and direction to the European Monetary Union (EMU). The Government and the National Bank of Slovakia do everything in order to comply with Maastricht Criteria and to adopt common European currency EUR in 2009.

10.2. Insurance market

The Slovak insurance market is also further characterized by high share of foreign capital which affected the insurance market especially by the contribution of international experience, know-how, introduction of new insurance products and by improvement of economic power in the insurance industry sector. The input of foreign shareholders into individual insurance companies was contribution also in term of adaptation of the insurance industry sector in relation to the membership of the Slovak Republic in the EU.

Even in the last quarter of 2005 five companies Cardiff, Aegon, Winterthur, OTP Garancia poisťovňa, OTP Garancia životná poisťovňa entered the market.

Within the law approximation, an amendment of Act on Insurance Industry which fully harmonizes the Slovak jurisdiction with the directives of the European Union has been applicable since 2005. It introduced supervision over financial conglomerates. Besides a new Act on Insurance and Reinsurance Mediation came into force as well as an amendment of Act on Supervision over Financial Market. The clients could experience the changes especially on the life insurance market via a new Act on Insurance Mediation. It imposes on agents offering insurance policies new obligations which should facilitate the selection of products for clients. They include for example an obligation to inform in detail about the properties of products, submit them in writing to the client, make analysis of the client needs, and keep records of all those services. Moreover, every mediator has to be registered by the National Bank of Slovakia and has a proof of it which shall be submitted to the client at the request.

The life insurance market revived after several years and grows again by a double-digit pace. We can claim that it is a moving force of the market growth. The causes of revival should be looked for first of all in tax incentives. Every client of life insurance company if his/her premium fulfils the conditions set by law (at purposeful saving it is the obligation of agreement for a minimum ten-year period of premium payment and the condition being also the fact that the taxpayer shall not be paid a benefit before 55th year of life) can deduct 12,000 crowns paid on the premium from the tax base.

In 2006 a new entity entered the market of compulsory insurance thus increasing the number of the licensed insurance companies to 9. No significant transfer of clients was recognized by the insurance companies. The insurance market in 2006 was again characterized by the drop of prices of the compulsory contractual insurance and it recognized the stagnation of the product of compulsory contractual insurance. The mild growth was recognized by other kinds of non-life insurance.

Vienna Insurance Group in Slovakia again reduced the distance from its biggest competitor Allianz – Slovenská poisťovňa.

10.3. Balance of the commercial year 2006

According to the accounting data of the company, Komunálna poisťovňa achieved as at 31/12/2006 the total amount of the prescribed premium on the level of SKK 1,700,433 ths. what means the growth by SKK 374,884 ths. against the year 2005. The index of interannual growth of the amount of the prescribed premium is 1.28.

The share of the company on the Slovak insurance market against the year 2005 grew from the original 2.62 percentage points to 3.16 percentage points. Out of that in the segment of non-life insurance Komunálna poisťovňa achieved the prescribed premium of SKK 1,578,546 ths what means the growth against the year 2005 by the index of 1.31. The total growth of the non-life insurance market share was increased from 4.22 percentage points in 2005 to 5.59 percentage points as at 31/12/2006. If we assign the fact that the results in the important product of the company, in the motor third-party liability insurance, were significantly affected by the drop of prices on the market to the evaluation of results in non-life insurance, this result is pleasing. Despite this fact Komunálna poisťovňa ranked among three most successful insurance companies in Slovakia in this product with the highest market share and with total percentage of 9.14 it occupied 3rd place.

Komunálna poisťovňa managed to achieve very good results for the year 2006 in new production of the prescribed premium. In the total new production with volume of SKK 1,032,817 ths. it occupied 6th place out of 25 insurance companies in Slovakia and achieved the market share of 4.65 percentage points. Out of that in new production in non-life insurance with the volume of SKK 997,820 ths. it occupied 4th place with the market share of 7.52 percentage points.

In 2006 the cooperation with Dexia banka Slovensko a.s. continued. The total amount of the mediated prescribed premium by the bank amounted to SKK 17,928 ths. and against the year 2005 it achieved the growth of index 1.05. The number of the mediated insurance policies increased substantially amounting to 12,897 pcs in 2006 what is more by 3,949 pcs than in 2005. In the product area the significant increase was achieved by the insurance of payment cards and real estate insurance.

The achieved results of the company for the year 2006 obviously prove that the company significantly increased the volumes in the prescribed premium in non-life insurance as well as maintained the growth of volumes of mediated insurances in cooperation with Dexia banka Slovensko a.s.

Komunálna poisťovňa again confirmed its qualities which were awarded by 5th place in the prestigious survey Top Trend – Insurance Company of the year 2006.

10.4. Prescribed premium

Total gross prescribed premium for all kinds of insurance products amounted to SKK 1,700,433 ths. as at 31/12/2006 with interannual growth index of 1.28. Within this volume, the insurance company recorded the growth of the gross prescribed premium by SKK 374,884 ths. in comparison with 2005, in percentage expression by 28.28 points.

According to the data of the Slovak Association of Insurance Companies, upon the achieved business results Komunálna poisťovňa occupies 9th place out of 26 competitive entities with the market share of 3.16 %.

Kind of insurance	Gross prescribed premium 2004		Gross prescribed premium 2005		Gross prescribed premium 2006	
	in SKK ths.	in %	in SKK ths.	in %	in SKK ths.	in %
Non-life insurance	1,056,686	92.9	1,202,521	90.7	1,578,546	92.8
Life insurance	80,753	7.1	123,028	9.3	121,887	7.2
Total	**1,137,439**	**100**	**1,325,549**	**100**	**1,700,433**	**100**

Tab.: Share of life and non-life insurance on gross prescribed premium in 2004, 2005, and 2006.

Non-life insurance

Gross prescribed premium in non-life insurance amounted to SKK 1,578,546 ths. In the interannual comparison it means the growth by SKK 376,025 ths, in percentage by 31.3 points. The company acquired in non-life insurance 5.59 % market share regarding the amount of the prescribed premium. In comparison with the statistics of the Slovak Association of Insurance Companies, it means that Komunálna poisťovňa became 4th biggest insurance company in non-life insurance on the Slovak market.

The share on the growth of the total amount of the prescribed premium within non-life insurance can be attributed mainly to the product of motor third-party liability insurance with the achieved prescribed premium of SKK 890,427 ths., what means 56.41 % share from the total prescribed premium in non-life insurance. In motor hull insurance Komunálna poisťovňa achieved the prescribed premium on the level of SKK 470,211 ths., what means 60 % interannual growth.

Komunálna poisťovňa registered during 2006 more than 200 thousand pieces of valid insurance policies for the products of non-life insurance. This number means an interannual growth by almost 25 thousand pieces.

Evaluation of the commercial year and prescribed premium 2006

The development of the commercial year 2006 indicated since the first days in January adverse development of prices in compulsory contractual insurance as a big price war which culminated in the 2006 campaign. The pushing of prices of the compulsory contractual insurance down was reflected also in the total prescribed premium which achieved the aim in the amount of SKK 890,427 ths., what means the growth by 23 %.

The adjustment of input conditions for AUTOBONUS product favourably affected the development of motor hull insurance in 2006 with the growth index in AUTOBONUS product achieving very favourable development in the amount of 9.34 %. The total prescribed premium in the segment of motor hull insurance meant SKK 470,210,948, what was 60 % growth.

The development of cooperation in the form of improvement of conditions for leasing companies brought significantly favourable development in the field of motor hull insurance. All cooperating leasing companies were achieving the growth index not less than 30 %, what in interactivity with the internal and external network contributed to the significant growth in the prescribed premium in the motor hull insurance.

In 2006 no new products were launched. The objective for 2006 was to assimilate the products to the competitive market conditions in order to fulfil the set tasks in the field of the market share acquisition.

Overview of new insurance products in 2006, non-life insurance:

Motor Hull Insurance for vehicles over 3,500 kg

In March the Board of Directors upon the documents from the Business Section approved the adjustment of rates for the product 260 Motor Hull Insurance for vehicles over 3,500 kg what resulted in the increase of competitiveness of the stated product on the insurance market in the Slovak Republic and helped the total growth of non-life insurance of Komunálna poisťovňa.

Liability Insurance for the damage caused at performance of activity of the trustee in bankruptcy

Characteristics and benefits – apart from the existing professional insurances of notarial and distraint chamber, a newly-launched product enables to extent the client portfolio by a group of trustees in bankruptcy. The insurance covers their professional liability and it enables also additional insurance of the damage caused on the objects taken over.

Overview of innovated insurance products in 2006, non-life insurance:

Domestic travel insurance

Characteristics and benefits – an original insurance product Group Casualty Insurance was adjusted and extended regarding a new legal adjustment concerning the insurance of costs of the mountain rescue service. The innovated insurance product enables variants of insurance – liability insurance, casualty insurance, luggage insurance, insurance of trip cancellation and unused services, insurance of costs of the mountain rescue service.

Life insurance

In life insurance Komunálna poisťovňa recorded the gross prescribed premium in the amount of SKK 121,887 ths., what means 0.48 % market share in the Slovak Republic in the prescribed premium. During 2006 Komunálna poisťovňa concluded more than 7 thousand pieces of life insurances.

Also in 2006 the insurance company in compliance with the needs of clients and the insurance market reacted to their requirements. The continuous growth of significance of cooperation between banks and insurance companies resulted also in the field of life insurance. It resulted in the extension of possibility to use life products in cooperation with Dexia banka.

Overview of new insurance products:

TRIO Life Insurance

In the course of the year, Komunálna poisťovňa launched the product TRIO Life Insurance on the insurance market. The advantage of this product consists in the combination of saving and insurance in one product with casualty additional insurance. This product can be used also for pension security. And finally its parameters are set in the way the client may exercise the tax incentives up to the amount of SKK 12,000 per year.

Kind of insurance	Gross prescribed premium 2004		Gross prescribed premium 2005		Gross prescribed premium 2006	
	in SKK ths.	in %	in SKK ths.	in %	in SKK ths.	in %
Non-life insurance	1,056,686	92.90%	1,202,521	90.72%	1,578,546	92.83%
Property insurance	149,813	13.17%	148,163	11.18%	166,959	9.82%
Motor insurance	857,835	75.40%	1,016,916	76.72%	1,360,638	80.02%
Liability insurance	23,610	2.10%	16,462	1.24%	33,377	1.96%
Other non-life insurance	25,428	2.20%	20,980	1.58%	17,572	1.03%
Life insurance	80,753	7.10%	123,028	9.28%	121,887	7.17%
Total	**1,137,439**	**100.00%**	**1,325,549**	**100.00%**	**1,700,433**	**100.00%**

Kind of insurance	Change 2005/2004	Change 2006/2005	Index 2005/2004	Index 2006/2005
	in SKK ths.	in SKK ths.		
Non-life insurance	145,835	376,025	1.14	1.31
Property insurance	-1,650	18,796	0.99	1.13
Motor insurance	159,081	343,722	1.19	1.34
Liability insurance	-7,148	16,915	0.70	2.03
Other non-life insurance	-4,448	- 3,408	0.83	0.84
Life insurance	42,275	- 1,141	1.52	0.99
Total	**188,110**	**374,884**	**1.17**	**1.28**

Tab.: Comparison of development of the prescribed premium in 2004, 2005 and 2006.

Kind of insurance	Number of effective insurance policies 2004		Production premium 2004	
	pcs.	in %	pcs.	in %
Non-life insurance	115,005	82.36	617,245	94.36
Property insurance	13,644	9.77	33,160	5.07
Motor insurance	82,471	59.06	553,286	84.58
Other non-life insurance	18,890	13.53	30,799	4.71
Life insurance	24,634	17.64	36,921	5.64
Total	**139,639**	**100.00%**	**654,166**	**100.00**

Kind of insurance	Number of effective insurance policies 2005		Production premium 2005	
	pcs.	in %	pcs.	in %
Non-life insurance	174 982	86.90	600,124	93.02
Property insurance	15 858	7.88	35,213	5.46
Motor insurance	142 821	70.93	541,582	83.95
Other non-life insurance	16 303	8.10	23,329	3.62
Life insurance	26 369	13.10	45,020	6.98
Total	**201 351**	**100.00**	**645,144**	**100.00**

Kind of insurance	Number of effective insurance policies 2006		Production premium 2006	
	pcs.	in %	pcs.	in %
Non-life insurance	200,258	86.98	997,820	96.61
Property insurance	19,550	8.49	53,848	5.21
Motor insurance	170,602	74.10	908,409	87.95
Other non-life insurance	10,106	4.39	35,563	3.44
Life insurance	29,972	13.02	34,997	3.39
Total	**230,230**	**100.00**	**1,032, 817**	**100.00**

Tab.: Comparison of the number of concluded contracts and production premium in years 2004, 2005 and 2006.

10.5. The area of claims handling

Non-life insurance

The main objective in the field of claim settlement was the enhancement of quality of service for clients in all activities related to the claim settlement. The emphasis was put especially on the reduction of time between reporting and inspection of the damaged objects what influenced the speed and quality of settlement, reduction of the claim range and revelation of eventual frauds.

Also in 2006 Komunálna poisťovňa continued in the established and well-established claim settlement via the company Slovexperta, s.r.o., with claims in all kinds of non-life insurance.

As at the end of 2006, Komunálna poisťovňa started to register all claims via a central claim dispatching. For the clients of the insurance company it means higher comfort at reporting insurance claims – at non-stop 24-hours operation of the dispatching it is possible to report occurrence of a loss 7 days a week from any place of Slovakia to one telephone number.

Due to higher satisfaction of clients the insurance company enables the settlement of the total claim without deduction of the vehicle residual value while the insurance company shall secure the sale of the vehicle after the insurance claim at own expense. From the total number of motor vehicles after the insurance claim provided for sale in 2006, the insurance company managed to sell almost 81 % of vehicles.

This way of settlement contributes to the simplification and acceleration of the settlement. It can be concurrently used also for business purposes as a unique competitive advantage among other insurance companies on the Slovak market.

The introduction of compulsory inspections of the condition of used motor vehicles even before conclusion of the motor hull insurance caused the increase of objectiveness at the calculation of damage compensation on those vehicles. This system shall significantly restrict frauds and speculations on the part of the clients at exercise the damage compensation incurred before the beginning of the insurance.

In the course of 2006, there were 21,931 claims reported from non-life insurance, what means the interannual growth by 41 %. The increasing trend of the number of the reported claims was balanced by the same increasing number of the settled claims when in 2006 there were 19,468 claims settled what means the growth by 40.9 percentage points against the last year.

The costs for indemnities in non-life insurance amounted to SKK 611,699 ths. The biggest share on the number of the reported claims and the amount of indemnities falls – similarly as in the previous years – on the motor third-party liability insurance and motor hull insurance.

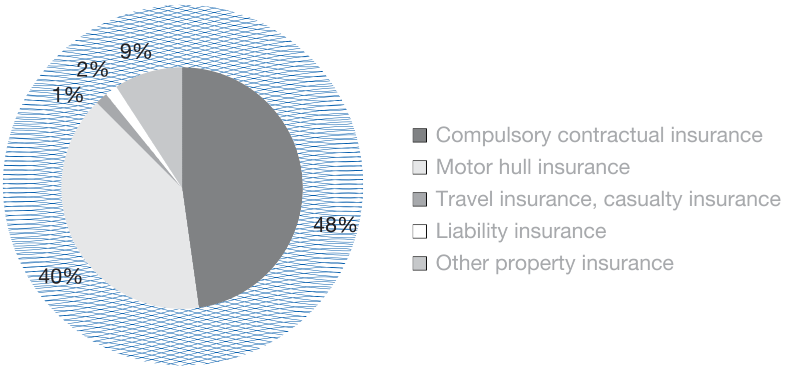


Chart: Share of product groups on the number of the reported claims

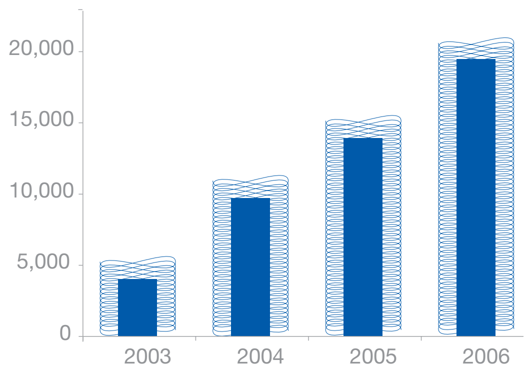


Chart: Number of settled claims

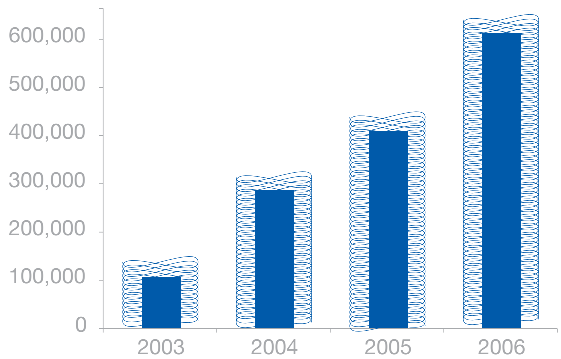


Chart: Amounts of indemnities

The justness of the introduced measures and optimization of settlement processes was reflected in total burden of losses in non-life insurance, where in 2006 we achieved the level of 47.75 % (including the reported but not settled estimates of claims up to 31/12, i.e. including the reserve of RBNS). Komunálna poisťovňa managed to keep the trend of burden of losses under the demanded limit of 50 %.

Life insurance

In the field of life insurance Komunálna poisťovňa a.s. recorded in comparison with 2005 the growth of the reported claims related to deaths and additional insurances by 29.5 % – there were reported 1,054 claims.

The insured were paid the benefits in the amount of SKK 92,174 ths., including purchases, benefits and achieving the insured end of insurance.

Also in the field of life insurance, Komunálna poisťovňa a.s. proved the growth of the number of settled claims. In the course of 2006 there were 988 claims settled related to deaths and additional insurances. In comparison with 2005, it is the growth by 15.6 %, what is reasonable regarding the percentage of the growth of the reported claims.

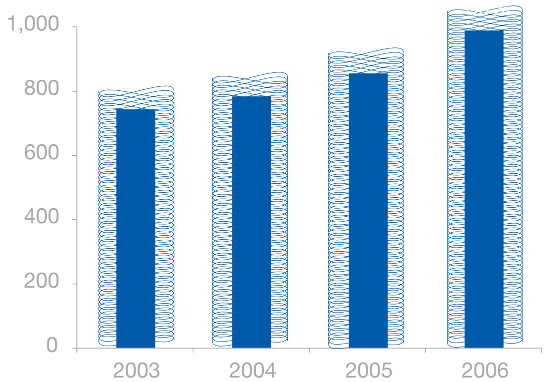


Chart: Number of settled claims

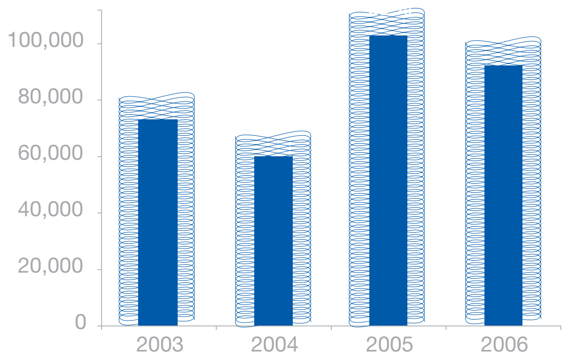


Chart: Amounts of indemnities

10.6. Reinsurance

Comparing the year 2006 to the previous year the change in the reinsurance programme of non-life property insurance, kasko, transport and liability insurance can be recognized. From 1/1/2006 Komunálna poisťovňa entered Bouquet quota share reinsurance programme of the mother company Wiener Städtische Versicherung. It is a reinsurance programme of the insurance of citizens and small business risks in the stated branches of non-life insurance.

Medium-sized and big property business risks are covered from 1/1/2006 by a new surplus cover reinsurance contract placed on the international reinsurance market led by Swiss re Germany. The reinsurance panel of surplus cover property reinsurance contract besides the leading reinsurer consists of especially Munich re, Scor, Mapfre, Converium, Sirius etc..

Property portfolio of Komunálna poisťovňa as the second most significant one along with the portfolio of motor vehicles recorded a mild increase of index of average premium against 2005 in all three segments of property insurance – citizens, small/medium-sized enterprises and big industrial and commercial risks. Due to increased and stronger competition, it was not simple especially in the segment of small/medium-sized enterprises.

A segment of motor hull insurance in 2006 recorded positive results of burden of losses what was the result and confirmation of new measures of this kind of insurance launched in 2005.

A segment of the compulsory contractual insurance, however, was for Komunálna poisťovňa as well as for the entire Slovak insurance market the second year of drop of average premium due to continuous price turbulences on the motor third-party liability insurance market because of what a drop of all-market received premium in this kind of insurance occurred for the second time in the history of demonopolized motor third-party liability insurance market.

Concurrently it should be emphasized that in term of the first insurance the year 2006 was for Komunálna poisťovňa another year of strengthening the position of a significant player in the segment of communal property insurance as well as in the segment of motor insurance (kasko and motor third-party liability insurance).

The project of flood risk management within the Slovak Association of Insurance Companies entered its second phase – finalization of the software support what should be reflected in the near future in qualitatively higher flood risk evaluation especially within the segment of the medium-sized and big industrial / commercial risks.

The second pillar of obligatory proportional programme – a quote share reinsurance policy of MTPL – was based on the conditions of multi-annual policy concluded with the leading reinsurer Scor France. The reinsurance panel of the reinsurance policy of MTPL apart from the leading reinsurer consists first of all of Swiss re, Munich re, Transatlantic re, Partner re etc..

The reinsurers participating in the reinsurance panel of obligatory reinsurance policies are the renowned reinsurance companies with relevant rating evaluation what is the assumption of coverage of even the biggest individual industrial / commercial risks as well as catastrophic risks in full extent and the assumption of securing sufficient extent of financial stability and solvency in case of high indemnity.

Disproportional reinsurance programme was the continuation of proportional reinsurance programme. Against individual claims in property insurance, liability and transport insurance, the programme consisted of reinsurance policies on risk loss excess. Against bulk / catastrophic claims in the property insurance and kaska, Komunálna poisťovňa was reinsured by the reinsurance policies on catastrophic claim excess.

The life reinsurance programme is implemented in close collaboration with the mother company KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group, in relation and with the support of Vienna Insurance Group, what guarantees the fulfillment of obligations to our clients also in this kind of insurance.

10.7. Financial investment

Financial investments exceeded in the company Komunálna poisťovňa a.s., the limit of SKK 984 mil. what means an interannual growth by 9.5 %. In 2006 the investments came especially to purchase of securities and time deposits. In cooperation with the mother company, we achieved excellent appreciation of financial resources.

structure/year	2004	2005	2006
	in SKK ths.	in SKK ths.	in SKK ths.
Equity stakes	33	33	33
Real estates	118,052	103,318	98,369
Securities	346,282	419,736	690,941
Deposits, cash	322,327	374,555	193,753
Total	786,694	899,273	984,885

Tab.: Share of investments in 2004, 2005, 2006 in values according to IFRS.

Management of investments was carried out in compliance with the investment plan. All requirements for investment protection were strictly respected. Deposits, cash and securities represented the biggest share on the total revenues.

10.8. Proposal for profit distribution

The proposal to distribute the profit for the year 2006	
The profit for the 2006 before tax	SKK 4,169,789.17
Taxes	(SKK 7,157,508.69)
The result of the economy for the year 2006 after tax	(SKK 2,987,719.52)
The transfer of unpaid special dividends for the previous years to undistribued result of the economy for the past period	SKK 4,050,000.00
The transfer of the undistribued result of the economy	SKK 1,062,280.48

10.9. Communication and marketing activities

Marketing communication of the company Komunálna poisťovňa was in 2006 also used as one of the tools for achieving business objectives and marketing targets. External communication was planned and performed in order to increase spontaneous awareness of the brand and to build the image of reliable and flexible insurance company which is close and which is here for the wide range of interested persons.

Via attractive and well-scheduled communication the continual support of the brand and products in the course of the entire year 2006 was secured. The communication activities were performed in order to support key insurance product and concurrently with the intention to build a positive image of Komunálna poisťovňa. The joint base of the implemented communication activities was to address the clients, to support the sale of own products and to build the trust of clients against the company.

In the course of 2006 marketing communication intensively focused on the support of sale of life insurance TRIO. The product was communicated in the national media via a sponsored reference on TV, radio spot, printed media, on internet and outdoor carriers. The campaign was promoted in summer months on stickers in public transport and on internet banners. In autumn, the communication of the motor third-party liability insurance was carried out. The campaign had similar range as the campaign for TRIO product.

At the beginning of 2006 Komunálna poisťovňa broadcast product films in regional televisions which by application of promotional and at the same time educational style clarified the products and principle of functioning of various types of insurance (Compulsory Contractual Insurance; Life Insurance...). Upon the success and contribution of those films, Komunálna poisťovňa intends to continue in production of other product films and their broadcasting in the network of regional televisions.

The general public started to be aware of the insurance company also via a large-size permanent area and via participation in exhibitions and expert foras.

In 2006 the company presented itself by an advertising slogan "We shall support you" which became a part of the company communication by the end of 2005.

10.10. Sponsor's, social activities, support of non-profit projects

In 2006 Komunálna poisťovňa presented itself as a sponsor of generally beneficial activities. The basic principle of allocation of sponsor's contributions was the orientation towards the final beneficiary. The sponsor's activities dominated in four fields: culture, sport, education and interest activity. A big part of resources was aimed at communal sphere where the company has a rich base of clients. The insurance company supported several towns and communities at organizing cultural and sport events as well as regional and interest clubs, sports yards, youth activities at schools and children homes via financial and material interests.

The supported activities include as an example: Foundation of Constantine the Philosopher and organization of the event at the occasion of holiday of the date of declaration of the Constitution of the Slovak Republic "Hoj, vlasť moja", Community of Uhrovec and national memory of Ľudovít Štúr, Municipal Office of Detva, a cultural-social event Folklórne slávnosti pod Poľanou etc..

Besides, the insurance company sponsored the organization Liga za duševné zdravie (League for Mental Health) which is an apolitical, charity, humanitarian association of citizens and legal entities with the aim to actively support mental health. The League performs its mission especially by qualified informing the public on factors participating in the origination of psychical diseases, on possibilities of their prevention and on scientific progress in the field of mental health.

10.11. Cooperation with external companies

In the course of 2006 Komunálna poisťovňa a.s. managed to attract attention and to address more than 210 external companies by its product portfolio. Out of this number ca 50 new companies were added in 2006. The most interesting product for cooperating companies was motor third-party liability insurance and motor hull insurance which meant almost 50 % growth in the prescribed premium.

As at 31/12/2006, 21 cooperating companies achieved total more than 20 SKK mil., 17 companies more than SKK 10 mil., and 91 companies more than SKK 1 mil. of the prescribed premium.

The aforesaid assumes that Komunálna poisťovňa is able to provide external companies in long-term perspective with such conditions in which they are able to achieve growing financial evaluation. The most successful projects of deepening business relationships include regional cooperation via jobs aimed exclusively at cooperation with external companies and concurrently regular unofficial meetings of representatives of external companies with the highest representatives of the insurance company.

10.12. Cooperation in the field of bank-insurance

For the fulfillment of business plans, Komunálna poisťovňa uses several types of distribution channels while every year it spends lots of money for the development of insurance products which should attract clients and, of course, the mediators of insurance. Even in 2003 the insurance company focused on the development of so called bank-insurance products.

A long-term partner in the field of bank-insurance is Dexia banka Slovensko a.s. Dexia banka Slovensko a.s. deals with mediation of insurance for more than 200 employees in 52 branches of the bank. In 2006 they were successful in the sale of bank-insurance product with the name of Dexia credit insurance (provision of protection in three various packages of insurance of components of insurance risks separated by price) and travel insurance in payment cards.

Both companies, Komunálna poisťovňa and Dexia banka Slovensko deal preferably with the communal sphere. They jointly create a package of services providing above-standard conditions of insurance of real estate, life insurance of employees during the activity in the communal sphere and conditions of bank services.

10.13. Information technologies, operation and administration of insurance

In the course of 2006, IT KP together with IT KOOP, an external company of Whitestein and Regocom continued in migration of data from the original applications of KP to KOOP SQL for Komunálna poisťovňa. In this application, new insurance products in the field of life and non-life sphere were set. After the data migration of application "Non-life" in December 2006, the last acts on the dislocated dispatching of losses of Komunálna poisťovňa in Banská Bystrica were carried out. The central dispatching of losses in Bratislava was after this step commissioned in full extent and projected capacity.

The Operation Section during the year 2006 dealt with the activities aimed at support of business activity and improvement of quality of the services provided. The activities related to the transfer of processes in the administration of insurance policies and supportive activities related to data migration were carried out in the course of the entire year intensively.

In the field of launch of new products the greatest attention was paid in the field of non-life insurance to the products of compulsory contractual insurance – Technical year in both individual and file type. In relation to the changes resulting from the migration, a system of administration of insurance policies in the form of over-contracts and above-contracts was implemented for the cooperation with leasing companies.

10.14. Human resources

The strategy of human resources is aimed at building efficient company capable of adaptation process in the globalized world. The mission of strategy of human resources is to secure professional, open and supportive environment where people are attended to justly and they are provided with opportunities to use their full potential enabling the company to achieve its objectives.

Furthermore it supports the overall strategy of the company and it is based on the main plans of the company:
- further increase of the market share,
- increase of revenues of the company which is expressed in the growing volume of the prescribed premium,
- increasing level of economic result.

Strategic objectives in the field of human resources:

- **Development of competencies of employees**
  Via support of investing into people who are personally involved in development and successes of the company. Via their development, the insurance company contributes to the increase of the market competitiveness.
- **Positive working environment**
  Creation of positive working environment oriented towards performance, mutual respect and identical opportunities for all employees.
- **Building corporate culture of higher type**
  Creation of positive working environment for full identification of employees with the company – in regular communication between managers and employees there are created conditions for common sharing of vision and strategic objectives.
- **Attractive employer status**
  Systematic building of attractive employer status via incentives for employees by unique possibilities of personal and expert growth supported by the attractive forms of remuneration and benefits.

Human resource management

The mission of the human resource management in Komunálna poisťovňa is the implementation of the corporate structure oriented to performance across the entire company.
The system of human resource management was in the last year aimed at:
- efficient search for talented, involved and loyal employees, care for their further development and career growth,
- preparation of commissioning the system of work performance management – a system of setting individual objectives for employees and regular evaluation of performance connected to the remuneration system,
- system of education and incentive remuneration system,
- care for employees.

Corporate culture of the company

Within the corporate structure oriented to performance the insurance company focuses especially on:
- full knowledge of all employees about the vision, mission and strategic direction of the company,
- linkage of strategic plans to personal goals of employees,
- enhancement of level of qualitative requirements for work positions on all organizational levels of the company,
- continuous enhancement of services and communication with clients.

The main values of Komunálna poisťovňa include: satisfaction of clients, high level of work quality as well as credibility, reliability and service availability. The biggest capital of Komunálna poisťovňa includes human resources with positive and involved approaches.

State and development of staffing

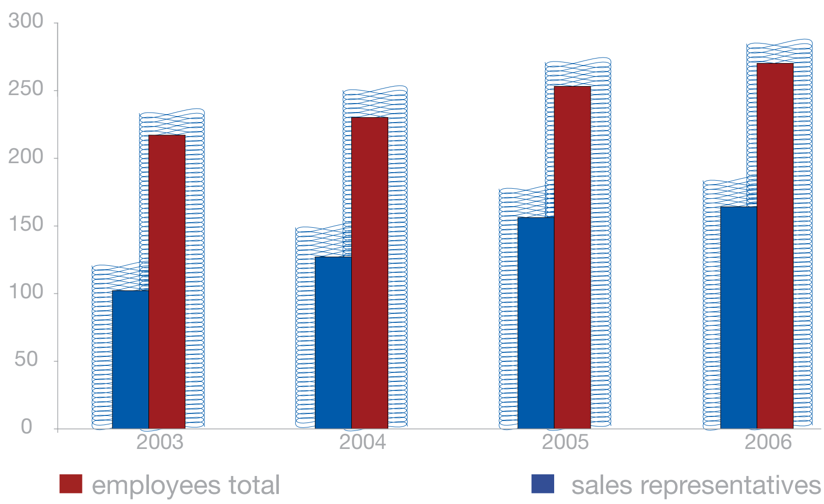
In 2006, the average calculated state of employees as at 31/12 was on the level of 270, what means an interannual growth index of 1.07. From the total number of employees there were 70% women in the company. From the total number of employees in 2006 there were 16 employees on managerial positions, out of which number there were 44 % of women in the management.

The company paid attention to supplementation of the number of employees in business service in points of sale of the company. The development trend for the future period is mass building of internal sales network in compliance with strategic intentions of the insurance company.

In the course of 2006, two points of sale in Liptovský Mikuláš and Stará Ľubovňa were established. In general, the insurance company provides business services for clients in 46 workplaces with 164 employees.

At the selection of new employees, the insurance company follows the principle of equality of opportunities for everyone. In the company there are 5 % employees from national minorities. Komunálna poisťovňa enabled to work and employed also employees with reduced work ability. In the course of 2006 there were 3 such women employees working in the company.

Development of the number of employees for the period of 2001 – 2006 is demonstrated by the chart:



Development of the number of employees in the main employment (average calculated state as at 31/12 of the given year)

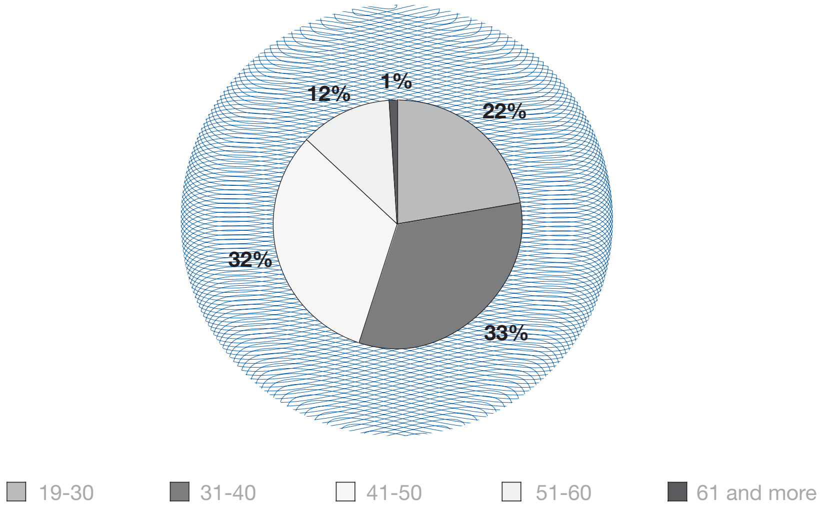
	2003	growth index	2004	growth index	2005	growth index	2006	growth index
Total state of employees	217	1.03	230	1.06	253	1.10	270	1.07
Out of whom SR	102	1.04	127	1.25	156	1.23	164	1.05

The objectives in the field of business activity were secured by the insurance company also with the support of external co-workers in individual regions. As at 31/12/2006, there were 212 co-workers of internal distribution network, 289 insurance brokers, and insurance agents working in the external business network.

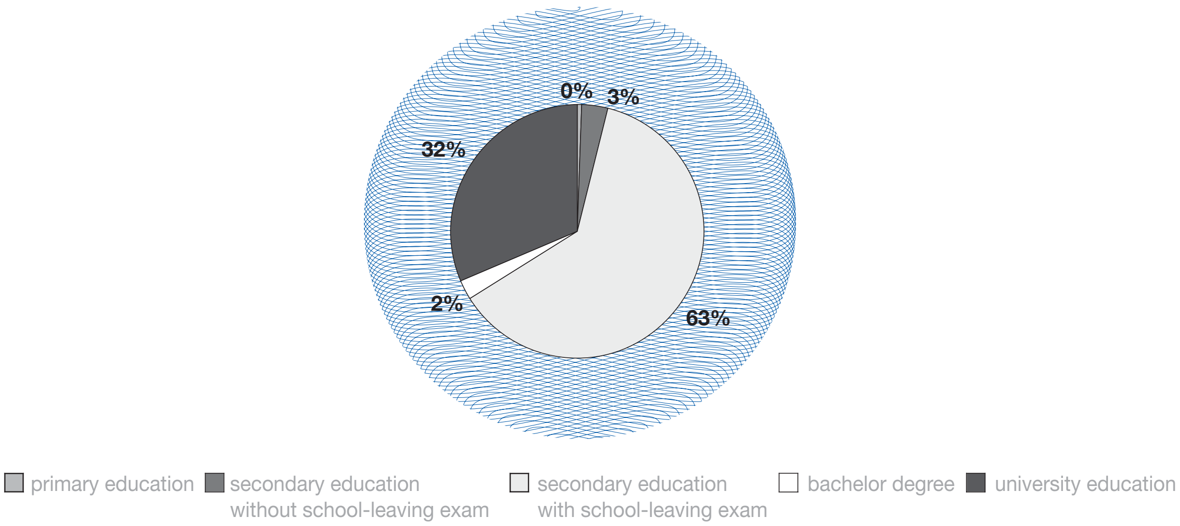
Development of the number of external employees of business (state always as at 31/12 of the given year)

	2003	2004	2005	2006
Businessmen of external distribution networks	228	134	198	212
Brokers and mediators of sale	146	236	251	289

Age structure of employees as at 31/12/2006 is demonstrated by the chart:



Educational structure of employees as at 31/12/2006 is demonstrated by the attached chart:



As at 31/12/2006 there were total of 95 employees with university education, what means 32 % of the total number of employees.

Social programme and benefits

One of the incentive components of employees is also annual implementation of the social programme of the company which is a part of the social policy of Komunálna poisťovňa. It is aimed at securing social certainties for employees, regeneration of labour force as well as increase of identification of employees with the corporate culture.

Every year within the activities of the social programme for employees Komunálna poisťovňa prepares several benefits in order to contribute to the prevention of health problems of our people, regeneration of labour force as well as to cultural and sports activities.

10.15. Environment protection

In wide portfolio of insurance for communal sphere, the company has several products which significantly affect the quality of environment in towns and communities. It is for example insurance of activity of municipalities at cleaning towns and communities, disposal and sorting of communal waste. Besides, we insure for example construction and activity of waste water treatment plants. All mentioned products have lots of above-standard advantages and discounts which towns and communities like to use.

The second area which may significantly affect the environment by its consequences are natural disasters, accidents or insured accidents resulting from the activity of municipalities. We talk especially about fires, explosions, consequences of stroke of lightning, floods, storms, earth sliding etc.. In this sphere Komunálna poisťovňa can provide funds for immediate removal of consequences especially by fast settlement of insurance claims what finally influences the environment quality in quite a wide extent.

10.16. Strategic vision and development plans for the year 2007

The strategic intention of Komunálna poisťovňa a.s. for the year 2007 is to further maintain the leading position among the insurance companies in Slovakia and to continue in effort to increase its market share in all insurance branches. In term of business, it means to provide quality reliable services for the clients related to the quality selection of insurance and insurance claim settlement.

The results of Komunálna poisťovňa for the past years are good basis for the implementation of business plans also for the year 2007.

In 2007 Komunálna poisťovňa plans to increase business production against the results in 2006 by index of 1.15. The fulfillment of the business plan shall be secured, in the same way as in the past years, by the business activity of internal, external network and by cooperation in the insurance mediation by Dexia banka Slovensko a.s. By the extension of networks by the cooperation with a group of exclusive mediators in the field of life insurance, by acquisition of co-workers from the cooperating towns and communities associated in the Association of Slovak Towns and Communities the company intends to secure to be the insurance company for a citizen who concurrently feels that the insurance company supports him/her with respect for him/her and creates the environment for the quiet and satisfied life.

Komunálna poisťovňa intends to maintain the dynamic development in 2007. At fulfillment of requirements of the clients, it shall further use the experience and know-how of the international Vienna Insurance Group.

Within long-term strategies, a primary task is to increase the insurance stock in life insurance. A new product range of innovated products of life insurance, formed new business network as well as new way of education should be an assumption of successful maintenance of the prescribed tasks – increase of volume of the prescribed premium in this segment of insurance by the index 1.27 against the result in 2006.

The continuously carried out innovation and classification of new products in the field of non-life insurance supported by marketing activities shall present Komunálna poisťovňa especially as the insurance company for all citizens and their families and concurrently they shall successfully support the implementation of the set objectives. The results in non-life insurance in 2007 should be increased according to the plan against the results from 2006 by index of 1.14.

Also in 2007 Komunálna poisťovňa shall continue in cooperation with Dexia banka Slovensko a.s. Both companies upon good business results and confirmation of strong position of both companies in the communal sphere want to use this business space properly also in 2007. Together with Dexia banka we intend to implement our cooperation as an advantageous way of the finance administration and property insurance for not only municipalities but also for citizens in the form of advantageous products.

In 2007 we intend to put the experience from the cooperation with our long-term partner, the Association of the Slovak Towns and Communities, on even higher level. We jointly prepare and implement an educational project called “Safe home – safe community”, intended especially for the smallest inhabitants of our towns and communities. Since Komunálna poisťovňa does not want only to “cure” the consequences of insurance claims, it decided to invest in long-term perspective in this way in education and care for children. We have chosen this group since just children are the most threatened and most vulnerable inhabitants of our towns and communities.

11. Report by the Supervisory Board

The Supervisory Board received from the Board of Directors the Annual Financial Statements as at 31/12/2006 including an annex, proposals for profit distribution for the commercial year 2006, the Report by the Board of Directors on Economic Results, Entrepreneurial Activity and State of Assets as at 31/12/2006, together with the Annual Report for the year 2006 which they studied and thoroughly investigated.

As a result of this check the Supervisory Board unanimously adopted a resolution in which they approved the Annual Financial Statements as at 31/12/2006 including an annex, proposals for profit distribution for the commercial year 2006, the Report by the Board of Directors on Economic Results, Entrepreneurial Activity and State of Assets as at 31/12/2006, together with the Annual Report for the year 2006.

The Supervisory Board states that they used the possibility, whether as a whole or partially via the Chairman and Deputy Chairmen of the Supervisory Board from time to time, during the entire year, to check the activity of the Board of Directors of the company. There were consultations with individual members of the Board of Directors who upon the books of account and documents provided answers and explanations regarding the management of business matters of the company.

In 2006 one Annual General Meeting was held together with one Extraordinary General Meeting and four sessions of the Supervisory Board.

The Supervisory Board announces to the General Meeting that the Annual Financial Statements as at 31/12/2006 was verified by the auditor – PricewaterhouseCoopers Slovensko, s.r.o., Bratislava, that the Supervisory Board received the Audit Report which they studied and negotiated and that the Supervisory Board takes notice that this audit shall not finally provide any reason for objections.

The Supervisory Board from its point of view declares that it has nothing to add to the Audit Report.

Furthermore, the Supervisory Board informs that pursuant to Art. 18, par. 3), letter m) of the Articles of Association the General Meeting is competent to grant approval for conclusion of contracts pursuant to Art. 196a of the Commercial Code. In order to maintain practical procedure, the General Meeting authorized the Supervisory Board to grant approval for conclusion of contracts pursuant to Art. 196a of the Commercial Code.

In commercial year 2006 the Supervisory Board of the company did not grant any permission to conclude contracts pursuant to Art. 196a of the Commercial Code.

Ing. Juraj Lelkes
Chairman of the Supervisory Board

Bratislava, April 2007

12. Auditor´s report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Slovensko, s.r.o.
Hviezdoslavovo nám. 20
815 32 Bratislava
Slovak Republic
Telephone +421 (0) 2 59350 111
Facsimile +421 (0) 2 59350 222

INDEPENDENT AUDITOR'S REPORT

To the shareholders, Supervisory Board and Board of Directors of Komunálna poisťovňa, a.s.:

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

Statutory Body's Responsibility for the Financial Statements

Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Komunálna poisťovňa, a.s. as of December 31, 2006, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161

Slovenská komora audítorov
SKAU
Č.licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Eva Hupková
SKAU licence No.: 672

30 April 2007

13. Annual statement of finances

13.1. Balance sheet as at 31/12/2006

Balance Sheet

(All amounts are in thousands of Slovak crowns, unless stated otherwise)

		Balance at 31st December	
ASSETS	**Note**	**2006**	**2005**
Property and equipment	6	98,990	89,449
Investment property	7	28,936	36,963
Intangible assets	8	17,133	9,778
Financial assets			
Equity securities:			
- available for sale	10	33	33
Debt securities:			
- held to maturity	10	147,773	139,293
- available for sale	10	543,168	280,443
Receivables, including insurance receivables	11	608,405	468,641
Current income tax receivable		34,651	18,591
Reinsurance contracts	9	516,566	269,276
Cash and cash equivalents	12	243,318	414,115
Total assets		**2,238,973**	**1,726,582**
Equity			
Share capital	13	280,000	280,000
Other reserves	14	30,545	23,397
Retained earnings	14	101,540	103,284
Total equity		**412,085**	**406,681**
Liabilities			
Insurance contracts	15	1,309,730	832,665
Trade and other payables	16	511,118	484,413
Deferred income tax liability	17	6,040	2,823
Total liabilities		**1,826,888**	**1,319,901**
Total equity and liabilities		**2,238,973**	**1,726,582**

The Board of Directors approved these financial statements for publishing on 27th April 2007.

Ing. Pavol Butkovský
Chairman of the Board of Directors

Ing. Jozef Machalík
Member of the Board of Directors

13.2. Profit and loss statement as at 31/12/2006

Income Statement
(All amounts are in thousands of Slovak crowns, unless stated otherwise)

	Note	Year ended 31st December 2006	2005
Insurance premium revenue	18	1,383,377	1,230,758
Insurance premium ceded to re-insurers	18	(598,529)	(489,737)
Net insurance premium revenue	**18**	**784,848**	**741,021**
Financial investment income	19	22,505	21,352
Net realised gains on financial assets	20	1,241	4,592
Commissions from reinsurance		214,970	131,776
Other operating income	7	12,721	9,392
Net income		**1,036,285**	**908,133**
Insurance benefits	21	120,029	102,998
Insurance claims and loss adjustment expenses	21	743,853	525,680
Insurance claims and loss adjustment expenses recovered from reinsurers	21	(393,714)	(247,765)
Net insurance benefits and claims		**470,168**	**380,913**
Expenses for the acquisition of insurance and investment contracts	22, 23	255,133	202,314
Expenses for marketing and administration	22, 23	158,887	153,014
Other operating expenses	22	147,927	91,742
Expenses		**1,032,115**	**827,983**
Profit before tax	**25**	**4,170**	**80,150**
Income tax expense	25	(7,158)	(22,112)
Profit for the year		**(2,988)**	**58,038**

Statement of changes in equity
(All amounts are in thousands of Slovak crowns, unless stated otherwise)

	Note	Share capital	Legal reserve fund	Revaluation reserve	Retained earnings	Total equity
Balance at 1st January 2005		**280,000**	**16,966**	**-**	**52,327**	**349,293**
Profit/Loss from re-evaluation of available-for-sale financial assets	14	-	-	(650)	-	(650)
Profit for the year		-	-	-	58,038	**58,038**
Total recognised income for 2005		-	-	(650)	58,038	57,388
Allocation to Legal reserve fund		-	7,081	-	(7,081)	-
Balance at 31st December 2005		**280,000**	**24,047**	**(650)**	**103,284**	**406,681**
Profit/Loss from re- evaluation of available-for-sale financial assets	14	-	-	8,392	-	8,392
Profit for the year		-	-	-	(2,988)	**(2,988)**
Total recognised income for 2006		-	-	8,392	(2,988)	5,404
Allocation to legal reserve fund		-	5,837	-	(5,837)	-
Release from legal reserve fund		-	(7,081)	-	7,081	-
Balance at 31st December 2006		**280,000**	**22,803**	**7,742**	**101,540**	**412,085**

Cash flow statement
(All amounts are in thousands of Slovak crowns, unless stated otherwise)

	Note	2006	2005
Cash flows from operating activities	**26**	**(131,027)**	**93,315**
Dividends received		2,750	-
Tax paid		(21,160)	(19,618)
Net cash (used in)/from operating activities		**(149,437)**	**73,697**
Cash flows from investing activities			
Purchases of property and equipment		(21,360)	(3,803)
Net cash used in investing activities		**(21,360)**	**(3,803)**
Increase/(decrease) of cash and cash equivalents		**(170,797)**	**69,894**
Cash and cash equivalents at the beginning of the year		414,115	344,221
Cash and cash equivalents at the end of the year		**243,318**	**414,115**

13.3. Notes to the statement of finances compiled as at 31/12/2006

1. General information

Komunálna poisťovňa a.s. ("the Company") was established on 19th October 1993 and incorporated in the Commercial Register on 1st January 1994. The seat of the Company is Dr. Vladimíra Clementisa 10, 821 02 Bratislava 2, its corporate ID is 31 595 545 and its Tax ID is 2021097089. The Company obtained license to perform insurance activities on 12th November 1993.

The Company has been in the insurance business from the year 1993. It is specialized in insurance of all categories of property, responsibility for damage and other interests, insurance of individuals, bodies of any type and insurance of foreign interests.

The Company's shareholders at 31st December 2006:

	Share in the registered capital		Voting rights
	in thousands of SKK	%	%
KOOPERATIVA poisťovňa, a.s.	266,300	95.11	95.11
Dexia Banka a.s.	13,100	4.68	4.68
Mesto Banská Bystrica	300	0.11	0.11
Mesto Brezno	200	0.07	0.07
Obec Štrba	100	0.03	0.03
Total	**280,000**	**100.00**	**100.00**

Wiener Städtische Allgemeine Versicherung AG, Wien is owner of the company KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group with 100% share in its equity and vote rights. Wiener Städtische Allgemeine Versicherung AG, Wien is also the ultimate parent company of Komunálna poisťovňa.

In 2006, the Company had an average of 270 employees, of which 2 were managers (2005: 255, of which 3 were managers).

The Company's statutory body:

Board of directors	**As at 31st December 2006**	**As at 31st December 2005**
Chairman:	Ing. Pavol Butkovský	Ing. Pavol Butkovský
Deputy chairman:	Ing. Jozef Machalík	Ing. Jozef Machalík
		Ing. Peter Poisel

Supervisory board	**As at 31st December 2006**	**As at 31st December 2005**
Chairman:	Ing. Juraj Lelkes	Ing. Juraj Lelkes
1st Deputy chairman:	Dr. Franz Kosyna	Dr. Martin Simhandl
2nd Deputy chairman:		Michal Sýkora
Members:	Gerhard Ernst	Gerhard Ernst
	Reinhard Gojer	Dr. Mag Heinz Jirez
	Ing. Peter Kňaze	Ing. Peter Kňaze
	Mag. Claudia Stránský	Mag. Claudia Stránský
	Mária Valábiková	Mária Valábiková

2. Summary of Significant Accounting Policies

2.1. Basis of preparation

In 2006 the Company Komunálna poisťovňa a.s. applied International Financial Reporting Standards adopted by the European Union for the first time.

These financial statements have been prepared as individual financial statements in accordance with Article 17a), paragraph 1, of Act 431/2002, as amended.

These financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS"). Financial statements have also been prepared in compliance with IRFS 1 – First-time Adoption of IFRS.
Up to 31st December 2005, the Company's financial statements were prepared in accordance with the Slovak legislation. This legislation differs from IFRS in some cases. When preparing these financial statements, the Company's management modified some accounting procedures and valuation methods so that these financial statements comply with IFRS. Unless stated otherwise, comparable data for 2005 were adjusted to reflect necessary modifications made in this connection.

The transformation of previous accounting to IFRS is explained in Note 5.

The financial statements have been prepared under the historical cost convention, except for the valuation of financial assets available for sale.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

All amounts in the Notes are shown in thousands of Slovak crowns ("SKK"), unless otherwise stated.

Standards and interpretations of published standards that are not yet effective and have not been early adopted by the Company.

The following new interpretations to existing standards that are mandatory for the Company's accounting periods beginning on or after 1st May 2006 or later periods but that the Company has not adopted early have been published:

- IFRS 7 Financial Instruments: Disclosures and a complementary amendment to IAS 1, Presentation of financial statements – Capital Disclosures **(effective from 1st January 2007). IFRS 7 introduces new disclosures to improve information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 from accounting period starting 1st January 2007.**
- IFRIC 9 Reassessment of Embedded Derivatives **(effective for accounting periods beginning on 1st June 2006 or later, i.e. from 1st January 2007). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Management considered IFRIC 9 and concluded that it does not have impact on these financial statements.**

Standards and interpretations of published standards that are not yet effective and not relevant for the Company' operations

- IFRS 8 Operating Segment **(effective from 1st January 2009) sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and**

services, the geographical areas in which it operates, and its major customers. The Company will apply IFRS 8 from accounting period starting 1st January 2009.

- IAS 23 Borrowing costs (Revised March 2007) (effective for accounting periods beginning on 1st January 2009) **is not relevant to the Company's operations.**

- IFRIC 7 Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies (effective from 1st March 2006). **IFRIC 7 is not relevant to the Company's operations.**

- IFRIC 8, IFRS 2 **(effective for accounting periods beginning on 1st May 2006 or later, i.e. from 1st January 2007). The interpretation states that IFRS 2 also applies to transactions made receiving unidentifiable goods or services. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). IFRIC 8 is not relevant to the Company.**

- IFRIC 10 Interim financial reporting and impairment **(effective for annual periods beginning on or after 1st November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost from being reversed at a subsequent balance sheet date. The Company will apply IFRIC 10 from 1st January 2007 but it is not expected to have any impact on the Company's financial statements.**

- IFRIC 11 - 'IFRS 2 - Group and Treasury Share Transactions' **(effective for accounting periods beginning on 1 March 2007). The Interpretation addresses how to apply IFRS 2 Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is not relevant to the Company.**

- IFRIC 12 Service Concession Arrangements **(effective for accounting periods beginning on January 1st, 2008) IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. IFRIC 12 is not relevant for the Company.**

Unless otherwise stated above, it is not expected, that the new standards and interpretation would have material effect on the financial statements of the Company.

2.2. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Slovak crowns which are the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amorised cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Conversion differences from non-monetary financial assets are recognized as profit/loss from the fair value valuation. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are reported as part of revaluation reserves.

2.3. Property, plant and equipment

(i) Acquisition cost

Non-current tangible assets comprise mainly buildings. All non-current tangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes an expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(ii) Depreciation

Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful lives.

The estimated useful lives of individual groups of assets are as follows:

Buildings	40 years
Motor vehicles and computers	3 - 4 years
Office equipment and furniture	4 years
Low value tangible assets	1 year

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

Profit or loss from the disposal of assets is calculated as the difference between proceeds from sale and the book value of assets, and are included in the income statement.

2.4. Investment property

Investment property, principally comprising freehold Office buildings and land, is held for long-term rental yields and is not occupied by the Company. Investment property is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. For depreciation see Note 2.3 (ii).

2.5. Intangible assets

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and put to use the specific software. Amortisation is calculated using the straight-line method to allocate the cost of licenses over the estimated useful lives, not exceeding five years.

Costs related to the development or maintenance of computer software are expensed when incurred. Costs that are directly associated with the production of identifiable and unique software controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised as intangible assets. Acquisition costs include costs of personnel engaged in software development and the related portion of overheads.

2.6. Financial assets

Financial assets are classified in the following three categories, depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and revalues it at every balance sheet date:

(i) **Loans and receivables** are non-derivative financial assets with fixed or determined payments that are not quoted in an active market other than those that the Company intends to sell in the short term,or that it has designated as at fair value through profit or loss or as available for sale. Loans and receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision fro impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms (See note 2.7 for the accounting policy on impairment). Receivables arising from insurance contracts and loans provided to the insured are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(ii) **Held-to maturity financial assets** are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

(iii) **Available-for-sale financial assets.** Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories

Regular purchases and sales of investments are recognized on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of financial assets held for sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains/losses on financial assets.

Interest on available for sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the Company's right to receive payments is established. Both are included in investment income line.

The fair values of quoted investments are based on current bid prices at balance sheet date. If the market for a financial asset is not active, the Company establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash-flow analysis.

2.7. Impairment of assets

(i) Financial assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:
- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- a creditor provides discount to debtor because of legal or financial difficulties. This discount was not originally meant to be provided.
- it becomes probable that the issuer or debtor will enter into bankruptcy or other financial reorganisation
- termination of the active market for the financial asset due to financial difficulties
- observable data indicates that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be matched to individual financial assets in the group, including:
- adverse changes in the payment status of issuers or debtors in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics (categorised by asset type, industrial sector, territory, maturity and similar relevant factors) and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, then the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Financial assets carried at fair value

The Company assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including, in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. The impairment loss is reversed through the income statement if, in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(iii) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).
Impaired non-financial assets are reviewed at each balance sheet date to establish whether or not the impairment can be reversed.

2.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.9. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts that are payable at call and are part of the cash-flow management of the Company, are included in the income statements as part of cash and cash equivalents.

2.10. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new equity securities are shown in equity as a deduction, net of tax, from the proceeds.

2.11. Insurance and investment contracts - classification

The Company issues contracts that transfer insurance risk or financial risk or both.

Contracts in which the Company assumes significant insurance risk of a third party (policyholder) and agrees to compensate him if a specified uncertain event (insurance event) has an adverse effect on him are classified as insurance contracts.

Insurance risk is significant if the occurrence of an insurance event forces the Company to pay significant amount of insurance risk, which is 10% higher than insurance risk if the insurance event does not occur.

Insurance risk is not identical to financial risk. Financial risk relates to the possible future change in interest rate, the value of a security, commodity price, exchange rate, price index or rate, credit rating, credit index or other variable that is independent of the contracting parties. An insurance contract may also include a certain financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

2.12. Insurance contracts

a) Recognition and measurement

Insurance contracts that the Company concludes are classified into the following categories, depending whether or not the terms and conditions are fixed.

(i) Short-term insurance contracts

Here are categorized insurance contracts within portfolio of insurance of property, responsibility (filed also insurance contracts concerning responsibility for damages caused by motor vehicle including compulsory Motor Third Party Liability Insurance), accident assurance and other short-term contracts within life and property insurance.

Insurance contracts of insurance of responsibility portfolio protect clients of the Company against risk of causing damage to third party during their activities. Typical example is insurance of individuals and companies, which could be faced with risk of payments or compensations to third party in case of causing damage to health or property.

Insurance contracts in portfolio of property insurance compensate clients of the Company in case, that their property is theft or damaged.
Insurance contracts in portfolio of accident insurance compensate clients of the Company in case, that their health is harmed as a consequence of injury.
Short-term contracts on life assurance protect clients of the Company against consequences of accidents (as death or disability), which in case of their appearance influence clients and clients family members ability to sustain their level of income.

Revenues
Premium is recognized as revenue when due and over the life of the policy. It is recognized gross before deduction of commission.

Unearned premium reserve
Unearned premium reserve contains aliquot part of stipulated premium, which is going to be earned in next one or more financial periods. It is quantified for each insurance contract separately using rata temporis (365-days) method and it is adjusted in case of necessity caused by any variances occurred during the time period arranged in insurance contract.

Cost of claims
Insurance events costs are booked through profit-and-loss statement in the same booking period, in which they occurred on basis of estimated liabilities needed for insurance compensation. They involve direct and indirect costs needed for settlement of insurance events and they arise from events, which have emerged to the day of financial statement including those, which have not been, until this day, reported to the Company.

Claim reserve
The Company constitutes technical reserves for insurance performances needed for final settlement of all liabilities from insurance events emerged to the date of financial statement and other related costs connected with settlement of these events to the date of financial statement.

Reserve for insurance performance from insurance events reported until the end of ordinary accounting period, but in this period not settled yet (Reported But Not Settled) factor the consideration of all accessible informations to relevant insurance event when initially booked. After receiving each additional information regarding this insurance event, the reserve is adjusted.

Mathematical and statistic method based upon triangle scheme called Chain Ladder is used when calculating technical reserve on insurance performance from insurance events that emerged, but have not been reported in current accounting period. Carefulness and adequacy is used when calculating reserves ("tail" factor and non-discounting of cash flows is used in justified cases) . The Company does not use discounting of future premiums.

Described methods use historical experience with development of insurance events and it is anticipated, that these patterns will repeat. Development can be different because of these reasons:
- Economic, legal, political and social trends
- Change of insurance events settlement procedures
- Change in portfolio of other products than life insurance
- Accidental divergences including enormous losses

If here described reasons of changes in development are identified, modifications of insurance reserves calculation formula can be used.

Reserve for deficit in Motor Third Party Liability Insurance
Demonopolization of motor third party liability insurance market in 1st January 2002 opened the market of the Motor Third Party Liability Insurance (MTPLI) for commercial insurance companies. Komunálna poisťovňa together with other companies acquired licence, that allows her to provide compulsory insurance (MTPLI).

Before the 1st of January 2002, this insurance was provided by Slovenská poisťovňa, a.s. which also administrated all contracts and formed technical reserves. After 1st of January 2002 all rights and obligations in sense of law no. 381/2001 code § 28 par. 3 were passed to Slovenská kancelária poisťovateľov.

All reserves, that Slovenská poisťovňa, a.s. created for this purpose were passed to Slovenská kancelária poisťovateľov as well. Slovenská poisťovňa however had not created sufficient reserves for liabilities coming from compulsory insurance (MTPLI). In year 2005 audit company Deloitte executed an audit of reserves from MTPLI and set bottom and top limits for deficit between 5,4 – 7,5 billion. Sk. All insurance companies present on slovak insurance market of MTPLI are participating on reduction of deficit in proportion with their market share because Slovenská poisťovňa, a.s. had not created sufficient funds for covering liabilities.

According to IAS 37 the Company creates the reserve in case that some "past event" establishes "present obligation " and simultaneously it is probable, that when settling these liabilities, there can be a outcome of disponible economic benefits form the Company and the value of obligation is possible to estimate reliable.

When deciding about whether to create the reserve for deficit of technical reserves of Slovenska poisťovne or not, the Company considers the principles of IFRIC 6 and also IAS 8. These state the hierarchy of accounting directives, which the Company should consider when creating accounting procedures for transactions, for which there is no specific IFRS standard or interpretation. When specific standard or interpretation is missing, the Company should consider these (in sequence):

- other existing IFRS standards or interpretations, which handle similar or connected problematics
- definitions, criterions, for reporting and pricing of conception for assets, liabilities, costs and revenues included in IFRS Framework

Interpretation of IFRIC 6 handles similar problematic and therefore it was used as a basis for creation of accounting principles for creation of reserves for share on deficit of technical reserves of Slovenská poisťovňa, a. s.. According to IFRIC 6 the Company does not have the reserve for share on a deficit of technical reserves of Slovenská poisťovňa, a. s., because presence on a market in relevant period (calendar year) is a binding obligation according to IAS 37.

In 2007, there was an amendment of the Insurance Law in the sec. II, §26, which states an obligation for the insurance companies operating in MTPL to create a technical provision for the payment of payables to SKP from MTPL.

The deadline for the creation of the provision is stated by §70 e) as follows:

- At least 1/3 of the extension, in which the insurance company participates on the total payables, until 1st May 2008
- At least 2/3 of the extension, in which the insurance company participates on the total payables, until 1st May 2009
- Total provision should be created until 1st May 2010

Based on the latest up-date of the deficit disclosed by SKP at 31st December 2006 (4,863 million SKK) and the market share of the Company for the year 2006 (9.14%) the creation of the provision should be 444 million SKK).

However, the states amounts can change due to the decreasing deficit and changing market share of the Company and it is probable, that the provision will be lower.

(ii) Long-term insurance contracts with fixed and guaranteed terms

These contracts insure events associated with human life (for example, death or survival) over a long period.

Revenues

Premium is recognized as revenue when due and over the life of the policy., it is gross before deduction of insurance commissions.

Claims expense

Claims expense contains surrender benefits, pension benefits, death benefits and profit participation benefit. Claims in respect with maturity and pension are recognized when due. Surrenders are recognized at the moment of payment. Death benefits are recognized at date of claim announcement. Liabilities in respect with insurance benefits are calculated as follows:

Claim reserve

The amount of reserve is determined as aggregate of reserves calculated for particular insurance events and contains claims handling costs in respect with processing of insurance events. If the performance is provided in a form of pension, the reserve is calculated on basis of methods of insurance-mathematics.

The amount of IBNR in relevant accounting period is calculated on basis of methods of insurance-mathematics. Chain-ladder method is used when calculated.

Life reserve

Technical reserve for life-insurance is an aggregate of reserves calculated according to individual contracts of life-insurance and it represents present value of future liabilities of the Company. They are calculated using methods of insurance-mathematics including already admitted and settled shares on profit and reserves for costs connected with administration of insurance, without present value of future premiums.

For insurance contracts evidenced in system KOOPSQL the Company calculates and accounts the zillmerized reserve from year 2005. There is a time distinguishing of acquisition costs of insurance contracts because of use of this method in such a way, that these costs are with use of insurance-mathematics calculated in reserve of life-insurance, after zero-ing of negative reserves.

For insurance contracts evidenced in other systems, the Company accounts the non-zillmerized reserve.

b) Embedded derivatives

The Company does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or based on a fixed amount and an interest rate). All other embedded derivative are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative

c) DAC

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalized as an intangible asset (DAC). All other costs are recognized as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as follows:

Non-life insurance
DAC in non-life insurance is calculated from the total amount of acquisition costs of the present accounting period, and is divided into present and future accounting periods with the same significance, as the set technical reserve of premium of future periods.

Life-insurance
As because of used method of zillmerization of life reserves the acquisition costs in life-insurance are deferred by this method and by activation of temporarily negative balances of life technical reserves for smaller part of portfolio of life-insurance. Real acquisition costs are deferred according to average maturity of insurance contracts of life-insurance in significant part of portfolio.

d) Liability adequacy test

The Company performs the liability adequacy tests at the balance sheet date. The purpose of this test is to review adequacy of reserves in life insurance as reduced by deferred acquisition costs or other related assets. For the purpose of the test the best estimate of future contractual cash flow is applied together with the related expenses, such as administrative expenses, claims adjustment costs including proceeds on investments covering these reserves. If the liabilities are inadequate, the Company will release the deferred acquisition costs and will subsequently set up an adequate reserve. Inadequacy of the reserve is recognised in the income statement of the current accounting period.

As mentioned in (a) the liabilities from long-term insurance contracts with guaranteed terms are determined on the basis of parameters applicable upon executing the contract. If the adequacy test requires use of assumptions based on the latest development, such adjusted parameters are used also for the following measurement of liabilities from insurance contracts.

e) Reinsurance assets

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company, and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Only the rights arising from contracts where substantial insurance risk is transferred are recognised as reinsurance assets. Contracts that do not meet these classification requirements are classified as financial assets.

Assets emerging from reinsurance contain short-term receivables from reinsurance (classified as loans and receivables) as well as long-term receivables from reinsurance (classified as reinsurance assets), which are connected with awaited insurance events and performances emerging from reinsured contracts. Assets emerging from reinsurance are valuated on the same basis as appropriate reinsured insurance contracts and in compliance with conditions of individual reinsured contracts. Liabilities emerging from reinsured contracts represent mainly forwarded premium and are being booked to costs in the appropriate accounting period.

The Company assesses its reinsurance assets for impairment at the balance sheet date. If there is objective evidence that the reinsurance asset is impaired, then the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2.6

f) Receivables and payables related to insurance contracts

Receivables and payables from insurance contracts include amounts due to and from insurance contract holders, agents and brokers. If objective indicators exist, that the loss from decrease of insurance contracts receivables value, the accounting value of insurance receivables is decreased by a provision and the loss is accounted for in the Profit and Loss Account. The Company considers the objective indicators in the same way as in notice 2.6. is described.

2.13. Deferred income tax

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.14. Employee benefits

(i) Defined benefit plan

On retirement, the Company offers a benefit at average one and half monthly salary to its employees in accordance with the minimum requirements of the Labour Code.

The Company also pays jubilee at age 50, 55 and 60 year based on years worked with the Company:

	SKK
Up to 2 years	3,000
3 – 4 years	5,000
5 – 6 years	8,000
7 year	12,000
more than 8 years	15,000

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the Projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of treasury bonds that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when incurred. Changes in pension plans are recognized in the income statement over the employees' expected average remaining working lives.

(ii) Defined contribution plans

The Company pays contributions to state and private pension insurance plans.

During the year the Company pays contributions to the mandatory health, sickness and injury insurance, and to the guarantee fund and unemployment insurance fund at an amount determined by law based on gross salaries. During the year, the Company paid contributions to these funds at 35.2% (2004: 35.2%) of gross salaries up to the amount of the monthly salary, which is determined by the relevant legal regulations. The contribution paid by an employee was 13.4% (2005: 13.4%). Costs of the contributions are recognised in the income statement in the same period as related personal costs.

In addition the Company contributes to pension insurance company POKOJ as follows:

- for employees working with the Company first year maximum up to SKK 100 monthly,
- for employees working with the Company 2 -5 years maximum up to SKK 500 monthly,
- for employees working with the Company more than 5 years maximum up to SKK 1 000 monthly

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date 2 average monthly salaries, or 3 average monthly salary if worked for the Company more than 5 years.

The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2.15. Provisions

Provisions for legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.16. Revenue recognition

(i) Interest income

Interest income for financial assets that are not classified at fair value through profit or loss is recognised as revenue using the effective interest method. Interest income is disclosed under financial investment income.

(ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.17. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.18. Dividends

Dividend distribution to the Company’s shareholders is recognised as a liability in the period when the dividend distribution has been approved by general meeting.

3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and assumptions where there is risk of significant adjustment of the book value of assts and liabilities during the following accounting period are described below.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company’s most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims as follows:

(i) Non life insurance

Main products sold represent insurance of cars and household.

The main source of uncertainty in non life insurance is legislative environment, which allows to announce claim for long time. This time represent usually few years and the Company consider this fact whilst calculating IBNR.

Insurance of motor third party liability represent combination of MTPL insurance and kasko. MTPL contains also claims in respect with injury. Claims settlement in this case takes long time and estimate of claims payment is therefore more complicated. The Company consider this risk whilst calculation IBNR. IBNR represent total of present value of future payments and parameters such as mortalities, discount rate, expected salary increase and increase in pension. The total amount of this reserve is not material for the Company, however there is expectation that this type or claims will increase in the future

Historical data about the development of insurance claims are used in the methods of calculation and it is expected, that those experience will repeat in the future. However, there could be reasons for the different development. If such reasons occur, there can be a modification of the way of calculation.
The reasons could be:
- Economic, legal, political and social trends
- Change of the procedures in liquidation of insurance accidents
- Change in the portfolio of non-life insurance
- Accidental deviations including significant losses

Another material estimate used by the Company is reserve for deficit in Motor Third Party Liability Insurance as described in note 2.12 a) (i).

(ii) Life insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the year in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. 50

The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk.

If mortalities change in the future from the Company's estimate by 10%, life insurance liability would increase or decrease by SKK 736 ths.

(iii) Impairment of available-for-sale equity financial assets

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

4. Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk, or both. This section summarises these risks and the way the Company manages them.

4.1. Insurance risk

The risk of insurance contracts relates to the fact that it is not clear whether or when an insurance event will occur, or how big the related claim will be. As follows from the nature of an insurance contract, such risk is incidental and cannot be predicted.

In the case of insurance contracts that were valued using the probability theory, the Company is facing a risk that the amount of insurance claims may be higher than the related insurance reserves. This may occur if the amount or significance (as to the amount of insurance claim) of insurance events is higher than originally assumed. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and has worked within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covers.

The Company manages the insurance risk also through monitoring of loss ratio in individual product and important clients.

4.1.1. Long-term life insurance

i) Volume and significance of insurance claims

Underwriting strategy is defined the way that risks are diversified taking into account type of risk and level of claims payment. Risk related to mortalities is managed through the policy portfolio structure. Doctors approval is required before the Company accepts risk.

Insurance risk is also affected by the right of policyholder not to pay premium or partially pay premium or cancel the contract, or to use option to choose annuity payments. As a result of this the level of insurance risk is affected by the behaviour of policy holders. If the policy holders will behave rationally the overall insurance risk affected by such behaviour can increase. For example the policyholders who have health problems will not try to cancel the policy compared to those healthy one. As a result of this fact there is expectation that mortality will increase as healthy policyholders have higher tendency to cancel the contracts.

The company calculates premium taking into account fee on monthly basis in respect with risk of death for all life insurance contracts. It is on the Company discretion to change the fee if mortality development will change.

Concentration of risk

Insurance coverage per insurance contract	Total amount of insurance coverage 2006	2005
Up to 250,000 SKK	2,912,261	2,252,106
250,000 SKK - 500,000 SKK	2,430,730	2,304,448
500,000 SKK – 1,000,000 SKK	2,571,764	2,269,019
Over 1,000,000 SKK	994,914	685,296
Total	**8,909,668**	**7,510,869**

ii) Estimates of future cash flows from insurance premium payments

Uncertainty in respect with future claims payment form long term insurance contracts is linked to unpredictability of long term changes in mortalities and changes in policyholders behaviour.

The Company uses different mortality tables – for annuities and for life insurance – for different type of insurance (death, endowment, pension). The Company uses also the statistics of contracts cancellation with the aim to understand difference between actual and estimated cancellation. There are used statistical methods for assessment of proper cancellation. The contracts with granted option to use annuity payment the level of insurance risk depends also from the amount of such policyholders which applies for such option. This relates directly to the current interest rates and interest rates which are granted in annuity payments, if current interest rates are lower than those in annuity payments there is higher probability of increase policyholders with annuity payments. Also longevity of policyholders increases the insurance risk. The company currently does not have enough history to be able to assess the estimate in respect with annuity payments.

4.1.2. Short term non-life insurance

i) Volume and significance of insurance claims

Underwriting strategy is part of process of underwriting risk and assessing insurance risk from actuarial point of view. Underwriting strategy specifies products which will be sold in next years and identifies end users of products. Aim of the strategy is to spread insurance risk around the insurance portfolio. Underwriting department reviews conditions of contracts every year to decrease insurance risk through cancellation of contract or changing the contracts conditions.

The Company uses methods and techniques of risk management through loss analysis and modelling of various loss scenarios, especially for property insurance and insurance of industrial risks. The experiences of re-insurers and co-operating insurance companies are also used.

Concentration of insurance risk at 31st December 2006

Total insurance coverage in SKK mil	0 – 10	10 - 20	20 – 30	30 – 40	over 40	Total
Property	41,219	24,300	20,465	15,015	105,156	206,155
Liability	4,685	2,527	239	-	291	7,742
kasko	21,255	71	-	-	79	21,405
MTPL	-	2,953,276	-	-	119,520	3,072,796
Other	4,229	-	-	-	-	4,229
Total	**71,388**	**2,980,174**	**20,704**	**15,015**	**225,046**	**3,312 327**

Concentration of insurance risk as at 31st December 2005

Total insurance coverage in SKK mil.	0 - 10	10 - 20	20 - 30	30 - 40	over 40	Total
Property	34,790	22,025	19,187	12,875	98,991	187,868
Liability	4,326	2,305	90	-	3,845	10,566
Kasko	14,474	45	-	-	-	14,519
MTPL	-	2,276,747	-	-	237,660	2,514,407
Other	5,155	-	-	-	-	5,155
Total	**58,745**	**2,301,122**	**19,277**	**12,875**	**340,496**	**2,732,515**

Insurance risk with low frequency and material impact

The main risk represent natural disaster, in last years was the Company affected by this mainly in property insurance due to floods, snowing. As a result of risk assessment in this area the Company implemented limits for property insurance of maximum sum insured at SKK 100 million. The Company is participating on project Acquarius for monitoring of country sides with increase risk in this respect.

ii) Estimates of future claims

Claims are paid to policyholders on claims occurance basis. The Company is responsible for claims settlements if the claim occurred within the period of cover even if contract is not valid anymore. Due to this fact the claims are settled over longer period of time which is reflected in IBNR calculation. There exist many parameters, which affect the amount and timing of claim settlement.

Estimated cost of claim includes all cost needed to settle the liability.

4.2. Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance liabilities reinsurance assets and liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, fair value risk, currency risk, credit risk and liquidity risk.

In general, the risk management programme is focused on the unpredictability of situations in the financial markets and seeks to minimise any potential adverse effect on the financial results of the Company.

a) Interest rate risk

The interest rate risk represents the risk that future cash flows from a financial asset will fluctuate due to changes in the market interest rate. Insurance contracts with fixed and granted conditions have been stated at the inception of the contract. Therefore, the granted interest rate is the main risk for the Company because the income from a financial asset will not cover insurance liabilities. The Company manages this risk through Cash Flow Matching.

The Company guarantees the technical interest rate in life insurance of 3.5 - 7%.

The table below summarizes the effective interest rates by individual financial assets and liabilities.

31st December 2006	0 % -2 %	2 % - 4%	4 % - 6 %	6 % - 8 %	Total
Financial assets					
Debt securities held to maturity	-	20,661	101,711	25,401	147,773
Debt securities available for sale	164,948	206,816	130,494	40,943	543,201
Receivables including insurance receivables	608,405	-	-	-	608,405
Cash and cash equivalents	-	243,318	-	-	243,318
Total financial assets	**773,353**	**470,795**	**232,205**	**66,344**	**1,542,697**
Liabilities					
Insurance contracts	1.056,392	103,640	138,913	10,785	1,309,730
Total liabilities	**1,056,392**	**103,640**	**138,913**	**10,785**	**1,309,730**
31st December 2005					
Financial assets					
Debt securities held to maturity	-	20,630	93,366	25,297	139,293
Debt securities available for sale	9,483	210,785	60,208	-	280,476
Receivables including insurance receivables	468,641	-	-	-	468,641
Cash and cash equivalents	-	414,115		-	414,115
Total financial assets	**478,124**	**645,530**	**153,574**	**25,297**	**1,302,525**
Liabilities					
Insurance contracts	606,380	60,241	158,126	7,918	832,665
Total liabilities	**606,380**	**60,241**	**158,126**	**7,918**	**832,665**

Expected cash flows taking into account earlier of reprising date of financial assets and liabilities with floating interest and maturity dates are as follows:

	Expected cash flows				
31st December 2006	0 - 5 years	5 - 10 years	10 - 15 years	over 15 years	Total
Financial assets					
Debt securities held to maturity	139,361	8,412	-	-	147,773
Debt securities available for sale	538,146	5,055	-	-	543,201
Receivables including insurance receivables	608,405	-	-	-	608,405
Cash and cash equivalents	243,318	-	-	-	243,318
Total financial assets	**1,529,230**	**13,467**	**-**	**-**	**1,542,697**
Liabilities					
Insurance contracts	1,238,733	37,659	24,041	9,297	1,309,730
Total liabilities	**1,238,733**	**37,659**	**24,041**	**9,297**	**1,309,730**
31st December 2005					
Financial assets					
Debt securities held to maturity	139,293	-	-	-	139,293
Debt securities available for sale	265,385	15,091	-	-	280,476
Receivables including insurance receivables	468,641	-	-	-	468,641
Cash and cash equivalents	414,115	-	-	-	414,115
Total financial assets	**1,287,434**	**15,091**	**-**	**-**	**1,302,525**
Liabilities					
Insurance contracts	774,445	29,648	22,685	5,887	832,665
Total liabilities	**774,445**	**29,648**	**22,685**	**5,887**	**832,665**

b) Liquidity risk

The Company is exposed to daily calls on its available cash resources, mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company sets limits so that it has sufficient funds available to pay the amounts due.

Table below summarise expected cash flow from financial asset and liabilities based on maturity date or management intention for realisation.

	Expected cash flows				
31st December 2006	0 - 5 years	5 - 10 years	10 - 15 years	over 15 years	Total
Financial assets					
Debt securities held to maturity	139,361	8,412	-	-	147,773
Debt securities available for sale	538,146	5,055	-	-	543,201
Receivables including insurance receivables	608,405	-	-	-	608,405
Cash and cash equivalents	243,318	-	-	-	243,318
Total financial assets	**1,529,230**	**13,467**	**-**	**-**	**1,542,697**
Liabilities					
Insurance contracts	1,238,733	37,659	24,041	9,297	1,309,730
Total liabilities	**1,238,733**	**37,659**	**24,041**	**9,297**	**1,309,730**
31st December 2005					
Financial assets					
Debt securities held to maturity	139,293	-	-	-	139,293
Debt securities available for sale	265,385	15,091	-	-	280,476
Receivables including insurance receivables	468,641	-	-	-	468,641
Cash and cash equivalents	414,115	-	-	-	414,115
Total financial assets	**1,287,434**	**15,091**	**-**	**-**	**1,302,525**
Liabilities					
Insurance contracts	774,445	29,648	22,685	5,887	832,665
Total liabilities	**774,445**	**29,648**	**22,685**	**5,887**	**832,665**

c) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- amounts due to the insured from insurance contracts,
- amounts due from reinsurance,
- amounts due from business partners, and
- securities issuers.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The Company reviews the creditworthiness of reinsurers in co-operation with its shareholder.

Credit risk of issuer of securities is managed through the investment strategy and rules, which are regularly reassessed by the shareholders. The financial assets are analyzed in the table below using Standard & Poors rating.

2006/ Rating Standard&Poors

Credit risk	Debt securities – Available for sale	Debt securities – Held to maturity	Receivables including insurance receivables	Reinsurance contracts	Cash and other cash equivalents
AAA	-	-	-	17,101	-
AA	-	-	-	1,951	-
AA-	25,071	-	-	186,215	-
A+	5,056	-	-	165,699	-
A	366,768	81,028	-	15,400	-
A-	90,299	66,745	-	95,125	-
BBB+	-	-	-	3,357	-
BBB	51,011	-	-	-	-
BBB-	-	-	-	-	-
Not rated	4,996	-	608,405	31,718	243,318
Total	**543,201**	**147,773**	**608,405**	**516,566**	**243,318**

2005/ Rating Standard&Poors

Credit risk	Debt securities – Available for sale	Debt securities – Held to maturity	Receivables including insurance receivables	Reinsurance contracts	Cash and other cash equivalents
AAA	-	-	-	3,425	-
AA-	30,062	-	-	69,876	-
A+	25,203	-	-	34,634	-
A	154,774	97,956	-	73,000	-
A-	70,255	20,609	-	67,885	-
BBB+	-	-	-	5,579	-
BBB	-	20,728	-	-	-
Not rated	182	-	468,641	14,877	414,115
Total	**280,476**	**139,293**	**468,641**	**269,276**	**414,115**

5. Transition to IFRS

These are the Company's first financial statements prepared in accordance with IFRS applicable in the EU at the transition date, 1st January 2005. IFRS 1 requires a retroactive application of the version of IFRS valid as of 31st December 2006 in preparing the opening IFRS balance sheet at 1 January 2005 and in subsequent periods up to the first IFRS reporting date.

In preparing these financial statements the Company applied the following compulsory exceptions from IFRS 1 application:

(a) **Derecognition of financial assets and liabilities.** In accordance with IFRS financial assets and liabilities de-recognised before 1 January 2004 are again not recognised.

(b) **Exception from hedge accounting.** The Company does not apply hedge accounting.

(c) **Exception from estimates.** Estimates pursuant to IFRS at 1 January 2005 and 31 December 2005 must be consistent with those made at these dates pursuant to generally accepted accounting principles, unless there is evidence they were incorrect.

(d) **Exception from assets held for sale and discontinued operations.** IFRS 5 is not relevant for the Company due to the timing of the Company's date of transition.

Company did not apply any voluntary exception from the application of IFRS1.

The following tables summarize the impact of differences between Slovak Accounting Standards and IFRS to equity at the date of IFRS transition (1st January 2005) and to 31st December 2005, and the impact on the current year result for 2005.

Equity according to Slovak Accounting Standards at 1st January 2005	**346,600**
Release of revaluation from fixed assets, cost accounting is used for IFRS	12,750
Contribution to social fund treated as profit allocation, for IFRS treated as employee cost	(4,000)
Release of revaluation of investments valued by equity method	(6,057)
Equity according to IFRS at 31st December 2005	**349,293**

Equity according to Slovak Accounting Standards at 31st December 2005	**415,785**
Release of bonuses to Supervisory board	2,000
Release of revaluation from fixed assets, cost accounting is used for IFRS	(5,335)
Contribution to social fund treated as profit allocation, for IFRS treated as employee cost	(2,000)
Release of revaluation of investments valued by equity method	(3,769)
Equity according to IFRS at 31st December 2005	**406,681**

	2005
Profit of the current year for 2005 according to Slovak Accounting Standards	**58,370**
Contribution to social fund treated as profit allocation, for IFRS treated as employee cost	(2,000)
Release of revaluation of investments valued by equity method	1,358
Gift treated as revenue under IFRS	310
Profit of the current year for 2005 according to IFRS	**58,038**

There were no material changes to cash flow statement.

6. Property and equipment

	Land	Buildings and structures	Equipment, motor vehicles and other assets	Total
At 1st January 2005 (in SKK ths.)				
Acquisition cost	1,713	90,029	58,916	150,658
Accumulated depreciations		(16,321)	(33,536)	(49,857)
Net book value	**1,713**	**73,708**	**25,380**	**100,801**
Year ended 31st December 2005				
Balance on beginning of the year	1,713	73,708	25,380	100,801
Additions	-	-	3,430	3,430
Disposals	(82)	(5,540)	(39)	(5,661)
Depreciation	-	(1,813)	(7,308)	(9,121)
Net book value	**1,631**	**66,355**	**21,463**	**89,449**
At 31st December 2005				
Acquisition cost	1,631	84,489	59,636	145,756
Accumulated depreciations	-	(18,134)	(38,173)	(56,307)
Net book value	**1,631**	**66,355**	**21,463**	**89,449**
Year ended 31st December 2006				
Balance on beginning of the year	1,631	66,355	21,463	89,449
Additions	159	5,346	13,903	19,408
Depreciation	-	(2,268)	(7,599)	(9,867)
Net book value	**1,790**	**69,433**	**27,767**	**98,990**
Year ended 31st December 2006				
Acquisition cost	1,790	89,835	68,671	160,296
Accumulated depreciations	-	(20,402)	(40,904)	(61,306)
Net book value	**1,790**	**69,433**	**27,767**	**98,990**

Depreciation of SKK 9,867 ths. (2005: SKK 9,121 ths.) were accounted for to marketing and administration costs.

Non-current tangible assets are insured against standard risk up to SKK 147 000 ths. (2005: SKK 152,000 ths.).

In equipment, motor vehicles and other assets are included cars rented under finance leasing:

	2006	2005
Aquisition costs – finance leasing	17,987	8,240
Accumulated depreciation	6,893	5,066
Net book value as at 31st December	**11,094**	**3,174**

7. Investment property

	Land	Buildings and structures	Total
At 1st January 2005 (in ths. SKK)			
Acquisition cost	804	42,270	43,074
Accumulated depretiations	-	(7,662)	(7,662)
Net book value	**804**	**34,608**	**35,412**
Year ended 31st December 2005			
Balance on beginning of the year	804	34,608	35,412
Additions	82	2,455	2,537
Depreciation	-	(986)	(986)
Net book value	**886**	**36,077**	**36,963**
At 31st December 2005 (in ths. SKK)			
Acquisition cost	886	44,725	45,611
Accumulated depretiations	-	(8,648)	(8,648)
Net book value	**886**	**36,077**	**36,963**
Year ended 31st December 2006			
Balance on beginning of the year	886	36,077	36,963
Disposals	(159)	(6,946)	(7,105)
Depretiation	-	(922)	(922)
Net book value	**727**	**28,209**	**28,936**
Year ended 31st December 2006 (in ths. SKK)			
Acquisition cost	727	37,779	38,506
Accumulated depretiations	-	(9,570)	(9,570)
Net book value	**727**	**28,209**	**28,936**

	2006
Rental income	4,032
Direct operating expenses arising from investment properties that generate rental income	887
Direct operating expenses that did not generate rental income	2,183

Investment property are not presented on the Company`s balance sheet at their fair value. The fair value of the Investment property is at 31st December 2006 SKK 30,477 ths. (31st December 2005: SKK 38,278 ths.) and was calculated by independent valuation experts using alternative valuation methods

Company rents out part of the building and related land in Banská Bystrica to external entities. Investment property is calculated based on percentage of rented space. Following percentages were used for calculation of investment property:

	In use of Company	Investment property
2005	64.78%	35.22%
2006	71.11%	28.89%

8. Intangible assets

	Software and other intangible assets	Total
1st January 2005		
Acquisition cost	9,742	9,742
Accumulated amortisation	(6,737)	(6,737)
Net book value	**3,005**	**3,005**
Year ended 31st December 2005		
Opening balance	3,005	3,005
Additions	7,789	7,789
Amortisation	(1,016)	(1,016)
Closing net book value	**9,778**	**9,778**
At 1st January 2006		
Acquisition cost	17,531	17,531
Accumulated amortisation	(7,753)	(7,753)
Net book value	**9,778**	**9,778**
Year ended 31st December 2006		
Opening balance	9,778	9,778
Additions	8,211	8,211
Amortisation	(856)	(856)
Closing balance	**17,133**	**17,133**
At 31st December 2006		
Acquisition cost	25,742	25,742
Accumulated amortisation	(8,609)	(8,609)
Net book value	**17,133**	**17,133**

Amortisation of SKK 856 ths. (2005: SKK 1,016 ths.) were accounted for to marketing and administration costs.

9. Reinsurance assets

Year ended 31st December	2006	2005
Reinsurers' share in insurance liabilities	516,566	269,276
Impairment provision	-	-
Total assets arising from reinsurance contracts	**516,566**	**269,276**
Current	516,566	269,276
Non-curent	-	-

The amounts due from reinsurers in respect of claims already paid by the Company on insurance contracts that are reinsured are included within Receivables (Note 11).

10. Financial assets

Year ended 31st December	2006	2005
Held to maturity	147,773	139,293
Available for sale	543,201	280,476
Receivables including insurance receivables – (Note 11)	608,405	468,641
Total financial assets	**1,299,379**	**888,410**
Current	608,405	468,641
Non-current	690,974	419,769

The assets comprised in each of the categories above are detailed in the tables below:

Held to maturity financial assets

Year ended 31st December	2006	2005
Debt securities – floating interest rate		
- listed	20,661	25,297
- unlisted	127,112	113,996
Total held-to-maturity financial assets	**147,773**	**139,293**

Financial assets held to maturity are not presented on the Company's balance sheet at their fair value. The fair value of the held to maturity assets is at 31st December 2006 SKK 149,134 ths (31st December 2005: SKK 140,254 ths).

Fair values of financial assets held to maturity are based on market prices or broker/dealer quotations. Where this information is not available fair value has bee estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Available for sale

Year ended 31st December	2006	2005
Equity securities		
- listed	-	-
- unlisted	33	33
Debt securities with fixed rate		
- listed	220,045	280,261
- unlisted	-	-
Debt securities with floating rate		
- listed	323,123	182
Total available-for-sale financial assets	**543,201**	**280,476**

Movement in financial assets during 2006 and 2005 is shown in the following table (except for Receivables – Note 11):

	Held to maturity	Available for sale	Total
At 1st January 2005	138,948	207,367	346,315
Foreign Exchange differences	-	13	13
Additions	345	969,807	970,152
Disposals	-	(909,537)	(909,537)
Fair value net gains	-	12,826	12,826
At 31st December 2005	139,293	280,476	419,769
Foreign Exchange differences	-	1	1
Additions	8 480	358,679	367,159
Disposals	-	(102,497)	(102,497)
Fair value net gains	-	6,542	6,542
At 31st December 2006	147,773	543,201	690,974

11. Receivables

Year ended 31st December	2006	2005
Receivables from insurance contracts		
- due from contract holders	480,322	289,734
- less provision for impairment of receivables from contract holders	(72,841)	(41,335)
- due from reinsurers	4,285	1,466
Other receivables		
- prepayments	2,335	4,523
- deferred expenses	149,483	157,947
- accrued revenues	36,643	27,423
- trade receivables	10,945	31,603
- other assets	2,215	2,262
- less provision for impairment of other receivables	(4,982)	(4,982)
Total receivables including receivables from insurance contracts	608,405	468,641
Current	608,405	468,641
Non-current	-	-

The Company has recognised a loss of SKK 72,841 ths (2005: SKK 41,335 ths) for the impairment of its other receivables during the year ended 31st December 2006. The loss has been included in the income statements on line other operating expenses.

12. Cash and cash equivalents

Year ended 31st December	2006	2005
Cash at hand and in bank	49,566	39,560
Short-term bank deposits	193,752	374,555
Total	**243,318**	**414,115**

The effective interest rate on short-term bank accounts was 3.4% in 2006 (2005: 2.74%) and had an average maturity of 4.87 days (2005: 9.25 days).

13. Share capital

	Number of ordinary shares	Ordinary shares (v in SKK thousands)
At 1st January 2005	2,800	280,000
At 31st December 2005	2,800	280,000
At 31st December 2006	2,800	280,000

Share capital at 31st December 2006 and also 2005 comprise of 2 800 pieces of approved and repaid ordinary shares. Nominal value of share is SKK 100 ths. Owners of all ordinary shares have the same voting rights (Note 1).

14. Legal reserve fund and other funds

Year ended 31st December	2006	2005
Legal reserve fund	22,803	24,047
Revaluation of AFS	7,742	(650)
Retained earnings	101,540	103,284
Total	**132,085**	**126,681**

The legal reserve fund is possible to use only to cover losses. The legal reserve fund is created from profit up to 20% of share capital.

Distribution of 2005 profit in amount of 58,370 thousands (Note 5) was approved by Annual General Meeting held on 22nd May 2006 as follows:

- contribution to legal reserve fund SKK 5,837 ths.
- contribution to social fund SKK 2,000 ths.
- bonuses to supervisory board SKK 2,000 ths.
- transfer of created Legal reserve fund from 2004 profit back to retained earnings SKK (7,081) ths.
- retained earnings SKK 55,614 ths.

Movements in the revaluation reserve for available-for-sale investments were as follows:

At 1st January 2005	-
Revaluation - gross	(650)
At 31st December 2005	**(650)**
Revaluation – gross	11,127
Net loss transferred to net profit on disposal and impairment – gross	(919)
Revaluation – tax	(1,816)
At 31st December 2006	**7,742**

15. Insurance liabilities and reinsurance assets

Year ended 31st December	2006	2005
Gross		
Short-term insurance contracts:		
- claims reported and loss adjustment expenses	396,419	297,291
- claims incurred but not reported	118,575	85,548
- unearned premiums	530,990	213,691
Long-term insurance contracts:		
- with fixed and guaranteed terms	263,746	236,135
Total insurance liabilities, gross	**1,309,730**	**832,665**
Reinsurers' share		
Short-term insurance contracts:		
- claims reported and loss adjustment expenses	204,258	129,906
- claims incurred but not reported	60,184	43,320
- unearned premiums	252,124	96,050
Long-term insurance contracts:		
- with fixed and guaranteed terms	-	-
Total reinsurers' share of insurance liabilities	**516,566**	**269,276**
Net		
Short-term insurance contracts:		
- claims reported and loss adjustment expenses	192,161	167,385
- claims incurred but not reported	58,391	42,228
- unearned premiums	278,866	117,641
Long-term insurance contracts:		
- with fixed and guaranteed terms	263,746	236,135
Total insurance liabilities, net	**793,164**	**563,389**
Current	529,418	327,254
Non-current	263,746	236,135

15.1. Short-term insurance contracts – assumption, change in assumptions and sensitivity

Process used to decide on assumptions

The Company uses various statistical methods including various parameters, which are estimated for the ultimate loss calculation. The Company uses mainly Chain-ladder method, which is used mainly for stabile insurance products with stabile future developments.

The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

There are no significant assumptions identified in non-life insurance, which could have material impact on liabilities (e.g. assumed inflation has very low impact on possible change in liabilities).

Analysis of claim provisions

At 31st december 2006

Accounting period	2006	2005	2004	2003	2002	2001
Claims provision						
– At end of reporting year	514,994	382,839	265,255	128,093	82,430	40,026
– One year later		185,702	123,685	71,924	25,869	5,916
– Two year later			60,771	46,818	21,451	6,324
– Three years later				34,479	16,888	5,256
– Four years later					16,100	9,592
- Five years later						9,747
Paid claims						
– One year later		181,870	101,971	51,677	25,176	18,841
– Two year later			120,918	62,226	30,238	19,969
– Three years later				63,915	35,002	19,988
– Four years later					35,263	21,305
- Five years later						21,364
Surplus		15,267	83,566	29,699	31,067	8,915
- in percentages		3.99	31.5	23.19	37.69	22.27

15.2. Long-term insurance contract – assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

For long-term insurance contracts, estimates are made in two stages. At inception of the contract, the Company determines assumptions in relation to future deaths mortality, voluntary terminations, investment returns and administration expenses. These assumptions are used to calculate the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions.

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered to reflect the latest current estimate, and no margin is added to the assumptions in this event.

The assumptions used for the insurance contracts disclosed in this note are as follows.

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. An investigation into Company's experience over the most recent years is performed, and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality for that year. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data.

Morbidity

The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Company's own experience.

Persistency

An investigation into the Company's experience over the most recent years is performed, and statistical methods are used to determine an appropriate persistency rate. Persistency rates vary by product type and policy duration. An allowance is then made for any trends in the data to arrive at a best estimate of future persistency rates that takes into account the effective contract holders' behaviour.

Renewal expense level and inflation

The current level of expenses is taken as an appropriate expense base. Inflation is not used in calculation.

Tax

It has been assumed that current tax legislation and rates will continue unaltered.

b) Sensitivity analysis

The following tables present the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change in the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment.

The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of a further deterioration in the variable if the liabilities from insurance contracts were stated under best estimates.

Assumption	Altered assumption	Change in liability from insurance contract 2006	Change in liability from insurance contract 2005
Worsening of mortality	+10%	4,222	1,628
Lowering of investment returns	(1)% p.a.	15,175	11,902
Worsening of base renewal expense level	+10%	3,791	2,611
Worsening of lapse rate	+20%	1,449	399

15.3. Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

Year ended 31st December	2006 Gross	2006 Reinsurance	2006 Net	2005 Gross	2005 Reinsurance	2005 Net
Claims reported and loss adjustment expenses	297,291	(129,907)	167,384	195,054	(87,918)	107,136
Claims incurred but not reported	85,548	(43,320)	42,228	70,201	(31,941)	38,260
Total at the beginning of the year	382,839	(173,227)	209,612	265,255	(119,859)	145,396
Claims paid during period	(611,699)	302,498	(309,201)	(408,096)	198,398	(209,698)
Increase of payables from insurance contracts						
– Due to claims occurred in current year	589,952	(315,780)	274,172	399,905	(194,539)	205,366
– Due to claims occurred in prior periods	153,902	(77,933)	75,969	125,775	(57,227)	68,548
Total at the and of the year	**514,994**	**(264,442)**	**250,552**	**382,839**	**(173,227)**	**209,612**
Claims reported and loss adjustment expenses	396,419	(204,258)	192,161	297,291	(129,907)	167,384
Claims incurred but not reported	118,575	(60,184)	58,391	85,548	(43,320)	42,228
Total at the end of the year	**514,994**	**(264,442)**	**250,552**	**382,839**	**(173,227)**	**209,612**

b) Provisions for unearned premiums

Year ended 31st December	2006 Gross	2006 Reinsurance	2006 Net	2005 Gross	2005 Reinsurance	2005 Net
At the beginning of the year	213,691	(96,050)	117,641	113,630	(55,054)	58,576
Creation	530,990	(252,124)	278,866	213,691	(96,050)	117,641
Usage	(213,691)	96,050	(117,641)	(113,630)	55,054	(58,576)
Total at the end of the year	**530,990**	**(252,124)**	**278,866**	**213,691**	**(96,050)**	**117,641**

c) Long-term insurance contracts

Year ended 31st December	2006	2005
At the beginning of the year	236,135	241,131
Received premium	99,906	73,468
Release of provision due to payment of claims (death, surrender or other reason of termination of contract)	(85,487)	(96,422)
Interest expenses	12,633	12,264
Change in RBNS and IBNR	802	424
Change in UPR	(243)	5,270
Total at the end of the year	**263,746**	**236,135**

16. Trade and other payables

Year ended 31st December	2006	2005
Amounts due to related parties (Note 28)	1,931	278
Insurance liability		
- amounts due to clients	213,313	263,878
- amounts due to agents	14,383	20,311
- amounts due to reinsurers	182,727	120,481
Trade payables and accrued expenses	77,313	55,716
Payables to employees	14,091	14,489
Social security and other tax liabilities	7,360	9,260
Total	**511,118**	**484,413**
Current portion	508,228	484,375
Non-current portion	2,890	38

Insurance liability due to clients includes amounts collected in respect with MTPL which relates to next year at SKK 98,599 ths at 31st December 2006 (31st December 2005: SKK 101,937 ths)

Item Trade payables includes also obligation emerging from §30 Insurance law no. 95/2002 Z. z. , that means transfer of part of Premium in amount of SKK 60,348 ths at 31st December 2006 (31st December 2005: SKK 45,114 ths), which is assigned for fireman squads and Emergency units.

All liabilities for 2006 and 2005 are within due date.

17. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legal enforceable right to offset current tax asset against current tax liabilities and when the deferred income taxes relate to the same tax authority.

The offset amounts are as follows:

Year ended 31st December	2006	2005
Deferred tax assets		
- to be recovered after more than 12 months	(788)	(788)
- to be recovered within 12 months	-	-
Deferred tax liabilities		
- to be recovered after more than 12 months	6,828	3,611
- to be recovered within 12 months	-	-
Total	**6,040**	**2,823**

The movement on the deferred tax liability is as follows:

Year ended 31st December	2006	2005
Beginning of the year	2,823	5,062
Expense/income recognized in income statement (Note 25)	1,401	752
Tax charged to equity (Note 14)	1,816	(2,991)
At the end of year	**6,040**	**2,823**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offset of balances within the same jurisdiction are as follows:

Deferred tax asset:

	Commissions	Other	Total
At 1st January 2005	**82**	**788**	**870**
Charged/credited to the income statement	(82)	-	(82)
At 31st December 2005	**-**	**788**	**788**
Charged/credited to the income statement	-	-	-
At 31st December 2006	**-**	**788**	**788**

Deferred tax liability:

	Depreciation / Amortisation	Interest taxed after payments	AFS revaluation	Other	Total
At 1st January 2005	**1,641**	**959**	**2,991**	**341**	**5,932**
Charged/credited to the income statement	594	76	-	-	670
Charged/credited to equity	-	-	(2,991)	-	(2,991)
At 31st December 2005	**2,235**	**1,035**	**-**	**341**	**3,611**
Charged/credited to the income statement	1,237	505	-	-341	1,401
Charged/credited to equity	-	-	1,816	-	1,816
At 31st December 2006	**3,472**	**1,540**	**1,816**	**-**	**6,828**

Deferred income taxes charged to equity between 2005 and 2006 apply to differences from revaluation of available-for-sale assets (Note 14).

18. Net insurance premium revenue

	2006	2005
Long-term insurance contracts with fixed and guaranteed terms		
- premium income	121,762	122,827
- change of UPR	243	5,270
Long-term insurance contracts without fixed terms		
- premium income	125	201
Short-term insurance contracts		
- premium income	1,578,546	1,202,521
- change of UPR	(317,299)	(100,061)
Premium revenue arisin g from insurance contracts issued	1,383,377	1,230,758
Long-term reinsurance		
- premium transferred to reinsurers	-	(51)
Short-term reinsurance		
- premium transferred to reinsurers	(754,602)	(530,682)
- change of UPR	156,073	40,996
Premium revenue ceded to reinsurers on insurance contracts issued	(598,529)	(489,737)
Net insurance premium revenue	**784,848**	**741,021**

19. Financial investment income

	2006	2005
Interest income on financial assets held to maturity	9,139	8,533
Interest income on financial assets available for sale	7,148	5,699
Interest income on cash and cash equivalents	6,218	7,120
Total	**22,505**	**21,352**

20. Net realised gains on financial assets

	2006	2005
Realised gains on financial assets available for sale		
- equity securities	-	-
- debt securities	361	1,653
Realised losses on financial assets available for sale		
- equity securities	-	-
- debt securities	(20)	22
Other	900	2,917
Total	**1,241**	**4,592**

21. Insurance benefits and claims

a) Insurance benefits

	2006	2005
Long-term insurance contracts with fixed and guaranteed terms:		
- life claims	92,174	102,726
- increase in liabilities (Note 15)	27,801	90
Long-term insurance contracts without fixed terms)		
- change in unit prices (Note 15)	54	182
Total cost of claims	**120,029**	**102,998**

b) Claims in non life insurance

	2006			2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Current year claims and loss adjustment expenses	433,005	214 131	218,874	306,331	145,922	160,409
Additional cost for prior year claims and loss adjustment expenses	178,694	88 368	90,326	101,765	48,476	53,289
Change on claim provision	132,154	91 215	40,939	117,584	53,367	64,217
Total claims and loss adjustment expense	**743,853**	**393 714**	**350,139**	**525,680**	**247,765**	**277,915**

22. Expenses by destination

a) Expenses for the acquisition of insurance contracts

	2006	2005
Release of DAC	8,668	(86)
Costs incurred for the acquisition of insurance contracts expensed in the year	246,465	202,400
Total expenses for the acquisition of insurance contracts	**255,133**	**202,314**

b) Marketing and administrative expenses

	2006	2005
Marketing and administrative expenses	147,241	141,891
Depreciation of property, plant and equipment (Note 6)	10,790	10,107
Amortisation of intangible assets (Note 8)	856	1,016
Total	**158,887**	**153,014**

c) Other operating costs

	2006	2005
Impairment provision	39,680	26,136
Contribution to SKP	42,725	12,540
8% contribution to MV SR	60,348	45,114
Bank charges	2,455	2,364
Write off receivable	-	4,446
Taxes	154	270
Fees	1,724	666
Other	841	206
Total	**147,927**	**91,742**

23. Expenses by nature

	2006	2005
Employee benefits expenses (Note 24)	136,458	119,911
Commissions for external agents	125,085	100,806
8% contribution to MV SR (Note 16)	60,348	45,114
Marketing expenses	48,845	40,595
Contribution to SKP	42,725	12,540
Creation of provision to receivables and write-off receivables	39,680	26,136
Purchase of goods and services	27,536	25,927
Material costs	25,756	22,163
Rent	21,352	16,865
Depreciation, amortisation and impairment charges (Notes 6, 7 and 8)	11,645	11,123
Release of DAC (Note 22)	8,668	-86
Other	7,948	19,370
Consume contribution	3,531	3,228
Insurance costs	1,777	1,755
Membership fees	593	1,623
Total expenses	**561,947**	**447,070**

24. Employee benefit expense

	2006	2005
Wages and salaries, and termination benefits	106,358	96,783
Social and health care costs	15,138	12,738
Pension costs	14,962	10,390
Total	**136,458**	**119,911**

25. Income tax

	2006	2005
Tax due	5,099	21,360
Deferred tax (Note 17)	1,401	752
Under accrued income tax	658	-
Total	**7,158**	**22,112**

Tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the Company as follows:

	2006	2005
Profit before tax	4,170	80,150
Income tax calculated using 19% tax rate	792	15,229
Tax non-deductible expenses	44,528	19,089
Non taxable income	(38,820)	(12,206)
Under accrued income tax	658	-
Tax expense	**7,158**	**22,112**

The tax base was 19% (2005: 19%).

26. Cash flow from operating activities

	31/12 /2006	31/12 /2005
Profit before tax	**4,170**	**80,150**
Depreciation and amortisation	11,646	11,123
Valuation differences	8,391	(650)
Revenues from financial assets	9,426	14,819
Interest received	11,609	11,125
(Increase) of receivables	(182,435)	(51,572)
Decrease (increase) of adjustment to receivables	31,506	(19,526)
Decrease of DAC	9,059	3,298
(Increase) of reinsurance	(247,290)	(94,363)
Increase of insurance liabilities	477,065	212,649
Increase trade liabilities	32,026	34,997
(Decrease) of financial placement held to maturity	(296,200)	(108,735)
Cash flow from operating activities	**(131,027)**	**93,315**

The Company classifies the cash flows from the sale and purchase of financial assets as cash flow from operations.

27. Contingent liabilities

Tax legislation

Since some provisions of Slovak legislation allow for more than one interpretation, the tax authorities may decide to tax certain business activities that the Company believes should not be taxed. The 2005 and 2006 taxation periods were not subject to a tax control. Therefore, there is a risk of additional imposition of tax. The management of the Company is not aware of any circumstances in this respect that may lead to significant costs in the future.

28. Related-party transactions

Transactions with related parties included:

Ultimate parent of the Company:
Wiener Städtische Allgemeine Versicherung AG, Vienna

Parent company:
KOOPERATIVA poisťovňa, a.s.

Minority shareholders:
Dexia Banka a.s.
Mesto Banská Bystrica
Mesto Brezno
Obec Štrba

Sister companies:
Kontinuita poisťovňa, a.s., IV, s.r.o., Slovexperta, s.r.o., Capitol, a.s..

a) Receivables from and liabilities to related parties

Receivables from and liabilities to related parties are shown in the following table:

	Ultimate parent of the Company	Parent company
31st December 2006		
Trade receivables	157	132
Total receivables	**157**	**132**
Liabilities from reinsurance	**1,274**	**-**
Trade liabilities	-	657
Total liabilities	**1,274**	**657**

	Minority shareholders
31st December 2005	
Other liabilities	278
Total liabilities	**278**

b) Related party transactions

Transactions with related parties in 2006 are shown in the following table:

	Ultimate parent of the Company	Parent company	Minority shareholders	Other related parties
Other	157	333	-	-
Total sale	**157**	**333**	**-**	**-**
Purchase of services	-	858	20,344	9,154
Total purchase	**-**	**858**	**20,344**	**9,154**

Transactions with related parties in 2005 are shown in the following table:

	Ultimate parent of the Company	Minority sharehol-ders	Other related parties
Purchase of insurance contracts	-	-	2,286
Purchase of services	-	14,982	5,753
Other	130	-	113
Total purchase	**130**	**14,982**	**8,152**

c) Key management compensation

	2006	2005
Salaries and other short-term employee benefits	8,389	8,506
Retirement benefits	101	92
Social charges	143	147
Termination benefits	132	-
	8,765	**8,745**

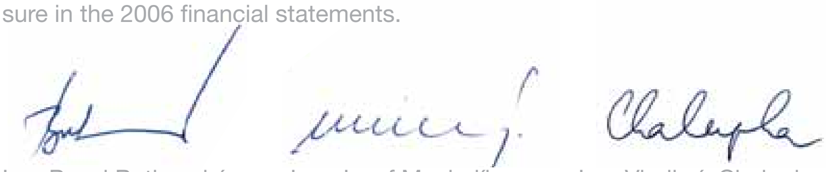
29. Events after the balance sheet date

In 2007, there was an amendment of the Insurance Law in the sec. II, §26, which states an obligation for the insurance companies operating in MTPL to create a technical provision for the payment of payables to SKP from MTPL, which had originated before 2001. The §70 e) sets the deadline for the creation of the provision (Note 2.13 a) i)).

The National Bank of Slovakia stated the maximum technical interest rate as 2.5% with validity from 1st January 2007. Thus the Company has recalculated all the products of life-insurance, in which this assumption is used, which are sold from 1st January 2007.

General assembly of Company agreed on 20th March 2007 increase of Share capital through an issue of new shares in total amount of SKK 40,000 ths. Total Share capital was increased from SKK 280,000 ths to SKK 320,000 ths.

After 31st December 2006, no other significant events have occurred that would require recognition or disclosure in the 2006 financial statements.



Ing. Pavol Butkovský Chairmen of BoD	Ing. Jozef Machalík Member of BoD	Ing. Vladimír Chalupka	Ing. Zuzana Stráňaiová

Statutory body signature | Person responsible for accounting | Person responsible for financial statement

14. Value System of an Employee

Komunálna poisťovňa a.s., issued in compliance with the provision of Art. 81 of the Labour Code this Value System of an Employee (hereinafter referred to as "Value System") which defines basic principles of the company and forms a pillar of behaviour of its employees.

I. Basic values

1. The basic value, asset and future of the company Komunálna poisťovňa a.s. is a client thus a satisfied client is on the top of our everyday work in the company.
2. Creditworthiness – we behave in the way in order to persuade both current and potential clients that we deserve their confidence.
3. Reputation – we continuously develop goodwill of the company via quality of our products and service, via willingness of our employees, our human and professional approach.
4. Honesty – we provide true and accurate information at right time, under all circumstances we defend the interest of the insurance company and the client.
5. Reliability – we observe the rules, deadlines and covenants, we are thorough at work and attend to all details.
6. Continuous growth and development – we are heading higher and higher, we shall never stop in our efforts. We are looking for new stimuli for improvement of our work and achievement of our objectives with persistence, patience and courage.
7. Loyalty of clients – we are meeting the demanding requirements of the clients and we satisfy their needs and expectations on daily basis.

II. Legal requirements

1. An employee shall withdraw from the negotiation about which he/she knows or should know that there are internal regulations of the company or generally binding legal regulations breached.
2. An employee shall not provide the information on his/her salary details, nor about the salary details of other employees to anybody in case he/she learnt about such information.

III. Conflict of interests

1. An employee shall not directly or indirectly perform entrepreneurial activity which would lead to the conflict of interests with the interests of the company.
2. An employee shall not use the knowledge of the confidential information, nor shall he/she participate in publishing such confidential information which is intended for the public and which could positively or negatively affect the business case or goodwill of the company.
3. An employee shall not achieve his /her personal property benefit or other advantages at the expense of the company or its clients. He/she shall not use confidential information for such personal enrichment or preference nor shall he/she provide it to other person.
4. An employee shall deal during working hours exclusively with the fulfillment of his/her work tasks in compliance with the scope of employment and instructions of the superior.

IV. Business ethics

1. An employee shall observe the rules of business ethics against the client as well as against the competitive company, he/she shall especially refrain from acting leading to unfair competition, damage or unauthorized favoritism of the client.
2. An employee at his/her working activity leading to the implementation of rights and authorizations resulting from the contractual stipulations shall not be influenced by friendship, partnership or opposite personal relationships with a client of the company.

V. Misuse of position

1. An employee shall refrain from every activity which could be in the form of reward of the client considered search, recovery, or receipt of bribes or other unauthorized benefits. An employee may not receive gifts, payments, or unauthorized benefits from persons who are in business relationship with the company or from competitive companies.
2. An employee cannot perform another work during the existence of the main employment within the secondary employment in any of the competitive insurance companies.
3. An employee shall not use goodwill of the company for assertion of his/her own interests nor his/her position if the company in order to be given any advantages by anybody.

VI. Clothes

An employee shall always pay attention to the fact so that in workplace or at negotiations when representing the company his/her clothes and appearance can always comply with aesthetic requirements imposed on an employee of a financial institution.

15. Address book

Komunálna poisťovňa a. s.

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Obchodné miesto Banská Bystrica	048/ 41 53 954
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905 01 Námestie oslobodenia 9/21	fax: 034/651 04 93
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Obchodné miesto Piešťany	033/774 03 58
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Obchodné miesto Košice	055/ 62 27 928, 62 27 936
040 01 Hlavná 7	fax: 055/ 62 27 928
Obchodné miesto Michalovce	056/ 64 26216
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Obchodné miesto Spišská Nová Ves	053/ 44 28 735
052 01 Zimná 62	fax. 053/44 28 735
Obchodné miesto Rožňava	058/ 73 31 412
048 01 Námestie baníkov 11	fax: 058/ 73 31 412
Obchodné miesto Trebišov	056/ 67 23 514
075 01 M. R. Štefánika 3333	fax: 056/ 67 23 514

Pobočka NITRA	037/651 58 81-2
949 01 Farská 7	fax: 037/651 58 80
Obchodné miesto Nitra	037/651 58 81-2
949 01 Farská 7	fax: 037/651 58 80
Obchodné miesto Topoľčany	038/532 04 46
955 01 Obchodná 324	fax: 038/532 04 46
Obchodné miesto Sereď	031/78 96 352
926 01 Ul. D. Štúra 759/35,	fax: 031/78 96 352
Obchodné miesto Levice	036/63 13 765, 63 16 765
934 01 Pionierska 1	fax: 036/631 67 65
Obchodné miesto Vráble	037/78 33 740
952 01 Hlavná 4/1221	fax: 037/78 33 740
Obchodné miesto Komárno	035/77 32 301
945 01 Tržničné námestie 3	fax: 035/77 32 302
Obchodné miesto Dunajská Streda	031/55 16 614
929 16 Vámberyho námestie 4920	fax: 031/55 16 614
Obchodné miesto Nové Zámky	035/640 11 92
940 52 Hlavné námestie 7	fax: 035/640 11 92
Pobočka PREŠOV	051/77 21 393,77 21 620
080 01 Hlavná 117	fax: 051/77 21 393
Obchodné miesto Prešov	051/77 21 393,77 21 620
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Obchodné miesto Bardejov	054/47 28 469
085 01 Radničné námestie 36	fax: 054/47 28 469
Obchodné miesto Poprad	052/77 23 628
058 01 Zdravotnícka 4373/6	fax: 052/77 23 628
Obchodné miesto Humenné	057/77 56 198
066 01 Mierová 64/2	fax: 057/77 56 198
Obchodné miesto Vranov nad Topľou	057/44 23 728
093 01 Námestie slobody 98	fax: 057/44 23 728
Obchodné miesto Stará Ľubovňa	052/ 468 33 55
064 01 Levočská 335/1	fax: 052/ 468 33 55
Pobočka TRENČÍN	032/74 31 165, 74 42 013
911 01 Mierové námestie 3	fax: 032/74 42 022
Obchodné miesto Trenčín	032/74 31 165, 74 42 013, 74 42 022
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Obchodné miesto Považská Bystrica	042/432 78 19
017 01 Ul. M. R. Štefánika 171/24	fax: 042/432 78 19
Obchodné miesto Bánovce nad Bebravou	038/760 59 66
957 01 Záfortňa 7/538	fax: 038/760 59 66
Obchodné miesto Prievidza	046/5430181
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Obchodné miesto Nové Mesto nad Váhom	032/77 10 415
915 01 Námestie slobody 1/1	fax: 032/77 10 415
Pobočka ŽILINA	041/56 24 133, 56 25 610,
010 01 J. Milca 6	fax: 041/56 25 377
Obchodné miesto Žilina	041/56 24 133, 56 25 610, 56 25 376
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Obchodné miesto Čadca	041/43 27 600
022 01 Námestie slobody 30	fax: 041/43 27 600
Obchodné miesto Ružomberok	044/43 25 479
034 01 Dončova 19	fax: 044/43 25 479
Obchodné miesto Martin	043/ 423 93 00
036 31 Osloboditeľov 56	fax: 043/ 423 93 00
Obchodné miesto Liptovský Hrádok	044/52 23 133
033 01 SNP 137	fax: 044/52 23 133
Obchodné miesto Liptovský Mikuláš	044/551 43 09
031 01 Garbiarska 4	fax: 044/551 43 09
Obchodné miesto Námestovo	043/55 23 025
029 01 Hviezdoslavovo nám. 213	fax: 043/55 23 313

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