

Annual

Report

2006



AdriaticSlovenica

Zavarovalna družba d.d. • Članica Skupine KD Group

www.adriatic-slovenica.si

The publication ANNUAL REPORT 2006 is a summary of significant information on business operations from the Company's audited Annual Report for 2006. The publication is also available on www.adriatic-slovenica.si.

The audited Annual Report of the Company for 2006 is available on web-portal of AJPES.

English edition of the ANNUAL REPORT 2006 is a translation of the Slovene original, which remains the legal version.

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Safe, | **to start each and every day with a smile**





1

Adriatic Slovenica in 2006

1.1

Business highlights

1.1.1

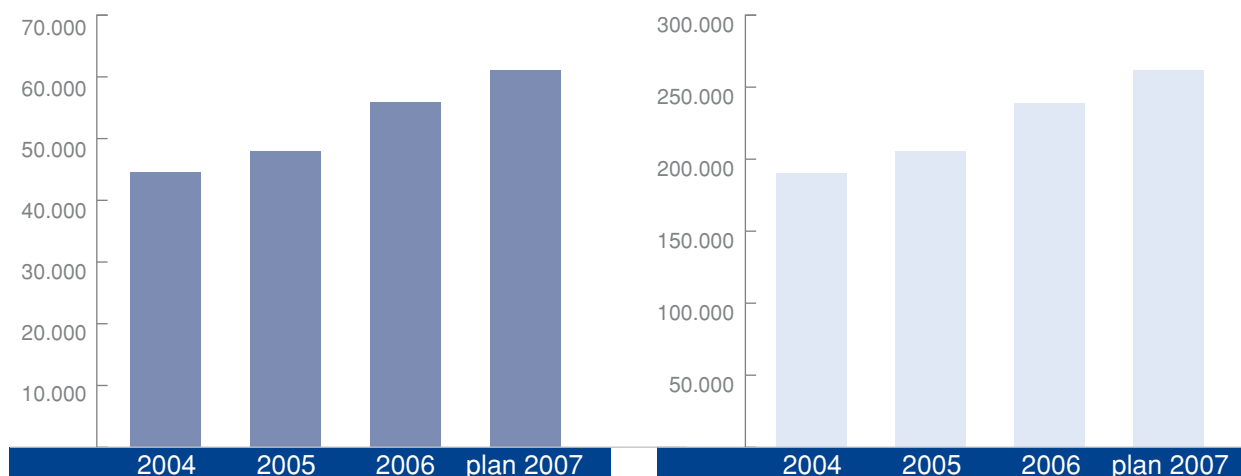
Financial highlights and other figures for 2006

Total gross premium	SIT 55,9 billion (EUR 233 million)
Claims paid	SIT 35,9 billion (EUR 150 million)
Net technical provisions (per 31 December 2006)	SIT 53,5 billion (EUR 223 million)
Investments and pecuniary resources (per 31 December 2006)	SIT 61,2 billion (EUR 255 million)
Number of employees (per 31 December 2006)	1.106
Premium per employee	SIT 50,5 million (EUR 210 thousand)
Net company's results	SIT 3,2 billion (EUR 13,5 million)
Capital book value (per 31 December 2006)	SIT 17 billion (EUR 71,2 million)
Book value of share (per 31 December 2006)	SIT 2.557 (EUR 10,67)

Premium volume trend

(in SIT million)

(in EUR '000)



1.1.2

Significant business events in 2006

- On **1 March** the insurance company according to the provisions of the Act Amending the Health Care and Health Insurance Act (*ZZVZZ-H*) modified contracts of co-payment health insurance of all insured. Thus all these insured have equalized amount of premium, the law however permits up to

3 percent discount on the premium. Since the Act coming into effect (1 September 2005) the insurance company canvassed 77 thousands new insured, thereof 52.500 insured by the law of war, for whom the premium is paid by the state. At the same time, implementation of the equalisation scheme is

commenced, equalising the differences in expenditures for medical services between insurance companies, which arise from different structures of the insured in respect of age and sex. The Act abolished old-age provisions formation and ordered the insurance companies to refund the beneficiaries till 31 August 2007, ADRIATIC SLOVENICA however committed itself to refund gathered provisions ahead of legal time schedule and paid them out to all insured, and who managed to notify data in time, by 31 December 2006.

- On **31 March** the ADRIATIC SLOVENICA's Corporate Image was awarded with the highest evaluation on Slovenian Advertising Festival in Portorož, at the same time its designer the agency Arih won the first prize. On Slovenian Advertising Festival in Portorož only the highest achievements in Slovenian advertising are awarded.
- Since **1 April** the Management Board of ADRIATIC SLOVENICA consists of three members, the third member of Management Board became Matija Šenk.
- On **5 July** the Supervisory Board of Adriatic Slovenica accepted a resignation of the President of Management Board, Mr. Dušan Novak, and nominated Mr. Aljoša Tomaž to be the new President of the Management Board against the suspense condition of acquiring a licence from Insurance Supervision Agency. At the same time it nominated also a member of the Management Board for non-life insurance business, Mr. Gabrijel Škof.
- On **5 September** the injection of capital, required as a merger condition by ISA in its written order, is successfully brought to an end by entry in to a register of companies. Due to injection of capital the company issued additional 3.004.700 shares of nominal value 1.000 SIT and thus increased its nominal capital for 3.004.700.000 SIT. The selling price of a share was equal to its nominal value.
- The members of KD Group developed a new unit-linked life insurance with principal guarantee, which was in **September** offered by ADRIATIC SLOVENICA under market name VITAFOND AZIJA GARANT. The insurance product becomes a market success and exceeds all expectations and planned goals.
- In **October** the Supervisory Boards of ADRIATIC SLOVENICA (25.10.) and Vzajemna (20.10.) gave the go-ahead for the beginning of merger procedure of both insurance companies. By merging the second largest general insurance company and the largest specialised health insurance company the Slovenian insurance market would gain a strong insurance company, which would by premium share be able to successfully compete in

Slovenian as well as European market. The merging procedures dictate the value appraisal of both companies and determination of exchange ratio, based on which the insured of Vzajemna shall acquire shares of ADRIATIC SLOVENICA. Supervisory Boards and Boards of Management estimate, that linkage between the largest universal and largest health insurance company would bring many synergies. Insured would gain an offer of even higher quality, mainly due to faster development of extended health insurances, as well as non-life and life insurances, on the other hand the company would win a significant advantage due to closer cooperation with performers of medical services.

- On **23 October** the SB of Slovenica Življenje nominates Matija Šenk, the Deputy President of the Management Board of ADRIATIC SLOVENICA, to be a President of the Management Board of Slovenica Življenje; till his acquirement of corresponding license from AZN he will continue to act as a Deputy President of the Management Board of ADRIATIC SLOVENICA.
- On **9 November** the Management Board of ADRIATIC SLOVENICA experiences a change: Mr. Gabrijel Škof begins to act as a member of the Management Board.
- On **12 December** the meeting of shareholders due to developmental plans and strategic goals of the company adopts the possibility of share capital increase of 3.335.640.000 SIT within 5 years and a resolution on transforming shares into unit shares. Among other a new, updated statute of the company was adopted, and according to the changes the number of supervisors was reduced as well as a six member Supervisory Board was nominated, consisting of also two representatives of the workforce.
- In **December** ADRIATIC SLOVENICA offers its policyholders of co-payment health insurance the very contemporary extended health insurance "For shorter queuing", giving the insured a possibility to avoid long queues and perform basic diagnostic and laboratory examinations in selected specialist clinics within the shortest time.
- In **December** the company began to refund 2,86 billions SIT of provisions to 277.435 beneficiaries of old-age provisions refund from co-payment health insurance; to all beneficiaries, who managed to send required data on time, the company remitted the means till 31.12.2006.
- On **31 December** brought his function to an end Mr. Dušan Novak, the President of Management Board, who managed the company successfully since 1999. He took up his duties of assistant manager for insurance at KD Holding.

1.2

Address by the Management Board

Dear shareholders, insured and business partners!

The first year of the merged insurance company's operation has passed. Goals and forecasts, which we have set a year ago, needed to be accomplished.

It was a business year denoted by not only formal but also concrete activities and projects with which the actual operations uniformities of both merged companies began.

We started the year on double locations all over Slovenia with clearly traced, but different business processes and working procedures, different information systems, double insurance products and with organization, which was uniformed in the way of sticking together and was as such clearly stated as temporary.

A lot of attention and our activities were therefore directed to offering quality insurance services and other special attentions to our loyal insured and business partners, as we wanted thus to pass over any possible perceiving of any changes due the joint operation.

We are convinced that we succeeded and that we upgraded the trust in our insurance company. During the year we started numerous pretentious projects, above all preparation of new organizational structure, new systematization, renewal of all business processes, further development of uniformed information system, unification of certain insurances and other. According to plans these complex projects were not yet finished in 2006, a part of projects however were finished and realized in the first half of 2007.

Activities in the field of unifying operations did not influence company's current operations. In 2006 the company exceeded the goals set. The gross written premium grew by 17 percent; with such premium increase we strengthened in the second position among Slovenian insurance companies. The company substantially improved insurance results in property and life insurance. Changes of health legislation influenced the lower yield of co-payment health insurance; yet its importance for the company is slowly complemented by complementary and parallel health insurances. The business result before taxes with more than SIT 4 billion (EUR 19.7 million) is almost by five times higher compared to the result from 2005. The amount of net profit per share grew more than twice due to additional capitalisation despite the increased number of shares. Company's capital value increased in 2006 by twice. This was especially influenced by effective operations of the company which achieved the net business result of SIT 3.2 billion (EUR 13.5 million), the effect of passing to changed accounting standards in the amount of SIT 1.6 billion (EUR 6.7 million), successful investment operation, which resulted in increase of non-realized capital profits, shown in the balance sheet in the amount of SIT 2 billion (EUR 8.3 million), and additional capitalization of the company in the amount of SIT 3 billion (EUR 12.5 million).

In 2006 we started the activities for merging with Vzajemna, Health Insurance Company. The planned merger represented an important challenge for us, therefore we invested lots of energy into integration activities. However, the environment was not in favour of the planned merger, and we therefore cancelled the planned activities.

In ADRIATIC SLOVENICA we have set high targets also for 2007. We plan to collect over EUR 255 million of gross premium and create over EUR 21 million of gross profit. We will increase the premium most rapidly in the field of life insurance, while the growth in other non-life and health insurances will be more stable.

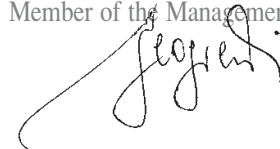
The merged insurance company ADRIATIC SLOVENICA has after a year of joint operations definitely set solid foundations for growth and development. We believe that the satisfied insured, which we put in the heart of our activities, processes and products, represents the way to success and financial results.

Koper, 1 June 2007

Gabrijel Škof,
Deputy President of the Management Board



Milena Georgievski,
Member of the Management Board



1.3**Report of the Supervisory Board - summary****Supervision over company's operation**

Supervisory Board of the company operated in 2006 composed of 9 members, thereof 3 representatives of employees, and was reduced on 28 December 2006 to 6 members, thereof 2 representatives of employees.

The work was performed following the agreed model of supervision execution over the performance of the Management Board and has regularly discussed on its sessions the quarterly reports on company's operations, periodical reports on plan realization in the field of premiums, losses and costs, regularly followed the situation of investments and their yield as well as execution of measures for operations improvement and achievement of planned goals. Beside regular reports the Supervisory Board dealt in the past year with and gave approval to the business politics and financial plan for 2006 and adopted annual report for 2005.

The Supervisory Board gave a lot of attention in 2006 to strategically most important business event - the planned takeover of Vzajemna d. v. z. Members of the Supervisory Board were regularly informed from the reports of the Management Board on procedures, required for realization of merger. The Supervisory Board continued in 2006 with activities, connected to takeover of Slovenica d.d., as the additional capitalisation was performed based on the request of ISA. Especially it was introduced to claim settling of acquired credit insurances, with human resource field and activities regarding renovation of information technology.

In the previous year the Supervisory Board also executed authorities, bound to the composition of the Management Board. For this purpose Mr. Gabrijel Škof was nominated as member of the Management Board, as the president of the Management Board was after resignation of Mr. Dušan Novak nominated Mr. Aljoša Tomaž, who will enter upon his position after fulfilling all legal requests.

The Insurance Act imposes upon Supervisory Board to attend the work of internal audit department. Within this frame it gave a consensus to the working plan of IAD for 2006, discussed the report on work of IAD in 2004, and separately the report on the work of IAD in the first half of the current year. Based on all reports on work performed by IAD it assessed that there were no such violations of risk management, which could endanger the safety of the company's operations.

After the end of financial year 2006 and till the adoption of annual report for this year, the Supervisory Board among other gave his consensus to the business policy of the company and to the financial plan for 2007, adopted the working plan of IAD, after resignation of Mr. Matija Senk nominated Mr. Škof to be Deputy President of the Management Board, and was informed of cancellation of merging processes with Vzajemna d. v. z.

Review and ratification of company's Annual Report

The Supervisory Board discussed on its 4th meeting on 8 June 2007 the annual report of company's operations for 2006 with a report of authorized auditing company PricewaterhouseCoopers d. o. o. and the proposal of the Management Board for profit sharing. Thereat it was acquainted with the report of appointed actuary Jadranka Maček, who established that the level of premium and the level of formed provisions per 31 December 2006 are appropriate and assure of continual fulfilment of all insurance company's liabilities.

The Supervisory Board, which was on the above mentioned meeting also acquainted with report on the work of the Internal audit department in 2006, gave positive opinion to the annual report of the Internal audit department.

The Supervisory Board examined and adopted the report of Management Board on relations with the managing company in 2006 and established that in this year based on relationship, stated in the report, there was no deprivation of the company.

It established that the content of annual report realistically shows operating of Adriatic Slovenica d. d. The Supervisory Board based on examination of annual report and review of auditor's report for 2006:

- ratified the annual report of the company for 2006,
- gave positive opinion to auditor's report on company's operating in 2006,
- together with the Management Board gave a reconciliated proposal of using balance profit for 2006 to the general assembly of shareholders.

The Management Board and the Supervisory Board propose to the general assembly of shareholders of Adriatic Slovenica d.d. to adopt the following decision on using balance profit:

1. Balance profit per 31 December 2006 amounts to EUR 23,244,786.05 (SIT 5,570,380,528.52). EUR 10,006,365.00 (part from year 2003 in the amount of SIT 171,373,853.92 (EUR 715,130.42), part from year 2004 in the amount of SIT 357,939,219.76 (EUR 1,493,653.90), part from year 2005 in the amount of SIT 1,868,612,234.15 (EUR 7,797,580.68)) shall be earmarked for payments to shareholders. The remaining balance profit in the amount of EUR 13,238,421.04 (SIT 3,172,455,218.02) shall remain undistributed and shall be brought forward to balance profit of following years.
2. For partial covering of losses from previous years for the group of life insurances a part of brought forward profit shall be used, formed at passing to new accounting standards in the amount of EUR 645,250.87 (SIT 154,627,917.93).
3. After reallocation in the frame of balance profit items remains a total value of remaining balance profit of EUR 13,238,421.04 (SIT 3,172,455,218.02). It is composed by a part from 2005 in the amount of EUR 1,147,342.70 (SIT 274,949,203.65), profit brought forward, formed at passing to new accounting standards in the amount of EUR 2,564,773.21 (SIT 614,622,253.72), and profit from 2006 in the amount of EUR 9,526,305.13 (SIT 2,282,883,761.66).

Koper, 8 June 2007

Janez BOJC, B.Sc. Econ.,
President of the Supervisory Board



2

Company ID card

2.1 General information

Firm, head office and address: ADRIATIC SLOVENICA Zavarovalna družba d.d.
 Ljubljanska cesta 3a
 SI - 6503 Koper, Slovenia
 Telephone: (05) 66 43 100
 Fax: (05) 66 43 109

Short company name: ADRIATIC SLOVENICA d.d.
 Email: info@adriatic-slovenica.si
 Web site: http:// www.adriatic-slovenica.si

Company identification number: 5063361
 VAT ID : SI 63658011
 Share capital: SIT 6.671.280.000,00 (EUR 27.838.758,14)
 Registration date: 20 November 1990

2.2 Historical development review

ADRIATIC SLOVENICA Zavarovalna družba d.d. in its appearance is known since the end of 2005, when two renowned Slovenian insurance companies merged, namely Slovenica, zavarovalniška hiša d.d. Ljubljana was taken over by Adriatic Zavarovalna družba d.d. Koper; at the same time the latter was renamed to ADRIATIC SLOVENICA Zavarovalna družba d.d. The merger of Adriatic and Slovenica means the first successful merger in the insurance industry in Slovenia, and the origin of the second largest general insurance company. Consolidated insurance company has brought along the amalgamation of entire marketing networks of two insurance companies, employees, assets, resources, capacities and knowledge. Capital strength and soundness of the insurance company have increased as well as an access to higher quality insurance services throughout entire Slovenia.

The insurance company Adriatic d.d., Koper was

established in 1990 and as a target it set a fast establishment of a marketing network across the entire Slovenian and Istrian territory. Already in 1992 branch offices in Koper, Pula, Ljubljana, Celje and Kranj were established, afterwards in 1992 branch offices in Postojna, Nova Gorica, Novo mesto and Maribor, and finally in 1993 a branch office in Murska Sobota. In 1992 the branch office in Pula was transformed into a company Adria Pula, where Adriatic at first retained a majority share and then sold it in 1996 due to modified strategy and market situation. In 1999 SLOVENICA d.d. acquired the majority ownership of the company (51.2%). Adriatic gained authorisation from ISA for carrying out all classes of insurance business. The market share of Adriatic d.d. in terms of total gross written premium in 2004 was 9 per cent, ranging it to the 4th place of all insurance companies in Slovenia, and with 18 per cent of total gross written premium in the field of

voluntary health insurance to the 2nd place. The insurance company SLOVENICA d.d., Ljubljana was established at the end of 1992. In 1999, it acquired the majority equity shareholding in Adriatic d.d., with KD Holding, d.d., Ljubljana as its majority shareholder. In 2004, Slovenica spined off life insurances from the roster of its business activities, and transferred them to a new company SLOVENICA ŽIVLJENJE, d.d., which

commenced operations on 3 January 2005. Slovenica thus was authorised for carrying out all classes of insurance business, but life insurances. The market share of Zavarovalniška hiša SLOVENICA d.d., Ljubljana, without taking into consideration insurances transferred to Slovenica Življenje, in terms of gross written premiums in the year 2004 was 4 per cent, which placed it on the 5th place among all insurance companies in Slovenia.

2.3

Mission, vision and fundamental Business principles

Mission

For insured we assume risks in the field of non-life and life insurance. By quality risk management we ensure security for insured and create added value and profitability to the satisfaction of all stakeholders: insured, employees, shareholders, and the community.

Vision

We, ADRIATIC SLOVENICA are people who by subscribing to ethical and professional principles place the customer at the bowels of our activities, develop and grow successfully and efficiently and strive for excellence in providing insurance and financial services for a secure tomorrow of insured as well as employees and shareholders. At ADRIATIC SLOVENICA we offer customers immediate assistance and prime insurances with assistance.

Fundamental Business Principles: quality, security, growth

Quality - We are dedicated to build up a long-term quality partnership with our insured and business partners by placing the insured in the centrepiece of all our activities, which we accomplish by perpetual

development of modern insurance lines and improving the quality of after-sale services. We are dedicated to active participation in introducing quality and excellence system, based on permanent perfecting of knowledge and human relationships as well as on continuous improvements of all business processes within the company.

Security - We are dedicated to ensure security of business operations and insured by complete managing of business risks, forming correspondent technical provisions and reinsurance and leading an effective investment policy. We are dedicated to ensure security to each and every employee, who with his honest work is striving to achieve company's aims. We are dedicated to secure and transparent business operations and to insure long-term return on investment (ROI) to our shareholders.

Growth - We are dedicated to long-term sound business growth of insured portfolio and premium as well as ensuring the profitability. We are dedicated to personal and professional growth of employees and to orientated growth of marketing network, however also to remunerate everybody within the society in respect of contribution growth. We are dedicated to cooperation growth and enrichment with social environment and to growth of social image.

2.4

Corporate governance**Management Board:**

Chairman:	Dušan Novak (till 31 December 2006)
Deputy President of the Management Board:	Matija Šenk (since 01 April 2006)
Members of the Management Board:	Milena Georgievski Gabrijel Škof (since 09 November 2006)

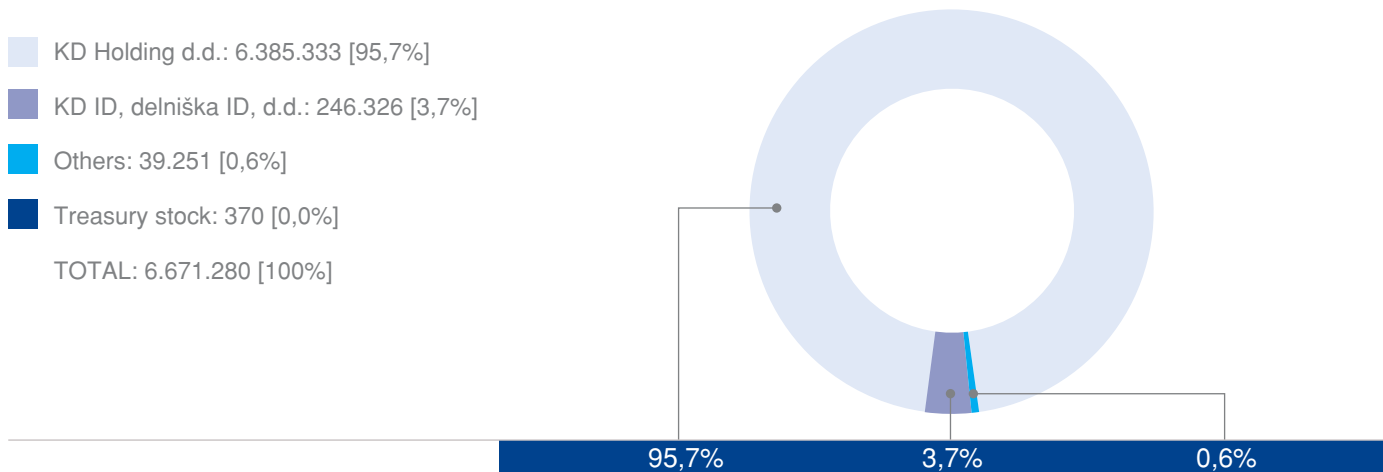
On the Supervisory Board meeting on 5 July 2006 Mr. Dušan Novak offered his resignation, based on which on 31 December 2006 he ceased to act as a President of the Management Board. On the same meeting the Supervisory Board nominated Mr. Aljoša Tomaž to be the new President of the Management Board against the suspense condition of acquiring a licence from ISA.

Supervisory Board:

Chairman:	Janez Bojc
Deputy Chairman:	Franc Ohnjec (till 28 December 2006) Mojca Burkelca (since 28 December 2006; till 28 December 2006 member of SB)
Members:	Roman Androjna Matjaž Gantar Aleksander Sekavčnik (till 28 December 2006)
Members, representatives of the employees:	Tanja Blatnik Elza Kržič (till 28 December 2006) Rudi Lipovec (till 31 January 2006) Matjaž Pavlin (since 06 April 2006)

2.5 Ownership structure

Shareholders structure per 31 December 2006



2.6

Organisation and organisational structure

At the time of merger of Adriatic and Slovenica at the end of 2005 a provisional organisational structure was introduced, which actually represents a sum of both previous organisations without achieving greater synergic results. The company began to rationalise business processes, organisational structure and job systematisation by implementation of ORG-AS project, which takes its course since March 2006. The main purpose of the project is to introduce procedural working organisation, a change of company organisation as well as redevelopment of job systematisation and evaluation, commencing to exercise on 1 April 2007.

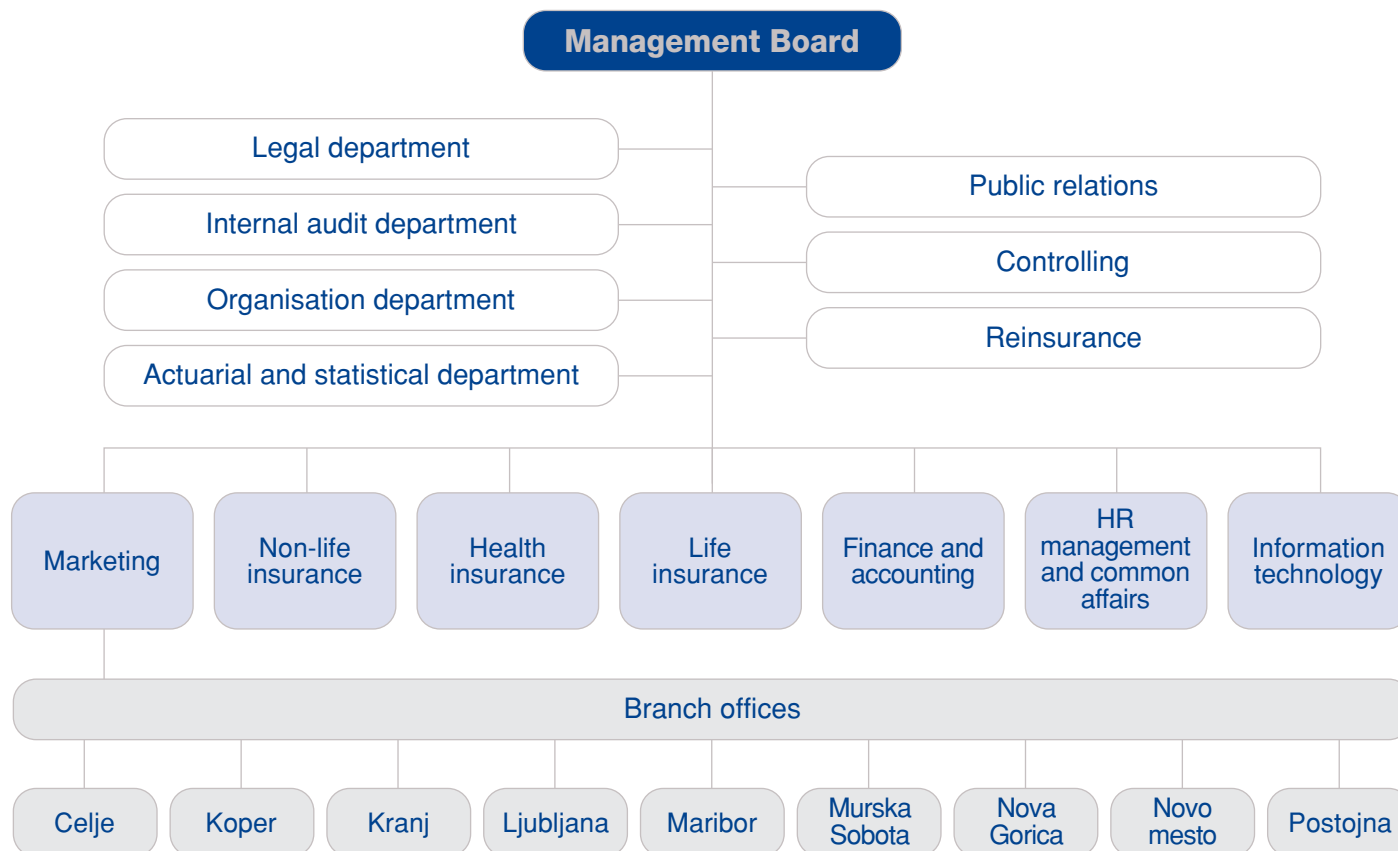
ADRIATIC SLOVENICA enables the company by implementing business processes to pursue strategic development and deliver sound business performance, while delivering to its insured the highest quality of insurance services. It builds its corporate philosophy on the organisational culture, which is recognizable in fundamental business principles such as quality, security and growth.

The business system of ADRIATIC SLOVENICA with

nine branch offices is steered from the central office with the head office in Koper and additional sites in Ljubljana and Nova Gorica, where expert departments perform insurance and other professional tasks for business units and the company in general. Essential market units are represented by nine branch offices in every larger regional centre: Celje, Koper, Kranj, Ljubljana, Maribor, Murska Sobota, Nova Gorica, Novo mesto and Postojna. The branch offices oversee three representative offices in Domžale, Idrija and Krško, 50 offices and 95 underwriting sites or insurance agencies respectively and other underwriting sites. The entire system of ADRIATIC SLOVENICA held altogether 157 points of sale per 31 December 2005.

On 01 April 2005 the company opened a representative office in Italy, proceedings for registration of branch office were already initiated. The representative office is located in Trieste, Viale Miramare 3, and is entered in the register of Chamber of commerce in Trieste under Nr. 123477; Tax-Nr. 90106940324. Representative office has no full-time employees and does not practice insurance business.

Company's organisational structure per 31 December 2006



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3

Business Report

3.1

Economic environment in 2006

In 2006 Slovenia was to a great extent living in expectations of adopting a common European currency - Euro. Despite warnings of eventual price increase, experienced by several other countries of EMU when adopting Euro, the arrangements for adoption of the new currency ran rather smoothly and thus Slovenians entered 2007 as the first among new member countries of European Union joining the group of twelve other countries already using Euro as their national currency. Due to thorough arrangements and smooth adoption of Euro Slovenia received numerous honourable mentions from the highest representatives of European Union, and is also set as an example to other countries planning similar achievement. Notwithstanding, projections of few sceptics partially came true, as the introduction of Euro offered merchants and services suppliers a chance for minor price correction, which some of them used mainly during 2006. However, according to inflation data for first two months of 2007 IMAD (Institute of Macroeconomic Analysis and Development) estimates, that the Euro adoption itself did not cause a greater rise in general price level, the collective price increase which can be related to Euro adoption amounted to barely 0.24 percentage points.

After decrease to the level of Maastricht criterion in November 2005 the inflation in Slovenia in 2006 preserved relative stability and tended to oscillate round the achieved level. Annual inflation rate at the end of the year was thus 2.5 %, which equals the inflation at the end of 2005. In average services prices increased last year by 3.4 %, goods prices by 2.0 %, the most important inflation factor in Slovenia however represented oil prices, which could not be influenced by the government with its macroeconomic politics. IMAD estimates, that the annual inflation in 2007 and 2008 will range around 2.6 %. On the other hand, Euro

area registered 2.2 % inflation in 2006, and it is estimated to 1.8 % in 2007.

Economic growth in 2006 lied by 5.2 % and exceeded the IMAD's autumn forecast for 0.5 percentage points. The principal driving power of high economic growth was foreign trade, as the export of goods and services exceeded value of previous year for a tenth, the import however registered even by 0.4 percentage points' higher growth. Solely the export thus contributed 6.5 percentage points to the economic growth. Somewhat smaller contribution to economic growth brought the final private consumption, which increased in 2006 by 3.3 %, while the investments in fixed assets recorded as much as 11.9 % growth.

During the first three months especially investments in machinery and equipment experienced growth, while the second half-year belonged to investments in buildings. Several factors had influence on such growth, among which expose extended construction season due to mild winter, elimination of special tax relieves for investments in tangible fixed assets from 1 January 2007 and last but not least also local elections, previous to which investments in buildings, especially non-residential, traditionally increase. Most of short-term indicators of economic trends and business climate, thus in Slovenia as well as in majority of EU countries, indicate, that halfway through the year a peak of economic cycle was achieved, which will be followed by graduate slowing down of economic growth. Despite the anticipated slight slow-down of economic growth towards the end of the year, IMAD predicts as yet relatively high economic growth of 4.3 % in 2007, which is more than estimated in spring report.

In 2006, the GDP growth in Euro area achieved 2.6 %, and in EU-25 2.9 %. In comparison to autumn forecast, in

respect of high growth rates, also forecasts of economic growth for Euro area for 2007 increased, which according to estimations of European Committee should amount to 2.4 %, however also the increased estimation already indicates a slow-down of growth in Euro area.

The year of 2006 was a rather motley period for Slovenian insurance companies, thus from the view of legislative changes as well as loss experience. Above all, the beginning of the year was denoted by enforcement consequences of the Act Amending the Health Care and Health Insurance Act (ZZVZZ-H), which entered into force in September 2005. The change brought a variety of innovations in the field of health insurance, as it introduced the so called equalisation schemes in co-payment health insurance, anticipated the elimination of old-age provisions and imposed the insurance companies a refund of these to all insured, not later than till 1 September 2007, insurance companies however according to the new law had to modify the existent contracts of co-payment health insurance. The greatest novelty, experienced by the insured, was a chance to swap the health insurance supplier after one year and without complex bureaucratic procedures. As this possibility was

opened for the insured since the end of 2005, a market battle for acquiring insured was fought among the three insurance companies, suppliers of such insurances.

The loss experience in 2006 was marked at most with thunderstorms accompanied with hail, which during the last days of June devastated especially in Styria region. The state commission for hail appreciation gave a final evaluation, according to which the above mentioned storm caused losses of SIT 1.77 billion, the majority of which represented damage to buildings, and smaller part damage to motor vehicles.

The biggest structural change influencing insurance market in 2006, actually occurred already during last days of 2005, namely by merger of two larger Slovenian general insurance companies; Adriatic and Slovenica. Thus a new insurance company was established, which by the volume of written premium and 14.5 percent market share swung to the second place among classical insurance companies. The insurance company holding the highest market share experienced a fall of 1.3 percentage points, even grater fall of market share of 2.7 percentage points recorded the insurance company, holding the highest market share in the field of health insurance.

3.2

Risk management

One of the common features of all financial agents is their considerable exposure to various kinds of risk. Effective risk management is critical for ensuring stable and secure operations of the insurance company, therefore this field must be dedicated a special attention. Thus, in 2006 ADRIATIC SLOVENICA dedicated corresponding attention to risk management measurements, and especially focused on following types of risk:

Insolvency risk

Insurance company is constitutionally obliged to ensure corresponding capital, in respect of extent and lines of exercised insurance business. Insurance company fulfils legal requirements for capital adequacy, if available

capital exceeds the amount of required minimum capital, ascertained according to principles for its calculation.

Insurance company ADRIATIC SLOVENICA stated per 31 December 2006 in the field of non-life insurance a surplus of available capital above the minimum in the amount of SIT 4.370 million. In the field of life insurance came to an increase of mathematical provisions by SIT 148 million, due to adjustment of discount rate, used in mathematical provision calculation, with market interest rate. Nevertheless the company states excess of required life insurance capital by SIT 225 million.

Notwithstanding the expiry of transitional period on 20 March 2007, defined by Act Amending the Insurance Act (ZZavar-B), within which modified provisions of ZZavar-B for capital adequacy calculation were not yet fully implemented, the company will continue to

demonstrate an excess of capital adequacy, whereto also an undistributed profit for the financial year 2006 will contribute, which according to legal requirements was not yet taken into consideration for capital adequacy calculation by situation per 31 December 2006.

Insurance risk

Insurance company manages the insurance risks with appropriate reinsurance and by establishing corresponding technical provisions.

Reinsurance allows insurance companies to conclude insurance businesses above their own capacities, or underwriting above retention respectively, thus in case of individual as well as aggregate exposure to natural and other insurable perils, ensuring at the same time solvency and liquidity of operations, and thus represents one of the essential elements of risk management in insurance.

For financial year of 2006, ADRIATIC SLOVENICA following the principle of prudence, adjusted the amount of underwritten insurance retention, till December of previous year yet detached companies Adriatic and Slovenica, and ensured an optimal extern balance of joined insurance portfolios within a form of uniformed reinsurance protection programme for risks exceeding own capacities, and in this manner effectively managed risks.

Programme of planned reinsurance consists of traditional proportional and non-proportional reinsurance forms and so remains unchanged in respect of financial year 2005, thus by structure as well as by scope of covers, when Adriatic and Slovenica within the acquisition process for the first time organised a uniformed joint reinsurance programme. In the field of protection and development of insurance portfolio, ADRIATIC SLOVENICA works closely together with world recognized reinsurers. Reinsurance protection for 2006 was just as in previous financial year arranged at leading world reinsurer Swiss Re and the biggest domestic reinsurer Sava.

In discussed financial year SIT 2.3 billion (EUR 9.7 million) of reinsurance premium was brought away to extern retention, or 11.4% more in respect of the year

2005. Premium in extern retention represents 6.3% of gross written premium of other non-life and life insurance, which is a bit less than 0.3 percentage points more in respect of the year 2005.

Accounted shares of reinsurers in indemnities and compensations in 2006 amounted to SIT 972 million (EUR 4 million), or 20.6% less in comparison to previous year respectively.

A reduction of inflow from reinsurance is a reflexion of transformation impact of proportional reinsurance protection of Adriatic in 2005 on the reinsurance result of the discussed year. Not complying with this fact, the accounted reinsurers' shares in indemnities and compensations in 2006 would increase by 8% in respect of previous financial year.

Reinsurance is an instrument of insurance risk transfer, therefore as a rule a reinsurance result during years with positive loss experience affects a total operating result of the insurance company in the negative, while a positive reinsurance influence on a total operating result is reflected during the years with disadvantageous loss experience, either in case of natural perils realisation in larger extent or in case of bigger individual loss events.

Insurance company is obliged, regarding all exercised insurance business, to set adequate **technical provisions**, designed for covering future liabilities from insurances and eventual losses due to risks arising out of exercised insurance businesses. Insurance company concluding life insurance or accident or health insurance respectively, for which similar methods and calculations are used as for life insurance, must with reference to these insurance set also mathematical provisions. The appropriate amount of technical provisions, ensuring permanent fulfilment of all insurance company's liabilities from insurance contracts, was confirmed by certified actuary.

In 2006, the company increased the state of technical provisions, including life insurance provisions, where the investment risk is born by the insured, by SIT 3.944 million in respect of the previous year.

More information on technical provisions is stated in Financial Report in Disclosures to Balance Sheet.

Liquidity risk

This is a risk, that the insurance company in certain moment of time will not possess sufficient liquid assets to settle its current liabilities or to maintain its current operations respectively. Due to unpredictability of loss experience the abovementioned risk is especially present within the scope of non-life insurance or pecuniary insurance respectively. Insurance company ensures the fulfilment of current liabilities through corresponding dispersion of liability funds investments.

Insurance companies are obliged to weekly monitor liquidity through calculation of liquidity quotient, separately for individual long-term business funds as well as for liability fund. Calculation method of liquidity quotient requires such investment politics (thus by type as well as by time limits of investments), as to insurance company is able to regularly settles its liabilities. If the required height of liquidity quotient is not reached, Insurance Supervision Agency must be notified thereof. Based on analysis of calculated liquidity quotients for 2006, ADRIATIC SLOVENICA achieves the height of liquidity quotients, which greatly exceed the required height.

Interest risk

It is a matter of risk of changes in interest rates and to a great extent also of risk of reinvesting, to which the insurance company is exposed especially in long-term life insurance contracts with guaranteed interest rate. If the time limit of the investment, which is meant to cover such technical provisions, is shorter than liabilities, the insurance company will have to substitute the above-mentioned investment after expiry with a new investment. There is therefore a risk, that it will not be able to obtain such investment on the market at that very point of time. Insurance company monitors future liabilities on one hand and time limits of investments on the other. In connection therewith we create our investment policy in such manner, that especially assets from life insurances are mainly invested in long-term loan-stock with fixed yield.

Currency risk

This is a risk, that a change of exchange rate will influence the value change of assets and liabilities. If the insurance company's liabilities, arising out of contracts nominated in foreign currency, have no corresponding cover in investments of the same currency, it may happen, that the liabilities due to growth of exchange rates will grow faster than investments. Insurance act determines a currency adjustment of liabilities and investments of minimum 80%. Permitted exposure to currency risk is thereby already by legislation limited to the least possible degree.

Credit risk

In general it is a matter of risk that the debtor shall not pay the principal and appurtenant interests. ADRIATIC SLOVENICA reduces a credit risk by credit ratings of loan-stock drawers, investments into loans however it reduces to the least possible amount. In case of granting loans it requires a quality and high enough mortgage guarantee or guarantee of first-rate securities. Also Insurance Act determines ways and heights of investments into loan-stock and loans, which are limited thus by the amount of individual type of investment as well as by exposure towards the individual drawer.

To the credit risk exposure it also comes at deferred premium payments, for which the risk exists, that they will not be paid when due. The company reduces this risk with rules regarding approval of instalment premium, as well as with active recovery. With active recovery the company reduces also credit risk from recourse claims, to which it is entitled on the subrogation basis; a part of recourse claims from credit insurances is also insured with mortgages.

Market risk

It is a matter of risk that the price or interest rate of investments, which insurance company has in its portfolio, will change. The insurance company reduces

the exposure to this risk with appropriate investment politics, monitoring occurrences on capital markets and appropriate dispersion of investments.

Other risks

In its activity the company is exposed also to several other risks, as e.g. operational risk, "event" risk, inflation risk, and political risk... We estimate that the exposure to such risks in the fields of our operations is low, therefore we will not make any comments on them. Noteworthy risk represents only introduction of new information

system, due to which company is exposed to increased operational risk.

In 2006 the insurance company has in accordance with the provisions laid down in the Insurance Act (*ZZavar*) regarding risk management calculated quarterly the amount of capital, capital requirements, capital adequacy, the amount of technical provisions, the value of liability fund and established types, dispersion, adjustment and localisation of liability fund investments or long-term business funds respectively as well as intermediated to the Insurance Supervision Agency the insurance-statistical data.

3.3

Business analysis, presentation of company's financial result in 2006

Financial year 2006 represents the first year of joint operation of consolidated insurance company, after the merger was entered in court register in 29 December 2005 and the consolidated insurance company also formally began to operate jointly. In 2006 first consolidation processes of business processes, workforce, premises and information technology took place. In the field of insurance the company dedicated special attention to unification of insurance products of both companies. While at the beginning of financial year 2006 the company was formally consolidated, and the business processes actually ran separately, came at the end of the year to consolidation of majority of business processes. Immediately after formal merger a special attention was dedicated to the relationship towards insured, to whom we had to enable immediate operations as consolidated unified company, although support business processes in the background still ran separately.

Despite of urgent concern with internal consolidation, the company did not neglect the market. In 2006 the company thus ascended the second place among Slovenian insurance companies and increased its market share by 0.6 perc. point, to 14.5%. For somewhat less than 1 perc. point the company increased its market share on the life insurance market, where it achieved 3.9% market share, as well as on non-life insurance market, where it achieves 18.3% market share.

In 2006 the company met favourable conditions in the environment, where no larger or above-average frequently natural and other perils occurred. Beside that, the company was on account on consequences of major business decisions from previous financial year, when even before the merger Slovenica d.d. cancelled several credit insurance contracts due to larger losses, and at the same time it set additional technical provisions within the credit insurance line as well as in several other insurance lines with poor loss ratio, and for which the company suffered a high loss in the field of non-life insurance in 2005, enabled in 2006 normal operating without burden of worse results on account of policies concluded in previous years.

In 2006 the company increased gross written income from premium by 17%, whereat a distinctive increase experienced written premiums of life insurance (by 48%) and health insurance (by 42%).

Life insurance premiums increased to a great extent on account of special action by marketing unit-linked life insurance with a lump-sum premium payment and principal guarantee "Azija Garant"; the company gathered within three autumn months a premium of ca. SIT 932 million. Even so the market experienced substantially greater demand for unit-linked life insurance than for classic life insurance, where the premium volume increased merely by 3% in comparison to previous year. By 50% the company

increased also income of pension insurance (insurance line capital redemption policy), nevertheless it remains just a small actor on the pension insurance market.

Due to modifications in health legislation (ZZVZZ-H) the playing cards on the co-payment health insurance market were well mixed since 1 March 2006; namely the law defined, that the insured may cancel existing insurances without consequences till 31 December 2005, also long-term insurances, and conclude new insurances with another insurer commencing to take an effect on 1 March 2006. Consequently at the end of 2005 a battle with intention of gaining as many new insured as possible was at its height in media and other advertising means. From 1 April 2006 the modified legislation introduced also equalisation schemes, where differences in loss frequency between insurance companies due to different age and sexual structure of insured are equalised. An important novelty of modified legislation is also, that all insured of a certain insurance company must have equal premium, whereat 3% discount at the most is allowed. Due to modified legal requirements the company unified the premium of all insured from 1 March 2006 onwards; monthly premium is thus due to equalisation introduction and market reasons rather similar at all suppliers of co-payment health insurances. The premium of majority of the insured rather increased, as the company had to calculate into price also anticipated equalisation liabilities due to less favourable age structure of competitive insurance companies. Furthermore, total premium volume rather increased due to acquirement of 52.500 new insured - war veterans, to whom the premium is paid by the state. Altogether the gross written premium of co-payment health insurance increased by 44% due to larger number of insured and due to substantial raise in premium.

As expert departments were occupied with co-payment insurances during the preparation period of modified health legislation in during the adjustment period to its requirements, expert departments were therefore not as much occupied with other health insurances, which is reflected in 2006 in stagnation of extended health insurance. To wit, in 2006 the expert departments developed a new insurance for shorter waiting periods, which was placed on the market at the end of the year and

therefore in 2006 it did not yet begin to live on the market. The premium for health insurance abroad with assistance was increased by 22%.

Written premium of non-life insurance, without health insurance, was increased only by 3% in 2006, which mainly results from cancellations of several credit insurance contracts in 2005. Without taking into consideration credit insurances, the premium of other non-life insurances would increase for almost 7% in 2006, which is somewhat more the market increase (6.2%). Otherwise, following insurance lines suffered the greatest increase: land motor vehicles insurance and other indemnity insurance (by 13%), general liability insurance (12%), fire insurance and natural hazards insurance (10%). Even more, by over 40% or 30% respectively increased the insurance lines Legal expenses insurance and assistance insurance, which however represent together only 0.3% of total non-life insurance premium, without health insurance. The most important insurance line remains Motor Third Party Liability Insurance with a share of 43%, followed by land motor vehicles insurance with a share of 23% and accident insurance with a share of 13%. All other insurance lines have an individual share of less than 10%.

Due to favourable loss experience the net claims incurred for non-life insurances, except health insurance, even decreased by 1% in 2006. In the field of life insurance the decrease is considerably higher (by 16%), which is primarily influenced by policy expiries and not that much by indemnity payments due to loss event occurrence - death or bodily injuries respectively.

Net claims incurred for health insurance increased by 98%, influenced by numerous factors: obligatory refund of old-age provisions to beneficiaries (in accordance with ZZVZZ-H) in the amount SIT of 2.86 million, payments from equalisation in the amount of SIT 419 million, more than 50,000 new insured, as well as simultaneous price rise of medical services.

Net operating expenses increased by 3% in 2006. Acquisition costs increased by 13% and working costs by 1%. These two kinds of costs represent together as much as 68% of all net operating costs. Redemption costs decreased by 6%. The highest increase was achieved by expenses for services of individuals, who do not exercise their operations

(24%), together however they represent only 1% of all costs. Other operating expenses decreased (by 1%), just as well income in respect of reinsurance commissions (by 3%). Due to different business volume increases of various insurance scopes the costs of individual fields ranged distinctively diverse in 2006: while net operating costs of non-life insurance, without health insurance, nominally decreased by 2%, the costs of life insurance increased by 20%, and of health insurance by 11%.

Investment income increased altogether by 17%, which was beside security price rise also influenced by change of SRS, which for certain investment groups (marketable securities) introduced revaluation on the fair value through profit and loss account. Investment charges reduced vigorously, namely by 73%, which was influenced by extensive write-offs and value adjustments on investments in 2005. Investment return is thus higher by 55% in comparison to previous year.

Balance on the technical account from non-life insurance, without health insurance, in 2006 amounts to SIT 3.817 million and is substantially improved in comparison to previous year, when it stated a negative value.

Balance on the technical account from life insurance amounts to SIT 274 million; it is reduced by discount rate limitation in mathematical provision calculation to 4% at most (in 2005: max. 4.1%), which affected by SIT 148 million higher charges in respect of mathematical provision increase, than without this limitation. Thereby the discount rate was ultimately adjusted to the current level of market interest rates. In 2005 the company accomplished a limitation reduction from 4.9% to 4.1%, which resulted in a SIT 1,117 million of additional mathematical provision settings and consequently in negative balance of the technical account from life insurance. However, without the adjustment the company would in 2005 achieve a positive balance of the technical account from life insurance in the amount of SIT 117 million. Also without taking into consideration various impacts of discount rate limitation in 2005 and 2006, the company would more than double the balance of the technical account from life insurance in 2006. From 1 January 2006 the modifications of health legislation introduced also a change in keeping a record of balance of the technical account of these insurances:

henceforth the result of co-payment health insurance needs to be stated separately, of which one half of positive balance of the technical account obligatory needs to be assigned to a purpose of executing these insurances; one half of positive balance of the technical account from co-payment health insurance shall thus not be taken into consideration in establishing total balance of the technical account from health insurance. In 2006 health insurances thus achieved a balance of the technical account in the amount of SIT 446 million, which is considerably less than in 2005, when the company set free SIT 2,481 million of technical provisions for other liabilities and risks of co-payment health insurance. Nevertheless, due to various reasons (equalisation, price increase of medical services, half of balance of the technical account from co-payment health insurance needs to be assigned to a purpose of executing these insurances) the company achieved a lower balance of the technical account, as it would in the previous year, even if it hadn't set free technical provisions for other liabilities and risks of co-payment health insurance. In 2006, for the first time the balance of the technical account from co-payment health insurance was calculated, and achieved the amount of SIT 92 million.

Total operating result before taxation amounts to SIT 4,690 million, which regarding SIT 1,455 million of tax liabilities and SIT 26 million of deferred taxes, represents a net company's result in the amount of SIT 3,235 million, which is thereby more than doubled in comparison to the previous year, when it amounted to SIT 1,252 million.

After the change of the health legislation, it is required in 2006 to separately present assets and liabilities of co-payment health insurance in the balance sheet.

The extent of assets managed by the company per 31 December 2006 amounts to SIT 81,657 million, from which SIT 15,136 million refer to life insurance and SIT 66,521 to property insurance, from which SIT 8,763 million relate to co-payment health insurance.

The company's capital per 31 December 2006 amounts to SIT 17,060 million and increased in 2006 due to the additional capitalization of SIT 3,007 million and due to achieved net business result in 2006 of SIT 3,235 million. The company has also SIT 960 million of long-term liabilities from issued bonds, which have the character of

subordinated debt and which can be in a limited amount considered as additional capital in capital adequacy calculation.

Technical provisions represent the most extensive liabilities for the company. Per 31 December 2006 the net technical provisions amount to SIT 51,108 million, next to them also technical provisions on behalf of life insured who take the investment risk have to be taken into account in the amount of SIT 2,410 million.

Assets from technical provisions are invested in various financial investments, according to the provisions of the Insurance Act, which state the allowed investments. Investments in land and buildings as well as financial investments per 31 December 2006 amount to SIT 63,624

million, pecuniary means amount to SIT 418 million and investments on behalf of life insured taking the investment risk amount to SIT 2,451 million.

By the amount of company's assets follow the debts, which per 31 December 2006 amount to SIT 13,325 million, from which only SIT 247 million relate to life insurance. The value of tangible and non tangible fixed assets and stocks together amounts to SIT 938 million.

Under exclusion of the capital, subordinated debt and technical provisions, other liabilities amount to SIT 7,970 million. Beside that the company has among liabilities another SIT 1,119 million of accruals and deferred income and on the side of assets prepayments and accrued income in the amount of SIT 291 million.

3.4

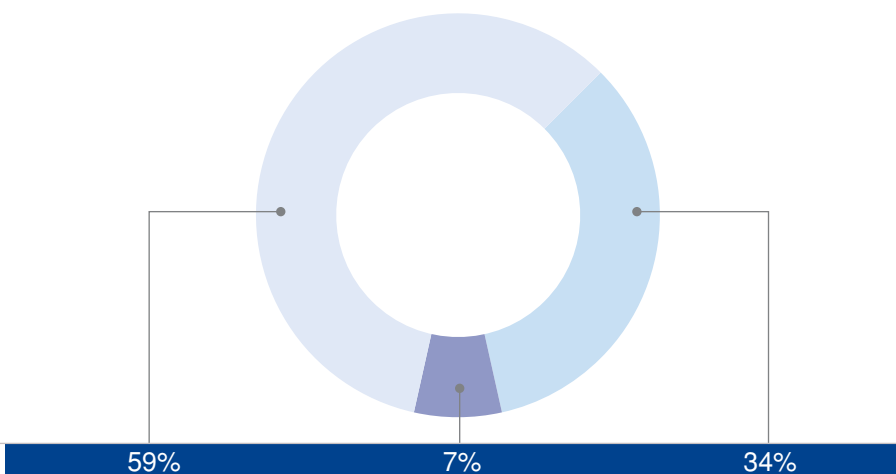
Operation and outline of insurance lines

The insurance company offers a complete pallet of quality insurances and modern assistance services in Slovenia and builds with its insured long-term partner relationships. In insurance company in the sense of

written premiums in 2006 the field of non-life insurance is the one most extensive followed by health insurance and then life insurance.

Premium structure by insurance fields

- Non-life insurance [59%]
- Health insurance [34%]
- Life insurance [7%]

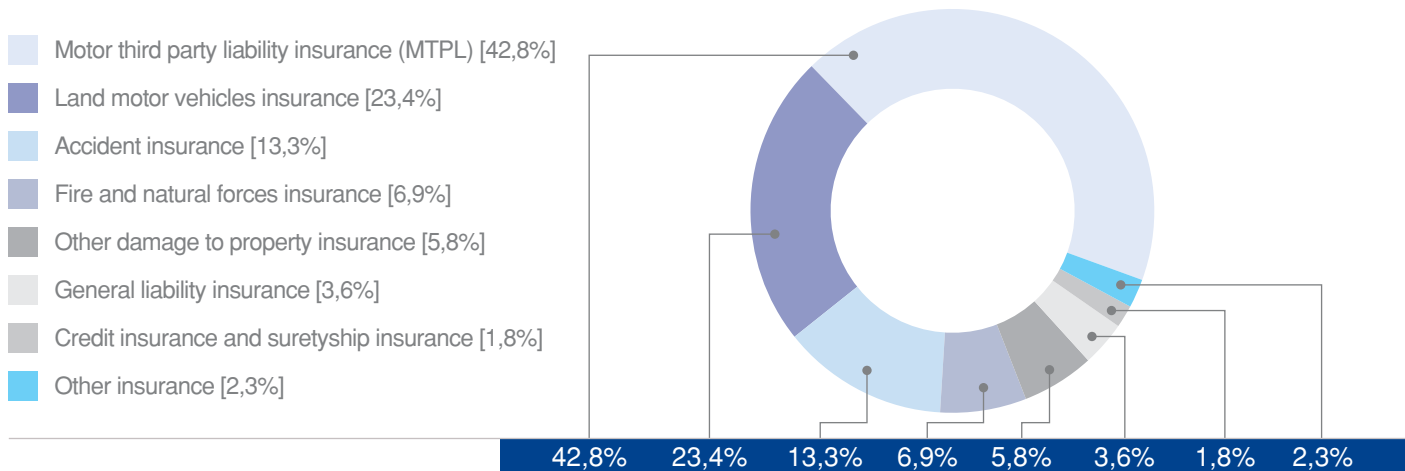


Non-life insurance

Insurance of property and services is the most extensive field of Adriatic Slovenica's performance, representing a material business activity, which preserves value of existing property for natural persons as well as legal

entities, by effective managing of accumulated premiums however we also create new property. Regarding the written premium in 2006 the most extensive insurance line is MTPL insurance (motor third party liability insurance), followed by motor vehicle insurance, accident insurance, fire insurance.

Premium structure in non-life insurance

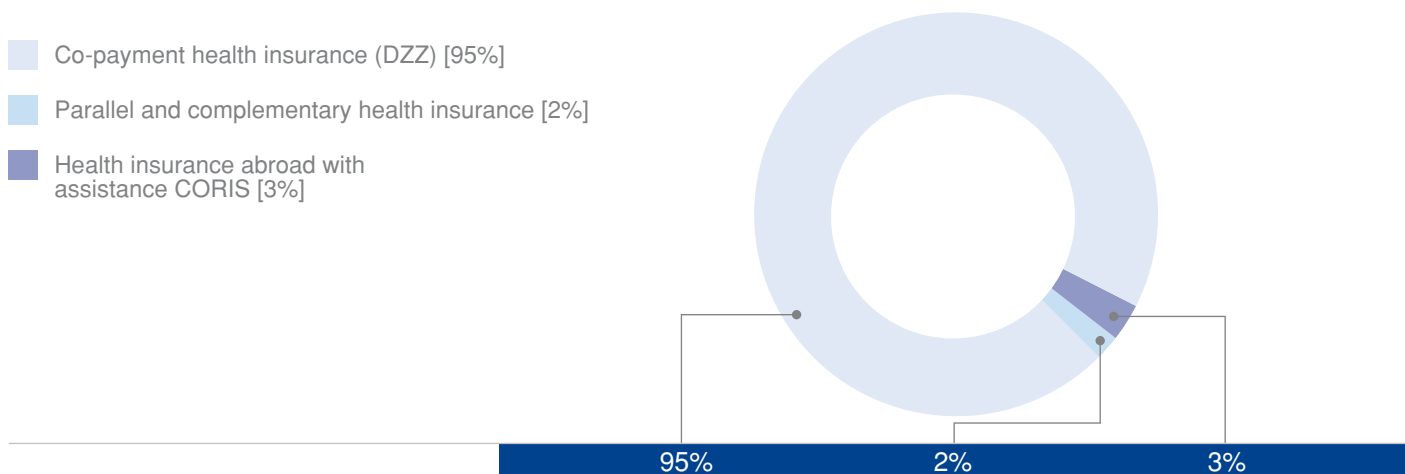


Health insurance

Adriatic Slovenica provides a most diversified offer of health insurances developed in compliance with

legislative provisions and it adjusts their offer to the needs of individual target groups.

Premium structure in health insurance



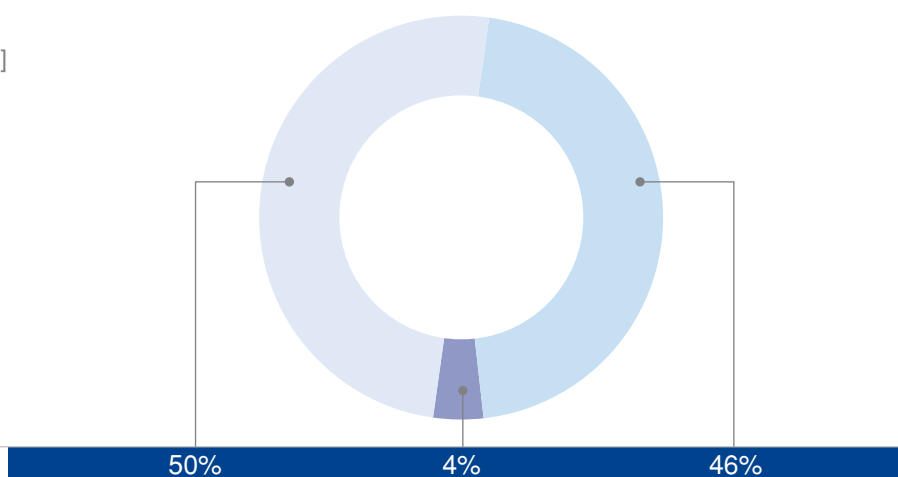
Life insurance

We provide to customers an ample, flexible and advantageous life insurance offer designed to meet their need for safety or savings at any period of their lives. The scope of insurances opens the door to numerous possibilities tailored to different requirements of each

individual. Insured are free to mould their insurance to their lifestyle, to all crucial life situations, their financial abilities, and goals they are eager to achieve. When concluding life insurance we offer customers individual treatment and a helping hand in choosing their insurance “made to measure”, and at any time when they need a professional advice.

Premium structure in life insurance

- Endowment and term life insurance [50%]
- Unit-linked life insurance [46%]
- Voluntary additional pension insurance (pension annuity) [4%]



3.4.1

Health insurance

Operations in 2006

In 2006, under 21 percent growth of the insured number, a 42-percent premium increase was registered in comparison to the previous year; SIT 18,758 billion were collected. In the structure of entire written premium of Adriatic Slovenica these insurances represent a 33.5 percentage share.

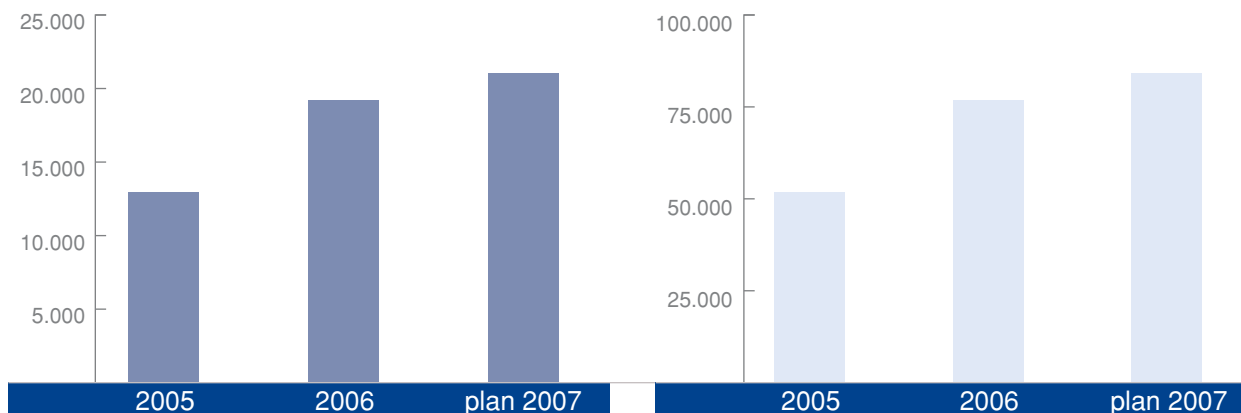
In the field of co-payment health insurance the year 2006 was marked by the introduction of equalisation schemes. Equalisation schemes enable equalisation of differences in expenditures for medical services between insurance companies, which are a consequence of different structures of their insured according to the age and sex. The Health Care and Health Insurance Act also imposed to all insurance companies to pay to their insured old-age provisions, which formation is no longer necessary under the new Act.

The field of health care and health insurance was in 2006 influenced by different bills. In August a bill of the long-term care and long-term care insurance Act was brought in to public discussion. This Act anticipates insurance for people who need assistance in attending one's basic life activities. The Act was afterwards temporary withdrawn from discussion. In the preparation was sent a novel of the Health Care and Health Insurance Act (ZZVZZ), which will additionally change the health legislation in the field of adrenaline sports and socially weaker population. In 2006 we introduced a new parallel health insurance to health insurance market, which enables a specialist medical examination without queuing. The insurance was named “For shorter queuing” and was positively accepted on the market.

Premium volume trend

(in SIT million)

(in EUR '000)



Development

The new health insurances are essentially conditional on eventual legislative changes, which are forecasted by the Ministry of health. The performance of co-payment health insurance remains unchanged, therefore we direct further development of voluntary health insurance mainly to co-payment and parallel health insurances. We are supplementing our offer of voluntary insurances according to the latest bills formed by the Ministry of health, thus we permanently follow and analyse all eventual opportunities which will be brought by the announced changes to offer our insured as much as possible.

After the positive market reaction to our new parallel health insurance we decided in the field of health insurance to strive our best in the future for the improvement and enlargement of this insurance. However, we continuously adapt the existing offer of co-payment health insurance to the market needs and to individual target groups.

Outline

Adriatic Slovenica offers three of four types of voluntary health insurance which are provided by the Health Care and Health Insurance Act, namely co-payment health insurance, additional health insurance and parallel health insurance.

Co-payment health insurances

Co-payment health insurance covers the difference between the value of health services according to Article 23 of Health Care and Health Insurance Act and a share of this value, which is according to the same Article covered by the compulsory health insurance or the share of this difference respectively, when the additional payment refers to the right to medicines from the list of interchangeable medicines and medical-technical remedies. The insurance shall not cover the difference in price of medicines above the highest recognised value of interchangeable medicines, determined by Health Insurance Institute of Slovenia.

Complementary health insurances

Complementary health insurances shall cover costs of health and therewith related services as well as supply of medicines and medical-technical remedies and for payment of money receipts which are not constituent part of rights from compulsory health insurance and are neither co-payment nor substitution health insurances.

It comprises insurance of prolonged orthopaedic rehabilitation in orthopaedic hospital Valdoltra, insurance of above-standard dental materials, above-standard ophthalmic remedies, above-standard orthopaedic remedies, self-paid prescription medicines insurance, insurance of hospital daily allowances, insurance of prolonged health resort treatment, insurance of child escort hospitalization, insurance of the above-standard accommodation in hospital and health resort treatment, insurance of cosmetic surgical operation, dental above-standard, insurance of hospital daily allowance, compensation for the care of closer family member and insurance of compensation for care of pre-school child.

In Adriatic Slovenica we offer also health insurance abroad with the assistance CORIS, which covers costs of

health treatment and transportation in urgent cases. Various extent of services is possible with the wide spread network of representatives worldwide. This insurance line is also considered as complementary insurance.

Parallel health insurances

Parallel health insurances cover costs of health and health related services and supply of medicines and medicine-technical remedies, which to wit are a right from compulsory health insurance, yet are claimed by the insured through different procedures and under different conditions as prescribed by the compulsory health insurance. Insurance company Adriatic Slovenica offers within this insurance group an insurance of self-payment services in specialist dispensaries C01 under market name "Insurance for shorter queuing".

Health insurances are now modelled according to needs of specific target groups (packages Top sportsman, Careless motherhood, Youngsters, Health and comfort, For mature years, etc.). Revaluation of existing target groups and acquired evaluations will form a basis for new contents of health insurances.

3.4.2

Life insurance

Operations in 2006

Written premiums of life insurance increased in 2006 by 47.7% in comparison to previous year. The year was motley in all fields of business. Lots of energy was dedicated to intensive trainings of our agents. We did our best to professionally support the marketing field, as knowledge of product seems to be an important entry to quality marketing of the widest life insurance pallet.

In the field of insurance products we managed to harmonize all General conditions with the legislation and requirements of Insurance Supervision Agency. Due to long terms of life insurance contracts an efficient arrangement and execution of changeover to the Euro is especially important.

To the market we offered a new unit-linked life insurance

with principal guarantee at endowment - VITAFOND AZIJA GARANT, namely in cooperation with one of the biggest European banks - Deutsche Bank AG. A modern, single insurance with saving in hedge funds is a novelty on our market. It was well accepted by the insured, as it represented a genuine market success.

At the end of the year we also launched a new, package insurance selling and we enriched VITAFOND insurance with attractive offer of extended health insurances. Additionally, we extended the range of mutual funds offered to the insured by VITAFOND.

Together with Slovenica Življenje d.d. and KD Group we began arrangements for new unit-linked insurance VITAFOND NALOŽBENI PAKETI (Vitafond

investment packages) with an aim of product unification with Slovenica Življenje and achievement of synergic results of all members within KD Group.

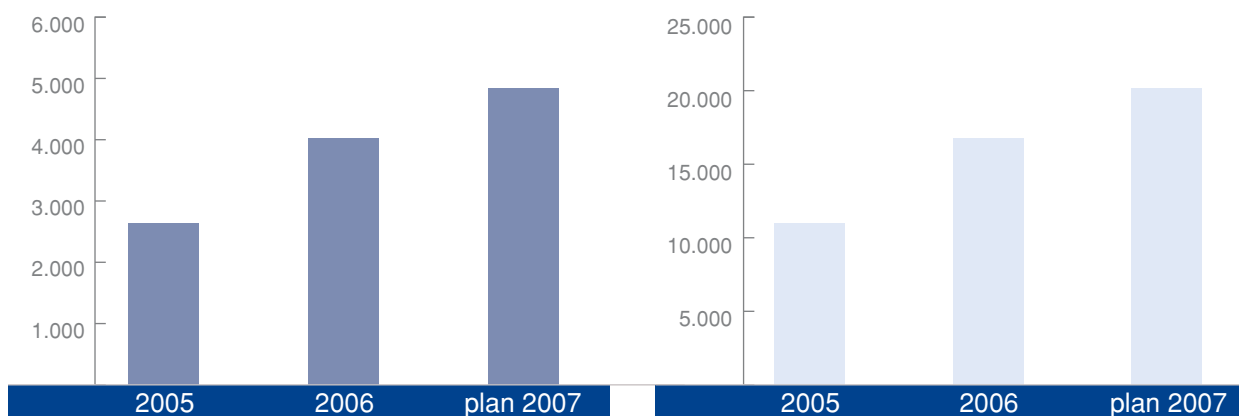
Our cooperation with Kapitalska družba in pension

annuity offers at endowments of voluntary additional pension insurance of Kapitalska družba was successful, whereat we see our new opportunities for the future.

Premium volume trend

(in SIT million)

(in EUR '000)



Development

Yet at the beginning of the new financial year we shall offer in 2006 developed modern and quality unit-linked life insurance to the market, under brand name VITA FOND NALOŽBENI PAKETI (Vitafond investment packages). Investment package (conservative, balanced and dynamic) is a choice of investment funds from the range of funds, managed by KD. Each package shall be composed of five or six investment funds in diverse ratio. The investment policy of the package is determined in advance, by choosing it however the insured ensures himself greater investment dispersion, possibility of achieving target return and entrance into active management of his property.

In spring and autumn we shall prepare new actions of a single unit-linked insurance with principal guarantee at endowment VITA FOND AZIJA GARANT.

It is our wish to enrich an extensive and contemporary life insurance offer with several additional varieties,

designed for certain target groups. The challenge represents a connection with banks and such forms of life insurance, which will be marketed in package with credits.

Outline

Vita AS - classical, i.e. endowment life insurance, combining saving and insurance function. The insurance gives cover for case of endowment or death within insurance duration. At endowment, at the end of insurance period, the insured receives the agreed sum insured and indorsed surplus from assets return. In case of insured's death before the expiration of insurance period AS shall pay to the insured the agreed sum insured for case of death and indorsed surplus from assets return.

Vita AS Plus - endowment life insurance with additional benefit, as the insurance function is expanded with coverage of **critical illnesses**. Beside the endowment life insurance within insurance duration, the insurance offers to the insured an immediate payment of 50% of agreed

sum insured, if during the insurance duration the insured falls sick with one of the critical illnesses (stroke, heart attack, cancer, assistance dependence and surgery needed heart diseases). At the occurrence of critical illness the obligation of premium payment ceases, the rest of the sum insured however is paid in case of death or endowment of the insured.

VitaFin AS For Lifetime - whole life insurance for case of death is insurance for case of insured's death and is designed primarily for covering funeral costs. The beneficiary is paid out an agreed sum insured irrespective of when the insured dies, even in case that the premium payment period already expired.

VitaFin AS Fixed Term – term life insurance is an insurance for case of death for agreed period of time. The beneficiary is paid out an agreed sum insured for case of death if the insured dies within the insurance period.

VitaFin AS with decreasing sum insured – life insurance for case of death with decreasing sum insured is a life insurance for case of death, concluded by the insured in connection with a credit agreement. The sum insured may be adjusted during insurance duration with the amount of outstanding liability part from the credit agreement. If the insured dies during the insurance period, insurance company shall pay the agreed sum insured for case of death, in force at the time of insured's death.

VitaFond AS - Unit-linked life insurance offers a cover for case of endowment or death within insurance duration. At endowment, at the end of insurance period, the insured receives the asset value, linked to the investment value in mutual funds, chosen by the insured. 11 funds are at his disposal: Galileo, Rastko, KD Bond, KD Prvi izbor, KD MM, KD Balkan, Pika, Živa, Modra linija, PS Optima and MP Global. Life insurance with investments into mutual funds enables the insured to actively enter the investment policy of his property. Beside security, as the insured selects also a sum insured for case of death, this insurance gives also a chance of higher yield and exceptional adaptability to the insured's

needs and capacities. In the insured dies before the expiration of insurance period, insurance company shall pay to the beneficiary the agreed sum insured for case of death or asset value respectively, if higher that agreed sum insured for case of death.

VitaFond Azija Garant - single unit-linked life insurance with principal guarantee at endowment. It offers an insurance protection to the insured, as the insured is life insured in the amount of 110 % of a lump-sum premium, a guaranteed payment of a principal in case of endowment, guaranteed by Deutsche Bank AG, and a chance of achieving high returns in hedge funds. Under the term hedge funds we understand newer forms of investment funds, which in investing assets follow one or more alternative investment strategies.

Additional accident insurance may be concluded together with all previously listed life insurances. Coverage and sums insured offered are also extra flexible, compliant to the needs and capacities of customers. The insured may choose among following covers: death for accident, death in a traffic accident, disablement for accident, daily benefits, daily hospital benefits for accident, daily hospital benefits for illness.

Temporary annuity insurance is primarily a form of saving, meaning an income source for a certain period of time, the insured however determines a saving period and an annuity payment period.

Pension annuity is a form of pension insurance or annuity insurance for life respectively. It assures the insured of receiving pension annuity till moment of death, however if the insured dies within the time of receiving pension annuity, it ensure the beneficiary also of receiving a survivor's pension annuity, if the insured concluded an insurance with guaranteed period of pension annuity payment. It is an extra flexible product, which can be adapted by the insured during entire premium payment period till the commencement of pension annuity receiving, the insured however may also decide upon three various forms of annuity payment.

AS Pension Foundation - Voluntary additional pension insurance is based on Pension and Disability Insurance Act. It is designed to save for acquirement of additional pension and ensures a payment of pension for lifetime. Pension foundation is a collective pension scheme and companies wishing to provide for their employees may join the scheme with at least 51 per cent of all employees. Through this insurance means are invested to personal pension accounts of employees. Means paid in bear an interest with guaranteed yield amounting to at least 60% of interest rate on treasury bonds with maturity

over a year. On the basis of collected means an additional pension shall be calculated, when the insured retires. On the other hand, paid in premiums reduce basis for tax on company profits payment, as it provides for welfare of its employees. Paid in premiums shall not be charged with contributions and taxes.

3.4.3

Accident insurance

Operations in 2006

With SIT 4,4 billion the accident insurance comprehends a structural share of premium of 7.9%. Gross written premium of accident insurance increased in 2006 in comparison to previous year by 3.2%. The biggest increase of 6.8% is annotated in personal insurance

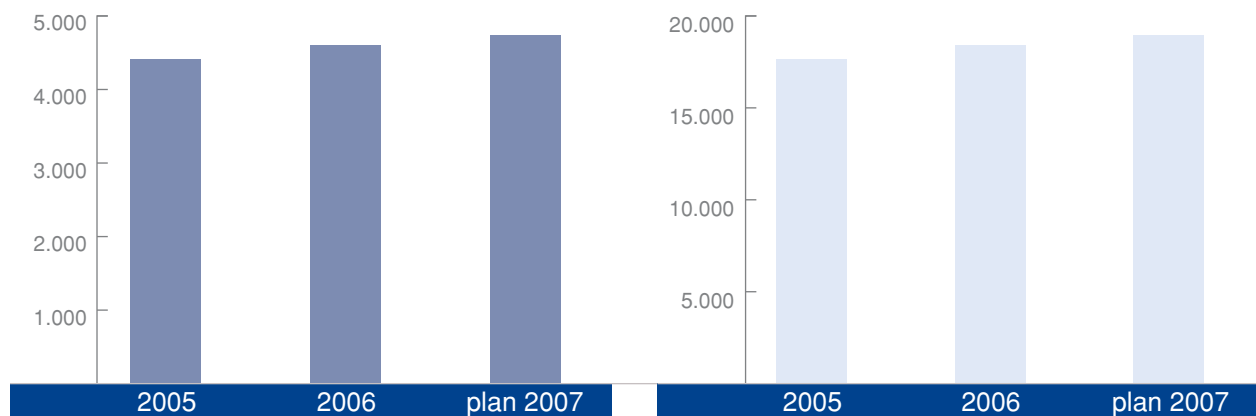
against accidents at and outside regular work as well as in motor driver and passenger personal accident insurance (8.9%).

Volume of losses from accident insurance decreased in comparison to 2005 by 10.3%, which results from clearing the insured portfolio and concluding insurances with limited insurance cover.

Premium volume trend

(in SIT million)

(in EUR '000)



Development

This insurance line offer shall in 2007 be adapted to new market needs, which means, that insurances shall be developed, at the same time existing covers shall be adjusted. Therefore we shall offer a unified, common product, designed to follow market requirements and to consider previous loss experience.

Even more we shall emphasize concluding online insurances, where for now children and schoolchildren accident insurance is successfully been marketed, likewise loss occurrence can be notified through web sites. Asserted conclusion through web sites shall be completed by household members' accident insurance.

Accident insurance shall further on be built in various kinds of package insurance, like family insurance on Superstan policy, car accidents on AO policies and accident insurance on marine hull insurance policy.

Special attention shall also be dedicated to development of after-sale activities, so that existent insured shall regularly be notified of all novelties on the market, even more attention however we shall dedicate to quality and correct claims handling.

Insurance outline

Through accident insurance the insured reduces financial consequences of accidents and provides for proper financial security and security of his closest relatives. Thereto the insurance enables the insured to provide him in case of accident such type of care, which will efficiently reduce negative consequences of the accident. Personal insurance against accidents at and outside regular work is from market point of view the most interesting product offering insurance protection of employees in companies. Within the scope of these insurances we offer complete insurance for employees

and their family members.

Among other accident insurances the most important one is motor driver and passenger personal accident insurance, which is marketed as a package together with motor vehicle insurances. Beside motor driver and passenger personal accident insurance we offer as a part of a package a driver and car owner accident insurance (AO plus), which represents a supplementary insurance to a Motor Third Party Liability Insurance, and is intended to insure the driver.

Children and schoolchildren accident insurance is one of more important insurances, beside insurance function the purpose of this insurance is also to educate youngsters about insurance and awareness that their security may be provided with quality accident insurance.

Other accident insurances are accommodated to various target groups, e.g.: accident insurance of sports associations and clubs members, recreative sportsmen, competition participants, members of hunting and fishing families, accident insurance of voluntary rescuers, accident insurance of hotel guests, baths guests, visitors of cultural artistic and sports performances, tourists and holiday visitors, accident insurance of consumers and cardholders, newspaper subscribers as well as compulsory insurance of passengers in public traffic.

Beside basic insured perils like disability and death the insured most often among insurance covers choose also daily benefits due to an accident, daily hospital benefits due to an accident, and daily benefits in case of spa treatment due to an accident. In addition to the above-mentioned risks, insured can also conclude insurance for case of death in a traffic accident, reimbursement of medical treatment expenses, funeral costs in case of insured's death due to an accident, and reimbursement of attendee accommodation expenses in children/students personal accident insurance.

3.4.4

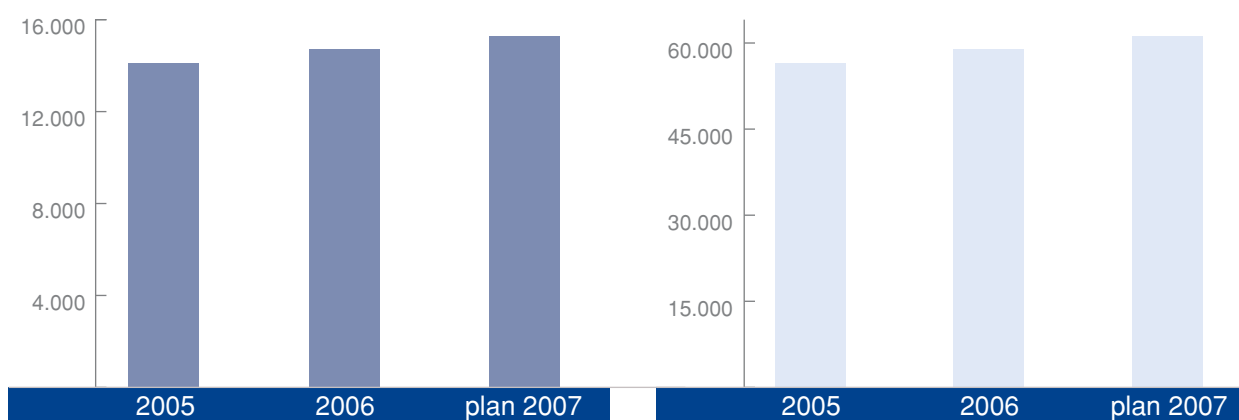
Motor third party liability insurance (MTPL)

Operations in 2006

In 2006 the premium growth in this field was rather slowed down, with lower increase (3.0%) in respect of previous year, when the increase was 8.5 %. To wit, the index of settled claims in comparison to previous year amounts to 97.0, but under consideration of claims reserve change it

rises to the value, similar to annual premium growth. A trend of premium growth slowing down is to be expected also in 2007, as well as a decrease of average premium in case of premium differentiation introduction. In loss experience we expect a higher index than the one achieved, mainly due to price rise of services and higher compensation claims because of sums insured increase.

Premium volume trend (in SIT million) (in EUR '000)

**Development**

In 2007 we shall beside Motor Third Party Liability Insurance enable mainly conclusion of insurance supplementary forms, which ensure of greater legal security and assistance services. For basic insurance product however we plan a possibility to compose periodical packages, which would be intended for groups of lower risk insured. The question is, whether their introduction will be possible, as we will have to take into consideration also moves of competition.

Outline

Motor third party liability insurance falls within the group of compulsory insurances in traffic to be concluded by every owner of a motor vehicle before starting to use the vehicle in traffic. It applies to all types of motor vehicles for which registration is mandatory. Based on the insurance policy, the insurance company indemnifies the damage to the injured party, occurred due to use or possession of the vehicle that has caused the damage. The insurance provides coverage both to pecuniary loss (destruction, damages as a result of the accident), as well as non-pecuniary loss (bodily injuries, health problems or death), and thus ensures the insured if pecuniary security. The amount of indemnity is in both cases limited by the statutory minimum sum insured, for which in 2007 an increase is expected.

3.4.5

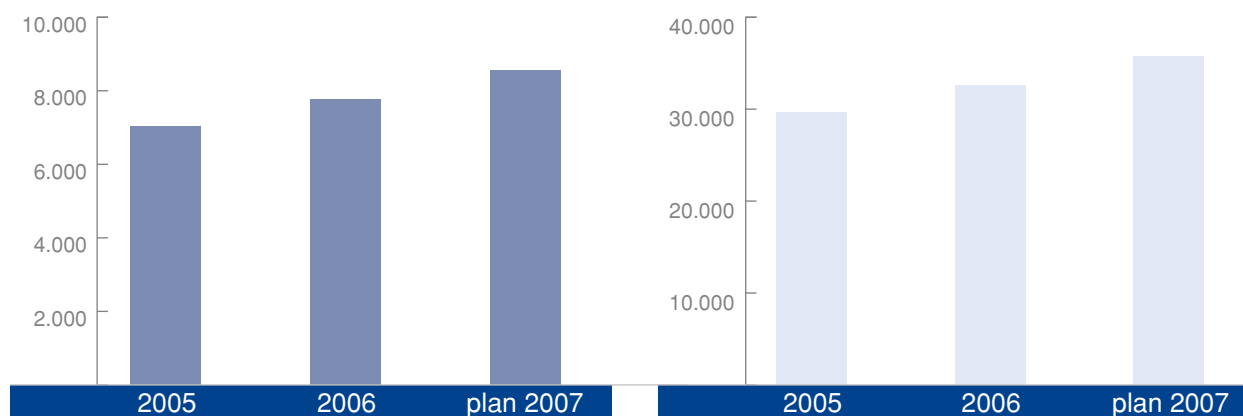
Land motor vehicles insurance

Operations in 2006

This insurance line achieved a premium growth in comparison to previous year by 12.5 %, which is slightly above the Slovenian market growth. Thus the last year's prediction, that road safety situation shall worsen due to

effect wane of Road Traffic Safety Act. Thus the loss growth index in comparison to 2005 is higher than the premium growth and amounts to 113.1. Unfortunately, regarding expenses it worsens a competent loss ratio.

Premium volume trend (in SIT million) (in EUR '000)

**Development**

Development of this insurance line is orientated into arrangements and introduction of new casco product, which shall meet actual needs of Adriatic Slovenica's insured and offer them the most complete insurance as well as the choice, which will be accommodated to contemporary needs of an individual.

Outline

The insurance covers material loss (partial or total loss of the vehicle value) occurred due to a traffic accident, natural catastrophes, theft, fire, wilful misconduct, and other insured perils.

The casco insurance offer shall provide also in the future the possibility to compose insurance covers according to needs of the insured, while at the same time it will enable a choice of certain pre-packaged covers for those who prefer a broad coverage and do not want to be taken by surprise.

3.4.6

Fire and natural forces insurance

Operations in 2006

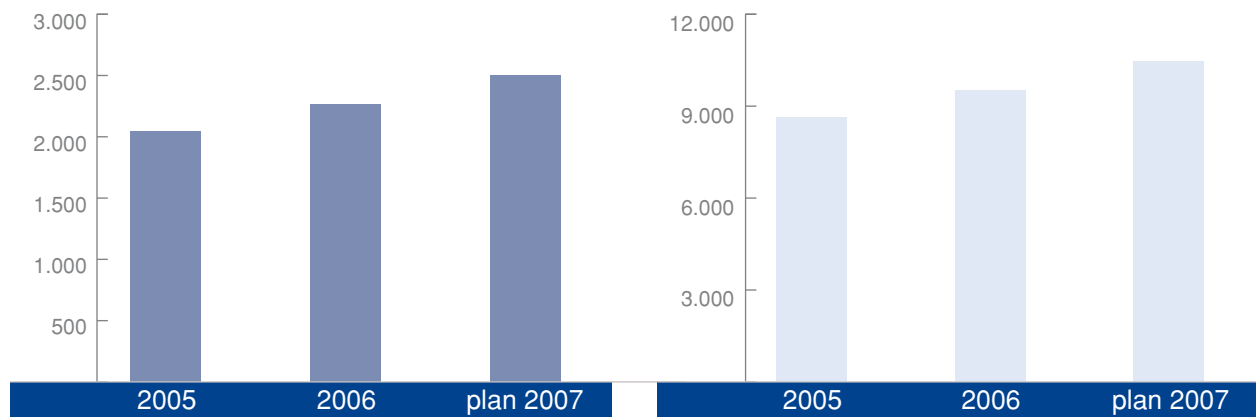
Premium of this insurance line increased in 2006 by 10.2 %. More than 80 % of all premiums are gathered in a sub-line Fire insurance outside industry and craft, where

residential premises, stores and hotels as well as internal equipment are insured. Losses have increased by 22.3 %, which is a result of one big fire, occurred in 2005, with a claim settlement in 2006, which represents more than half of total loss in sub-line fire insurance in industry and craft.

Premium volume trend

(in SIT million)

(in EUR '000)

**Development**

Development will be orientated into arranging and forming a code-book for new information support of a new harmonized product and its introduction to the market. Even more than now an individual adjustment of covers to certain market groups of big companies will be needed.

Outline

Fire insurances serve to protect real estate and moveable property against perils of fire, lightening, explosion, hail,

storm, impact of the insured's motor vehicle and machinery, fall of the aircraft, as well as manifestations and demonstrations. Based on a special agreement and additional premium it is possible to insure property also against additional perils of flood, water leakage, landslide, mudslide (debris flow) snow slide, leakage of liquids or gases, spontaneous combustion of stocks, and the outflow of molten substances in industry. Moreover, property may be additionally insured against perils such as earthquake and braking in of rainwater. Insurance may be concluded for a new or the present value.

3.4.7

Other damage to property insurance

Operations in 2006

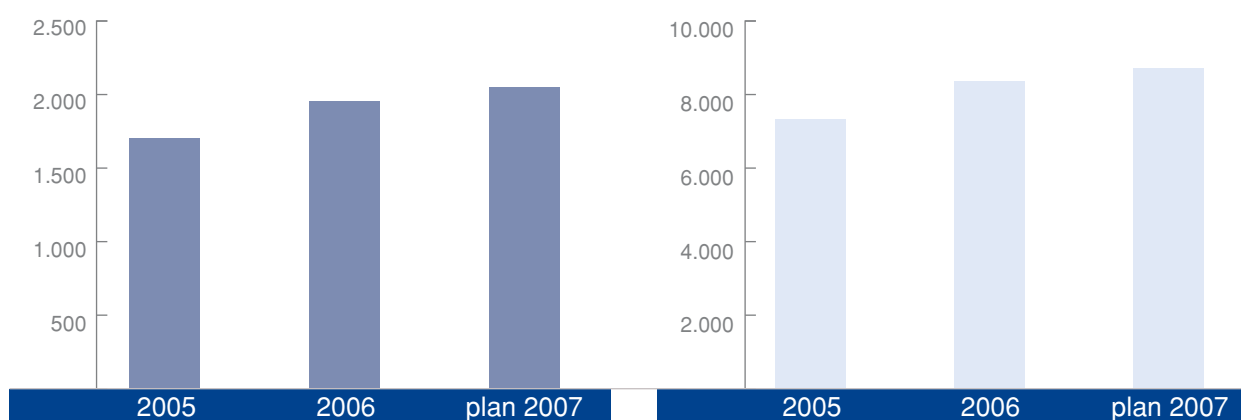
This insurance line comprises more than 15 insurance sub-lines. Premium grew by 12.8 % in comparison to 2005, settled claims remained on the level of previous year. The biggest premium growth was achieved in construction insurance, computer insurance and crop

insurance, which was co-financed by the state. The greatest loss growth index was in insurance sub-line stock deterioration insurance, due to a payment of one major loss, as well as in erection insurance, where one major loss represents 90 % of all losses of the kind. A huge loss decrease is registered in theft and robbery insurance, where losses decreased for almost a half.

Premium volume trend

(in SIT million)

(in EUR '000)

**Development**

Development will be directed to arrangements of new, unified products and their introduction to the market. Thus we shall introduce to the whole network a new insurance Superstan, which will also be upgraded with quality assistance insurance. As the state decided in 2007 to co-finance also livestock insurance, this will require to adjust technology of conclusion and processing of these insurances and to assist it with a new information support. For certain target groups we will combine more insurance sub-lines into packages and enable conclusion of several insurances on one policy.

Outline

This insurance line comprises more than 15 various insurance sub-lines. According to the premium amount the most important ones are: household insurance for household contents insurance, machinery breakdown insurance for insurance of machines and their parts, theft and robbery insurance for insurance of movables from burglary and robbery, construction insurance, computer insurance and glass insurance. As much as 34 % premium of this insurance line represents a household insurance, 22 % machinery breakdown insurance and 11 % construction insurance and theft and robbery insurance. 30 % of all losses of this insurance line are results of machinery breakdown losses, 28% losses arise from household insurance, more than 10 % of losses occur from theft and robbery insurance and livestock insurance.

3.4.8

General liability insurance

Operations in 2006

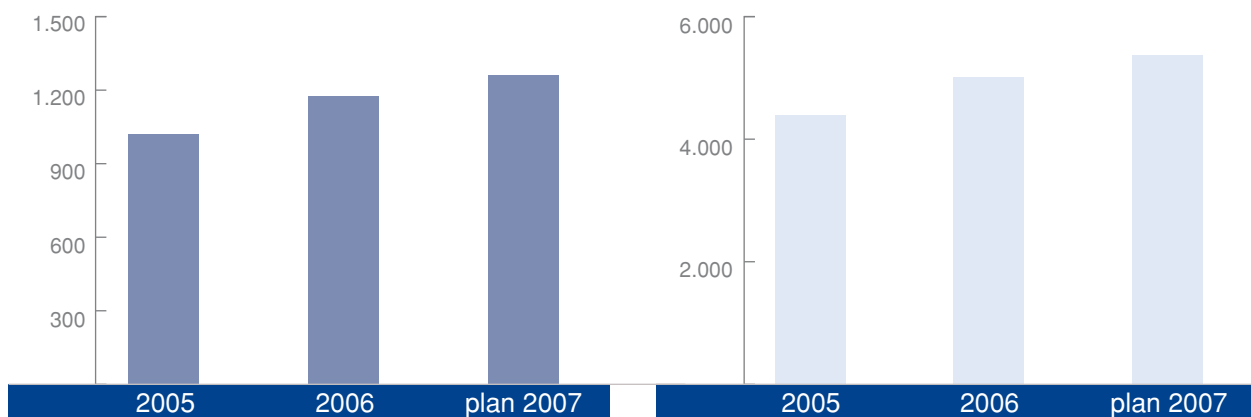
At the end of 2006 we launched a new product on the market. Premium of this line increased by 12.0 %, losses on the other hand decreased by 1.1 % in respect of 2005. Within the scope of this line 65 % of premium was gathered in the insurance sub-line general liability insurance, 8 % from product liability insurance. The biggest premium growth of 90.6 % achieved the freight

forwarders liability insurance in domestic traffic, followed by doctors' professional indemnity insurance by 41.0 % growth and geodetic liability insurance by 40.0 %. Lawyer's professional indemnity insurance increased by 29.9 %, and product liability insurance by 17.6 %. The biggest loss increase is registered in doctors' professional indemnity insurance, where losses occur at one of the largest insured in public sector.

Premium volume trend

(in SIT million)

(in EUR '000)

**Development**

In 2007 we shall focus mainly on development of professional liabilities, arranging modern insurance foundations, directed to individual target groups.

Outline

This insurance shall cover loss due to civil indemnity claims, enforced by third parties against the insured due to a sudden and unexpected event resulting in an injury to persons or damage to objects. The most important part of this insurance

line is general liability insurance, inclusive employers' liability insurance. Other more important insurance sub-lines are: freight forwarders liability insurance, product liability insurance, designers' professional indemnity insurance and accountants' liability insurance. At a smaller scale also other types of professional liability insurance are marketed: lawyers professional indemnity insurance, insurance agents indemnity insurance, real-estate agents professional indemnity insurance, land surveyors professional indemnity insurance, directors and officers liability insurance, auditors professional indemnity insurance, and other professional liability insurances stipulated by law.

3.4.9

Miscellaneous financial loss insurance

Operations in 2006

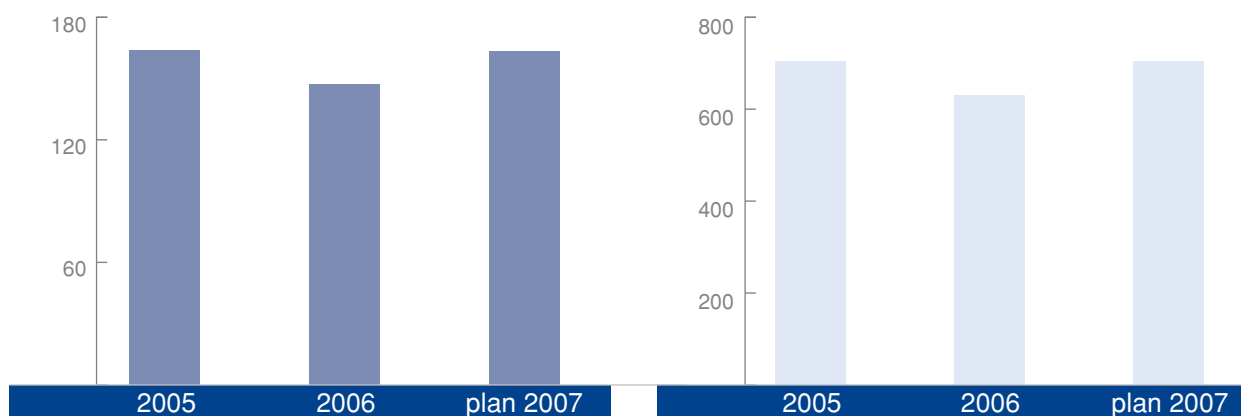
Premium from financial loss insurance fell in 2006 by 8.9 %; by 50.2 % decreased also settled claims. More than 50 % of premium represents premium of tourist trip cancellation insurance, more than 30% premium of

business interruption following fire insurance, 88% of all losses represent losses due to tourist trip cancellation. To wit, the insurance line is rather small and represents 0.45 % in a premium of other property insurance of the entire company.

Premium volume trend

(in SIT million)

(in EUR '000)

**Development**

Development will be directed into harmonizing products and ensuring of needs for individual target groups of insured.

Outline

This insurance line includes among others business interruption following fire insurance, business interruption following machinery breakdown insurance, and event abandonment insurance. Business interruption insurances are concluded as additional insurances to fire

and machinery breakdown insurance, while event abandonment insurance is concluded independently.

The feature of the business interruption insurance is insurance of fixed costs, which the insured could not cover due to fire or machinery breakdown. Under a special agreement, insurance cover may comprise also operating profit, which the insured could not achieve during the business interruption.

Event abandonment insurance covers loss suffered by the organiser of an event if cancelling due to atmospheric precipitations, by reaching a special agreement however also if the cancellation occurs due to acts of god (natural disasters), acts of administrative nature, fire or explosion.

3.4.10

Marine & Transport insurance

Operations in 2006

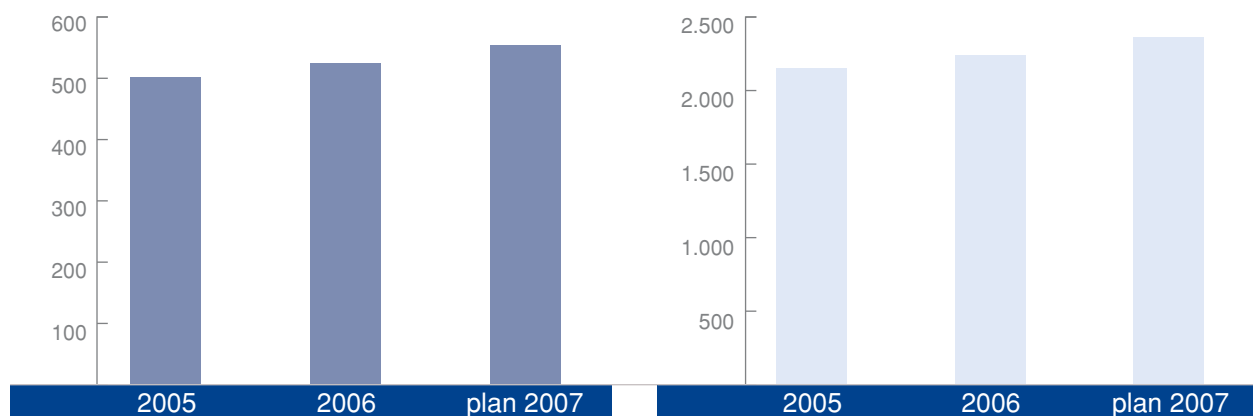
Results of insurance lines, belonging into the group of marine & transport insurance, remain favourable also in 2006. On the side of premium a written premium growth of 0.9 % was registered in respect to 2005. Premium growth is primarily consequence of premium increase in the field of marine hull insurance, marine liability

insurance and freight forwarders liability insurance. In the field of loss we suffered in 2006 several major paid out losses in marine hull insurance. Despite that, an attentive risk evaluation and attention, which we devoted to the field of insurance cases, contributed to more favourable loss ratio in comparison to previous year.

Premium volume trend

(in SIT million)

(in EUR '000)

**Development**

Our main task on the field of marine & transport insurance development will in 2007 be monitoring of trends within the scope of transport, nautical and aircraft industry. Development of insurance products and offer will take course according to demand and occurrences on domestic and international market. Furthermore, we shall be focused primarily on introducing a new information system and commencing to market unified common products, designed in a manner which will simplify their conclusion and under actual market needs take into consideration also legislation modifications and previous loss experience. However, we still want to preserve a high market share under consideration of increased criteria for

risk estimation and selection and finally thus improve a loss ratio.

In the field of cargo insurance we will introduce additional activities to enlarge the portfolio, yet first of all we wish that marketing of this insurance line would be started at all branch offices. We also plan to educate and train everyone concluding this kind of insurances in offices where till now it was not concluded or was concluded in an undersized extent. It is also our desire to educate in this field our business partners, e.g. freight forwarders, which within the range of their services offer our insurances as well.

In the field of carriers liability insurance we wish to achieve an exclusion of several risks, for which our estimations show that they worsen a loss ratio, such cover

however also supports lower care level of carriers and obstructs growth of cargo insurances. In cooperation with motor vehicle departments at transport companies we would also like to examine a loss ratio and to yet concluded insurance and based on acquired data evaluate and prepare a possibility of coverage package production.

Outline

The offer in the field of marine & transport insurance comprises insurance of goods in domestic and

international transit, marine and aircraft hull insurance, marine and aircraft liability insurance, road traffic carriers' liability insurance, freight forwarders liability insurance and shipping agencies liability insurance. The offer regarding desires and needs of the insured we adjust also in the field of liability insurance for losses on goods under the FIATA bill of lading, we prepare and offer however also more specific insurance such as ship repairers liability insurance, marina operators liability insurance and harbour operators liability insurance as well as ship builders risk hull insurance.

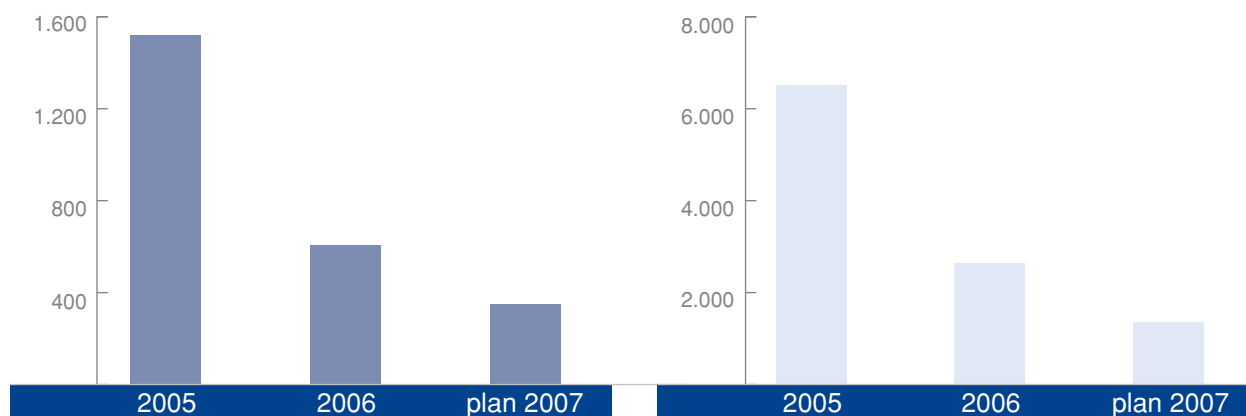
3.4.11 Credit insurance and suretyship insurance

Operations in 2006

Credit insurances experienced many changes in 2006, especially in risk management and risk assumption. Credits, which exceeded general contracts conditions, were handled individually (by professional department and credit committees). Due to detailed monitoring of credit insurance and renovation of general contracts with several banks the premium volume decreased, moreover some banks directed their cooperation to other insurance companies.

Primary task on this field was to enter all effective and anew concluded credit insurance policies into information system, which enables insurance handling. Acquisition of all information makes us possible to calculate the exposure and unearned premiums. Individual credit insurances and suretyship insurances were concluded based on individual approach and credit rating verification, however only with our insured.

Premium volume trend (in SIT million) (in EUR '000)



Development

Credit insurances will be completely renovated, as they will no longer be based upon insurance of non-payment of any reason, and the development shall be orientated into classical insurance risks. A new product will protect the insured from unpredictable events like death, disablement, unemployment from non guilt reasons.

With new credit insurance all general contracts with banks and other business partners will be cancelled, and business cooperation will take place by marketing a new product with intention of offering all services in one place. New credit insurance shall be marketed through various marketing channels, but above all the insured will have a possibility to conclude credit insurance in

package with other insurances (life insurance, motor vehicle insurance, household insurance, etc.).

Outline

Our offer (till launching a new product) includes consumer credit insurance, real estate investment credit insurance, overdrafts on transaction accounts insurance, etc. In the field of suretyship insurances, we can offer our insurance bid/tender bonds, performance bonds, maintenance bonds, customs bonds, tourist agencies insolvency guarantees, payment bonds related to the use of payment card, surety bonds for TIR carnets, etc.

3.4.12

Assistance insurance and legal expenses insurance

Operations in 2006

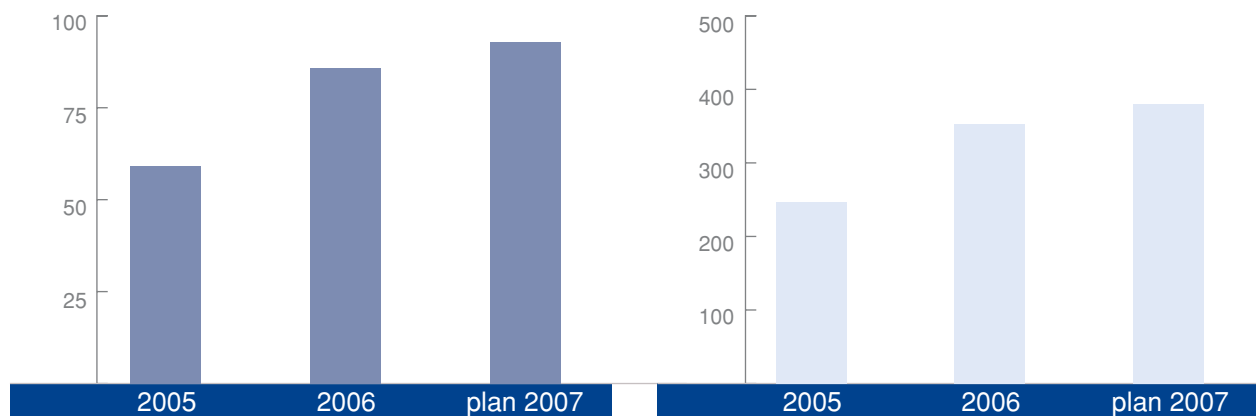
In 2006, assistance insurances increased in comparison to previous year by 43.2 %, yet direct loss ratio remained

favourable. In legal expenses insurance the premium volume is very low and hardly exceeds SIT 5 million, and there were no losses in 2006 at all.

Premium volume trend

(in SIT million)

(in EUR '000)



Development

In 2007 we plan to introduce renewed assistance products into new information system and to incorporate them into basic insurance offer, similar however also in the field of legal expenses insurance, where we shall incorporate legal protection insurances into products of motor vehicle and property insurance.

Outline

Assistance insurance provides the insured with urgent assistance either in relation to a means of transport in case of vehicle break-down or a traffic accident, or in relation to a residence or a residential building when normal residence is not possible due to sudden events, or in relation to journey, when an urgent help is needed.

Under legal expenses insurance we provide the cover for expenses for specified legal services, offering customers to defray costs of legal advisor.

3.5

Marketing and marketing network

3.5.1

Marketing strategy

In 2006 we implemented unification of marketing strategy in consolidated insurance company. Modern marketing strategy of ADRIATIC SLOVENICA gives the centre stage place of all its activities to the insured - his or her needs, wishes and financial strength.

To our insured we offer insurance services with assistance, which include:

- assistance during the preliminary phase before the conclusion of an insurance contract,
- assistance during the conclusion of the insurance contract,
- assistance services at the loss event occurrence,
- assistance services throughout the claim handling.

The goal of our insurance services is a quality risk management of the insured in such way, that the insured who proved their confidence by conclusion of insurance policy shall value the AS assistance service as luxury.

For successful and effective implementation of marketing strategy, we intensively educated the entire marketing network, proper employees and contractual partners. It is our wish to, through intensive education, to introduce contemporary approaches of understanding insured's needs and to give knowledge on how to offer the insured a tailored solution to anyone, being in direct or indirect contact with the insured.

We focus our marketing strategy on development of:

- a mixed and highly diversified marketing system through various marketing channels, emphasizing highly technically qualified insurance agents – consultants, who are capable of effective conformation to expectations of individual target groups of insured;
- balanced insurance proposals in terms of contents, quality and price, tailored to meet the insured's needs and enabling prompt and correct settlements of claims and payments of compensations or benefits;
- insurance services that take into account current and future needs of the insured for a security and strive to save their time;
- high quality and easy-to-get forms of assistance insurances, designed to complement the basic insurance offer;
- marketing communication worked out to deliver to insured correct information on insurance offer and ensuring them of additional value at loss occurrences;
- long-term relations with insured.

Insurance company provides a complete offer of non-life, life and health insurances, which are distinguished for their adaptability of offer and development of special insurance forms to comply needs of individual target groups of insured. Together with development we dedicate special attention to prompt settlements of claims

and payments of compensations or benefits; which in case of complete documentation are accomplished within three working days.

Marketing system ensures the insured of professional advising for individual insurance lines and delivers services through various marketing channels, harmonized with their expectations.

Insurance agent - advisor is the most important element of quality insurance services offer, therefore, we have been continuously completing the in-house system for training insurance agents, that has been going on for many years in the company's education and training centre at Lipica. Expertise, motivation and professional quality of the insurance agents' network is demonstrated in operating results and in high level of successfulness in acquiring authorisations for insurance agent to carry on insurance business.

In 2006, insurance products were still marketed parallel, the insurance company marketed products of former Adriatic and Slovenica. Therefore, throughout the year projects of unifying insurance products, information system, and organisational structure of marketing network and contractual relationships of individual marketing network parts were intensively carried out. These projects shall be implemented and entirely concluded in 2007.

Insured recognize ADRIATIC SLOVENICA as the only Slovenian insurance company, where they are able to conclude all insurance policies needed for secure everyday life and safe future. Annual monitoring analyses of insured's satisfaction indicate, that the ratio between price and service quality is evaluated with distinction. Each year, based on proper researches and researches of independent institutions, a development of even more innovative insurance services offer is being outlined.

The upgrade of basic insurance offer with different forms of assistance and other after-sale services represents one of essential orientations, as it ensures insured of fast, effective and qualitative assistance when needed at most.

Added value, gained by the insured, strengthens the confidence and bond between insured and insurance company as well as ensures of company's continuous competitiveness. For business cooperation in the field of assistance the selection of service suppliers on the market is limited by the insurance company to the ones most qualitative and proven. Distinguished assistance company CORIS Assistance, being in partial ownership of ADRIATIC SLOVENICA, became in 2006 the most important assistance partner of the company in the field of Health insurance abroad with assistance, motor vehicle assistance and household assistance. In 2006, also cooperation with AMZS (membership in AMZS) continued.

Through different media and our web-site we inform our insured of individual insurances and benefits they bring. In 2006, communication messages were focused on complete presentation of non-life and life insurance offer, changes in the field of health insurance and benefits offered by the insurance company to co-payment health insured. An updated offer of accident insurance with a possibility of online conclusion was arranged for schoolchildren and their parents. Every health insured receive per post on their home address a gratis informative magazine AS za VAS (AS for you), which brought series of useful and welcome information on insurances.

Long-term partner relationship of mutual trust between insured and ADRIATIC SLOVENICA is based on professionally qualified insurance agent, who gives advises to the insured regarding his risk management and helps him in handling claims. Insured's feedback is to a greatest extent included also in development of new services. In 2006, a proper telephone studio was established, representing beside intensive life insurance marketing a ground for Communication Centre, which shall with complete communication support enable continuous feedback stream between the insurance company and insured.

3.5.2

Marketing network

The goal of marketing network development is to achieve complete geographical market coverage. Holders of marketing network development are Branch offices, located in nine regional centres of Slovenia. With a purpose of better market coverage and constant improvements of after-sale services for the insured a distributing network was in 2006 equipped with nine additional points of sale.

In the future, development of marketing network shall be based on exclusive contractual agencies, certified for practicing insurance business. However, in 2006 the priority took the unification and consolidation of existing classical parts of marketing network (universal agents and insurance agencies and brokers), exclusive agency contracts were concluded only with three smaller agencies. An increased importance among marketing channels goes to online insurance conclusion, cooperation with financial institutions (banks, leasing firms, etc.) and retailers i.e. administrators of property (automobiles, residential property, equipment, etc.). ADRIATIC SLOVENICA offered at the end of 2006 insurance services through 9 branch offices in all Slovenian regional centres, three representative offices, 50 offices, and the marketing network operating on a contractual basis with as many as 95 underwriting points i.e. 157 points of sale (outlets). We established a special group for marketing life insurances, the aim of which was system unification of education, motivation, leadership and control of marketing network as well as of sales promotion of the insurance line. This team introduced into marketing network successfully three new agencies, specialised in life insurance marketing, restored an organizers' structure, accomplished a series of marketing network trainings and at the end of the year exceeded planned written premium by index of 121.1.

After a merger of Adriatic and Slovenica also fusion of duplicated branch office sites was implemented in 2006; thus since the end of 2006 all branch offices operate on one location, except for BO Maribor and BO Ljubljana.

Information on branch offices per 31.12.2006:

Celje Branch office,
Branch manager Mr. Marjan Krajnc
 Lava 7, 3000 Celje
 Telephone: 03 425 35 00, Fax: 03 545 17 72

Koper Branch office,
Branch manager Mr. Mojmir Suhar
(Branch manager Ms. Milojka Lahajnar Špacapan – since 1 January 2007)
 Ljubljanska cesta 3, 6000 Koper
 Telephone: 05 611 69 00, Fax: 05 639 53 09

Kranj Branch office,
Branch manager Mr. Franci Strniša
 Kidričeva cesta 2, 4000 Kranj
 Telephone: 04 281 70 00, Fax: 04 281 70 10

Ljubljana Branch office,
Branch manager Mr. Anton Končnik
 Dunajska 63, 1000 Ljubljana
 Telephone: 01 309 21 00, Fax: 01 309 22 22

Maribor Branch office,
Branch manager Mr. Vinko Prislan
 Jadranska 25a, 2000 Maribor
 Telephone: 02 320 81 10, Fax: 02 332 18 90

Nova Gorica Branch office,
Branch manager Mr. Radovan Pušnar
 Erjavčeva 19, 5000 Nova Gorica
 Telephone: 05 330 95 00, Fax: 05 302 91 56

Novo mesto Branch office,
Branch manager Mr. Miha Božič
 Novi trg 1, 8000 Novo mesto
 Telephone: 07 373 06 21, Fax: 07 332 27 62

Murska Sobota Branch office,
Branch manager Ms. Milena Grah
 Arhitekta Novaka 13, 9000 Murska Sobota
 Telephone: 02 539 10 10, Fax: 02 539 10 40

Postojna Branch office,
Branch manager Mr. Anton Marušič
 Novi trg 6, 6230 Postojna
 Telephone: 05 700 30 10, Fax: 05 700 30 15



3.6

Development, security, quality

3.6.1

Development projects

The insurance company develops intensively all three key insurance fields - health, life and non-life insurance fields. To our customer we wish to offer a complete pallet of insurances and cross-products or package products respectively, the widest offer and excellent services however represent at the same time the biggest market advantage of AS as the only universal insurance company with complete offer of insurance and services in one place. In 2007, of a great significance will be development of several new insurances, yet mainly development of existing offer and cross-sale of insurances, adapted to individual target groups as well as planned development of modern and in prices attractive insurance-financial services.

The scope of life insurance launched two new kinds of life insurance in 2006, jointly developed by members of KD Group: unit-linked insurance VITAFOND NALOŽBENI PAKETI (Vitafond investment packages) and new life

insurance with principal guarantee at endowment VITAFOND AZIJA GARANT. Insurance scope, for which we estimate that also in 2007 shall grow at the highest rate, will preserve the widest offer and upgrade the market successes from 2006 with new enriched versions of AZIJA GARANT insurance. Planned are also new package forms of life insurances in connection with banks, which would be marketed in packages with credits and would be designed for individual target groups.

In the field of health insurance development we offered our co-payment health insured at the end of 2006 an attractive and market interesting parallel insurance “For shorter queuing”, together with a special offer of self-paid prescription medicines insurance. Development shall be accelerated going on in 2007, as the new offer met with a good response among insured. A parallel health insurance offer will be possible in respect of yet even more

acknowledged market needs to additionally enrich with new insurances and to complete it with various packages of health insurances for individual target groups of insured.

In the scope of other non-life insurances the 2007 will bring to an end all processes of insurance unification and renewal, which in 2006 were running parallel with a renovation of information system. Unification of coverage contents and adjustment of these insurance conclusions took its course with an aim of introducing unified insurances in the entire company, in which we would join the best qualities of previous offer of both insurance companies.

In 2006 a fundamental development targets of this field were realised, unified products by insurance lines were prepared, of which some were already introduced to the market, and a new general liability insurance needs to be emphasized, also arrangements for new motor vehicle insurance, anticipated for 2007, were coming to an end.

Development of products of this insurance scope, offering the widest offer of insurance lines, will proceed in direction of designing various kinds of package insurances, development of supplementary and richer assistant services as well as development of new after-sale activities. At the same time the company is making arrangements for additional upgrade of classical non-life insurances, strengthens the portfolio and continues to update insurances with an aim of improving operating results. In 2007, an arrangement of new packages, even more accommodated to certain target groups, as well as arrangement of specific individual covers for key insured, is planned.

In spring of 2007 the insurance company will offer unified motor vehicles insurances MTPL and casco, adding, in cooperation with international assistance company CORIS, a new assistance insurance "MAXI AVTO ASISTENCA AS" to the widest range of insurances, designed in attractive market packages. New motor vehicle insurance will offer different supplementary forms of insurance, which ensure of greater safety and will in numerous package combinations among other enable new value insurance, proportional value insurance for older vehicles and possibility of buying back the first insurance case.

In the field of fire and other indemnity insurances the

greatest emphasis will be intended to introduction of renewed product Superstan with wider range of packages and coverage, which will suit the needs of all groups of insured, yet they will be enriched with wider household assistance organized by assistance company CORIS.

Unified and renewed will also be credit insurances, which will be orientated to classical insurance risks as well as various accident insurances. The most important lines of accident insurance are mass insurances and shall also in 2007 be based on intensive marketing of the most popular kinds, the company however will include them in packages of other non-life insurances.

In the field of goods in marine & transport insurance development we shall be in 2007 to a high degree directed primarily to introduction of new information system and introduction and marketing of unified common products, which are formed to take into consideration market needs, previous loss experience and to simplify underwriting manners.

INIS - information system renovation project, being also in 2006 one of the greatest projects of company integration, went on successfully. Already from the beginning of 2006 a ledger module is being used, in May however the new software began to be used also in the field of health insurances. Till October a GAP analysis of non-life insurances was finished.

Introduction of INIS in the field of non-life insurance shall in 2007 ensure of effective and fast adaptation of insurance products to requirements and needs of the market. In the second half of the year a GAP analysis in the field of life insurances will end according to project time plan, afterwards followed also by the introduction of INIS in this field. By transfer of pension insurances shall thus be brought to an end a complete information renovation of the company in the insurance field.

A complete integration of the insurance company, based on the company's vision and strategy, set in accordance with development plans and process leading, took in 2006 a parallel course with realisation of INIS project aims and introduction of new information support. Also other projects, which were set up in the company after the merger with a goal of unifying operations and especially of updating internal organisation, were running intensively

throughout the 2006. Thus at the end of the year the company brought to the final stage yet another important integration task - uniform arrangement of human resources management.

An integrated organisational structure was developed by the company through project ORG-AS throughout the year. This is a project of a new organisation and systematisation, proceeded by an aim of enabling all company's employees a uniform arrangement of jobs and thus to suppress previous differences and double arrangement form both previous companies. At the end of 2006 projects of new organisation, systematisation and wage system were coming to an end, basis of which however will be a new collective wage agreement of ADRIATIC SLOVENICA, which will ensure of equal rights for all employees. The key goal of all modifications in this field is to ensure of equal conditions and obligations for all employees within the entire business system, which also is a basis for realisation of potential savings in the field of human resources.

Organisation and systematisation of working places as well as new common collective wage agreement of ADRIATIC SLOVENICA with a new wage system were at the end of 2006 already in final stage, and collective wage agreement was to a great extent harmonised with AS syndicate conference. After signing a new collective wage agreement the company plans for 1 April 2007 a final elimination of differences and mismatches in company in the field of HR (descriptions and evaluation of jobs, wage system, organisation...), which will be set on completely new foundations.

The line of IT spread in 2006 a usage of information communication technology within the insurance company as well as to operation with business partners, according to the initiative of European Commission i2010, speaking of a need for information society development and significantly influencing a rise in innovation and competitiveness of Slovenian economy and society. In the future we plan to expand mostly the usage of internet, which will not only serve for presentation of insurance company's products and after-sale services, but above all for direct online sale. The basis of course is a reliable, effective and secure infrastructure.

In the first half of the year mainly after-merger activities took place. Beside consolidation of contracts with business partners also a unification of standard working station, HR evidence, fixed assets, wages as well as AD domain mixing of both insurance companies was proceeding.

The year of 2006 was marked by two major projects of information system renovation - INIS and Euro adoption. Within the first the IT line was primarily focused on arranging different interfaces from old back-stage systems and on arranging infrastructure. We established an environment enabling an access to private AS network through usage of unique password and configuration of movable working station, which shall through implementation of GSM network enable an access to INIS or informational supported insurance marketing on the field.

Within the frame of Euro adoption all existing IS were adapted to new currency. Beside conformation of forms and prints also all amounts needed to be converted from SIT to Euro; bookkeeping and insight in SIT also needed to be made possible for data related to balance year 2006.

In existing information systems mainly corrections and upgrades were performed, which were urgent due to fulfilment of legal requirements or were bound to activities respectively, from which a significant economic result was anticipated. Therefore we set in autumn of 2006 (under completion and modification of support for new life insurance product) an outlet calling centre, which played an important role in gaining insured - investors into unit-linked life insurance with principal guarantee AZIJA GARANT.

We established a central customer's register (CRS), which enables a complete examination of the customer in one place. As the CRS was originally meant only for portfolio of former Slovenica, also the arrangements for establishment of joint customer's portfolio took place.

Throughout the company a RCG program was introduced for system of reporting and managing errors in information system function, which is also intended for reporting safety events. For next year we plan extension of application also to managing requires for functionality change of information system.

In 2006 we concluded a project ADRIA WIN, which upgraded a system environment to Windows 2003 and WinXP and introduced AD system for management as a

basis for further introduction of modern information solutions. Within the frame of project a modern architecture of message system was established, comprising intern mail server in cluster as well as extern mail server for accessing mailboxes from internet. The project also included establishment of environment for modern management of employees' working stations (business desktop deployment), supervision system of system environment (SMS) and supervision system of server environment.

For information system is not important only to functionally cover all user's requirements, but also to response as fast as possible to user's requirements. To increase efficiency of information system, influencing thus the user's productivity as well as his relation towards information system and environment, we renovated the network. Renovation was

implemented in four phases:

1. We renovated an extensive network of eleven branch offices with a spine transition into IP/MPLS network. In this manner we established an up-to-date designed and cost effective spinal part of the network;
2. We connected 25 smaller distant offices into joint network of the insurance company (IP/MPLS), which is a basis for extension of information support in underwriting at client's;
3. We connected 30 agencies with AS' information system to support on-line underwriting;
4. We established a system for accessing underwriting application for mobile users. The connection is based upon VPN SSL technology of access and authentication with unique password usage.

3.6.2

Security

In the beginning of 2006 we brought to an end a project VAR2-2005, and the Management Board declared for continuation of system ISMS (Management system with information security). In June we adopted and announced a Directive on procedure for handling events and safety incidents. The purpose of the document was to give the company's employees instructions for reporting (safety)

events, therewith we established a uniform recording system of all safety events and incidents. In 2007 we will try to establish an infrastructure ISMS, which further on will take care of extending mechanisms ISMS to the merged company and thus adapt the plan of risk handling with elements of consolidated company ADRIATIC SLOVENICA.

3.6.3

Quality management system

By introducing Quality management system (SVK) into company's operations in 2004 essentially increased awareness on quality meaning in everyday work, we improved organisation and transparency of business processes as well as organisational documentation determining their implementation. The company is dedicated to build up a long-term quality partnership with our insured and business partners whom we place in the centrepiece of all our activities. We accomplish this by developing new insurance lines and contemporary forms of insurance services, based on permanent development and continuous improvements of all business processes and fields within the company.

We maintained and improved SVK with assistance of internal and external audits and management reviews. Based on these and several other activities we took measures and improvements. We measure and monitor for several successive years the effectiveness of business processes operation by means of indicators and aims of individual process. The principle of administration was extended from business processes through documentation of internal normative arrangement, code-books to forms.

In June 2006 the Slovenian Institute of Quality and Metrology performed yet third external audit of SVK operation. One of the auditors' key ascertainment was that SVK is to wit established, yet the further development is

somewhat stagnated. This goes also for building up the so-called “integrated quality system”, which in time should include some other management systems and models (management system with information security, business excellence...).

Activities within the Quality management system (by standard ISO 9001) was in 2006 directed mostly into maintaining the existing situation and development as well as expansion of Quality management system (SVK) to

merged company. The expansion of SVK to merged company was executed through the project, started in March 2006, and will probably be concluded in May 2007. In 2007 the activities in SVK will be orientated towards maintaining the existing situation and development as well as expansion of SVK, mainly from the sight of ADRIATIC SLOVENICA’s unification on all levels of business processes, organisation and documentation.

3.7

Communication with communities of interests

3.7.1

Communication with insured

ADRIATIC SLOVENICA strives for efficient and two-way communication with its insured and communicates them in various manners, as we are convinced, that this represents a basis of relationship between the insurance company and the insured as well as a key to insured’s satisfaction.

Informative review, first presented to insured in 2004, was in 2006 issued under a new name “AS za VAS” (AS for you) and reached ca. 300 thousand insured. Insured were informed of novelties, they were offered advice on individual insurances, and the major attention however was devoted to benefits, in which insured take part. AS za VAS also contained a questionnaire, by which the insured communicated their opinions regarding satisfaction with services, their preferences regarding manner of underwriting, their interests in insurance lines, in their opinion which elements of relationship with the insurance company matter the most... Altogether we received over 2100 answers from our insured, which are a valuable direction indicator for further operations of the insurance company. Results from the answer analysis are for the company propitious. 93.5 % of insured has benevolent experiences with ADRIATIC SLOVENICA when concluding insurance and 79.3 % at their second cooperation with the insurance company. Those (6.5 %) with a negative experience according to expectations mostly state dissatisfaction regarding indemnity payment proceedings. To the question, whether ADRIATIC

SLOVENICA fulfils their expectations, as many as 94 per cent of interviewees agreed. A survey, which was performed for the fifth time, once more proved, that our insured possess a benevolent opinion on ADRIATIC SLOVENICA and they which to cooperate with the insurance company also in the future.

Free telephone number of ADRIATIC SLOVENICA 080 11 10 offered in 2006 all information regarding insurances as well as answers to any other questions, which facilitate to insured an insurance conclusion, notification of claims and give answers to questions of where and how to arrange individual insurances as fast as possible and without redundant courses. In 2006 we received to free telephone number 7955 calls, their number increased especially within the first quarter of the year, when the insured got the chance to swap the insurance company and conclude their co-payment health insurance with AS; in October when a settlement of health insurance premium was accomplished; and at the end of the year when the insurance company paid the beneficiaries their gathered old-age provisions.

Health INFO ASSISTENCE 080 11 24 is a free telephone number introduced in April 2005 to inform better our health insured and to offer detailed information on health insurances and services, information on health insurance providers, queuing periods and on duty health institutions and pharmacies. In 2006 as many as **13,570** insured called upon free telephone number regarding health

insurances (almost 10 times the number of calls in comparison to 2005). A free telephone number was applied also to offer information to customers in divers actions: acquisition of health insured at the beginning of the year; special offer of accident insurance with assistance Coris for schoolchildren and students in June; action comprising in December 268 thousand insured, who receive an offer and entry form for insurance "For shorter queuing"; the highest number of calls we received at the end of the year when along with this action the number of calls increased due to old-age provisions refund.

Telephone studio, established by the insurance company in September 2006 in Ljubljana, operates mainly on establishing new contacts with insured, yet at the same time it is also a source of information regarding insurances and addresses of whom the customers should address when wishing to arrange for insurance as close to their home as possible.

In 2006 we devised a uniform and new web-site **www.adriatic-slovenica.si**, which was brought to live on 4 January 2006. For insured and website users we combined the contents, added few novelties and primarily improved a user experience. We offer exhaustive information to our visitors on our offer, on-line insurance conclusion, claim notification and a possibility of permanent communication with the insurance company through topics "Ask us" and "Ordering an agent". Novelties and special events form

insurance company's operations are communicated in topics "Current affairs" and "News". In 2006 we registered over 172,000 visits of our web-site with somewhat less than 8,800 concluded insurances.

On the new web-site of consolidated insurance company **www.adriatic-slovenica.si**, which unified previous web-sites of both insurance companies, insured gained in 2006 a series of information on insurances, they ordered an agent's visit, through the topic "Ask us" we invited insured and all visitors to set a question, express their opinion, to give praises and complaints. Through our web-site we thus received over 3,200 questions (100% more than in previous year), of which 70 per cent related to explanations of individual insurances and information on underwriting. To each question and opinion of our insured we seek an immediate answer and make our customer acquainted with the solution or our point of view. On a web-site is also to find a topic "Ordering an agent", through which 1,300 visitors of the web-site ordered a visit of an insurance agent at their home.

We communicate with our insured also through received praises, opinions and complaints, received through praise and complaints book, through web-site topic Ask us/Praises and Complaints, through free telephone number and letters. A system of complaints monitoring is in details regulated by Settling customer's complaints manual, to which all employees and customers as well as web-site visitors are acquainted.

3.7.2

Communication with employees

Internal communication in the company is an important part of building up an organisational culture, especially in 2006 as the first year of common operations of consolidated insurance company. It is an important factor of uniform corporate culture integration, one of the constants of establishing a good working atmosphere, knowledge of company's mission, vision and goals as well as of affiliation of employees. Among communication constants with employees belong an internal newspaper, informing employees 4 times a year of all relevant events and decisions within the company and in her surroundings, it introduces the vision and goals of the insurance company and broadens

professional know-how and mutual acquaintance. In the beginning of 2006 we renovated also the internal newspaper, which is being issued since 1993 and grew to live in the merged company with a new image, recent topics and new name Modri AS.

AS-news are electronic news commenced in January 2004 (as E-news), mainly with intention of rapid employees information. This form of informing grew out at the end of 2005 into e-news for employees in both companies and at the beginning of 2006 into uniform electronic news for all employees. AS-news are a continual, at least monthly form of informing, which as necessary may be more frequent. This news also began in

2006 to live in uniform, new image and the brought 22 times to all insured and contractual agencies short up-to-date information on the most important events and decisions in the company, new insurance offer and other important information.

AS-net is a central tool of intern communication, accessible to all employees in merged insurance company since the time of merger (as Intranet AS). Its mission is efficient and fast information of employees on novelties, occurring in the company and its surroundings, and above all a fast access to information, used by employees at their work as well as faster access to operating applications, being a basic working instrument of employees. Intranet enables employees a transparent and permanent access to a collection of entire internal documentation and archive of all older documents, the contents however are being updated and supplemented on a regular basis. Thoroughly renewed and updated AS-net enabled from 5 December 2006 onwards even more friendly and effective access to informative contents, daily needed at their work. Within three months since AS-net renovation it was visited monthly in average 22,945 times, and daily it is used by up to 500 employees. Into new intranet several new options are built-in. Among them e.g. **frequently asked questions (FAQ)**, where questions on insurances, company, solutions in respect of computer support and alike are being gathered; topics are simultaneously being supplements, and everyone may participate by setting a frequently asked question when not found in FAQ, an expert department arranges an answer and thus with jointly improve common knowledge, accessible to all employees. AS-net has numerous **interactive functions**, which enable employees of giving opinions, comments and suggestions in case when registered as users, and it also introduces a **mini survey** on different topics. New **ASnet** enables also other functionalities, which will be brought to live gradually, primarily setting up and arrangement of **mini web-sites**, which will serve for working communication within organisation unit or

specific business process. Here it will be possible to announce information, closely related to work in specific field, documents, and events and to communicate through internal forum. These mini web-sites will in time possibly become a new working tool for organisation unit or all persons involved in specific business process.

Events for employees are just as well an important form of communication, as they in a special way fortify specific company values, working relationships and affiliation to the company. Events, like sports games of employees and everyone cooperating with the company within the framework of agencies, as well as pre New Year's meetings, have traditionally taken place also in 2006. In spring a series of meetings with employees in all 9 branch offices took place due to even more intensive company integration, where they met with a Management Board and got acquainted with business aims and plans of unified insurance company.

Meetings with business partners are a communication constant with major business partners and insured, when they are presented our business results and our aims, and we confirm ourselves as a reliable and trustworthy business partner. The central meeting took also in 2006 place in Lipica.

Communication and cooperation with wider social environment expresses entirely a business politics of insurance company, with society supporting some of major projects and organisations of Slovenian importance, on the level of branch offices also smaller projects, significant in regional and local environment; the company traditionally earmarks the biggest support to health, sports, culture and education as well as to safety in all spheres.

Communication with reporters and media proceeds on regular basis, we respond and answer their questions, and in 2006 we especially intensive informed reporters and media on press-conferences in all Slovenian regions and through notices for publics of new, consolidated insurance company, its plans and novelties in its offer as well as of wider, accessible marketing network.

3.8

Report of internal audit department

An internal audit department in the insurance company is organised as a department directly subordinated to Management Board. Such organisation ensures of autonomy and independence of its operations. In 2006, a department performed its work based on Annual work programme, adopted by the Management Board in accordance with company's Supervision Board, and Detailed working plan of Internal audit department, adopted by Management Board.

By merger of two insurance companies the auditing environments became essentially more heterogeneous and larger, therefore accomplishing internal audit activities was significantly pretentious, while the auditing time was just a bit longer than before merger. Due to the stated facts the internal audit activity became much more intensive, with an aim of realising Annual working programme of internal audit.

Besides implementing audit surveys the internal audit department according to legal requirements supervised also insurance company's operations with a purpose of verification, whether the insurance company:

- was performing insurance business properly and in accordance with Insurance Act and regulations based on Insurance Act, as well as internal rules regulating insurance company's operations.
- was keeping books, composing accounting documents, evaluated accounting items and composed reports in accordance with Insurance Act and regulations based on Insurance Act, as well as internal rules regulating insurance company's operations.
- was keeping a register of insurance agents, which based on employment or other legal relationship in insurance company perform insurance agent's business in accordance with Insurance Act and regulations

based on Insurance Act, as well as internal rules regulating insurance company's operations.

Strategy of internal audit operations was in 2006 based mainly on:

- 1) Acquaintance of a new supervision environment.
- 2) Permanent (current) verification whether the insurance company observed rules on risk management, in accordance with Insurance Act and executive regulations, issued on the basis of Insurance Act.
- 3) Advising to the insurance company's management with intention of company's value increase.
- 4) Approach to internal auditing with intention of creating added value, improving operations and increasing efficiency in business risk management.

After implemented audit survey the internal audit department issued a report, which was discussed by company's Management Board, ordering an audited person to elaborate a responsive report and an implementation of recommendations, given by internal audit department. Based on executed renewed audit survey the internal audit department reported to the Management Board on successfulness of recommendation realisation. Due to stated system of monitoring audited person's corrected measurements, introduced by the internal audit department in 2006, active, attentive and thorough monitoring, a high share of realised audited person's corrected measurements was achieved.

Internal audit department realised a whole Annual working programme, or significantly exceeded it respectively. In 2006 11 regular audit surveys were carried out, and based on Management Board's order also 4 extraordinary audit surveys. Beside stated audit surveys also other activities were carried out, as determined in Annual working programme of Internal audit department for 2006.

3.9

Long-term plans and goals for 2007

When planning financial year 2007, the company has set as its principal goal a **takeover of Vzájemna, Zdravstvena zavarovalnica d.v.z.** With planned takeover the company

would gain ca. 900.000 new insured, which would substantially increase possibilities of life insurance and non-life insurance cross-sale. The company would thus

additionally strengthen its second position by market share among Slovenian insurance companies and would represent a leading supplier of health insurances in Slovenia. At the same time considerable synergies would be realised in the field of cross-sale, claims management and management of health insurance performance expenses.

Irrespective of expected takeover of competitive health insurance company, the company will continue to fortify its market share in the field of **life** insurance, where Slovenian market is still rather undeveloped and unsated, which opens numerous market possibilities which the

company did not use to its advantage in the past.

Because of developed and sated market of non-life insurance the company shall in this field take care of further **rationalisation** of business processes, primarily by introducing modern **market channels** and **updating information support** for back-stage activities. Therewith a company will improve profit margin in market conditions, which prevent a fast growth of business volume.

The company intends in 2007 to open a subsidiary insurance company in **Serbia** and start to expand also in international area.

3.10

Important business events at the beginning of year 2007

- From **19 February** the Management Board of ADRIATIC SLOVENICA has one member less, as the previous Deputy President of the Management Board Matija Šenk took over the leadership of the Management Board of Slovenica Življenje. Gabrijel Škof took over the duty of the Deputy President of the Management Board, member of the Management Board is Milena Georgievski. Aljoša Tomaž, who is appointed as President of the Management Board with deferred proposal of acquiring a licence from ISA, manages key processes in the company.
- On **22 February** the new collective wage agreement of ADRIATIC SLOVENICA was signed to be taken into effect on 1 April.
- In **February** the company in collaboration with members of KD group offered the market a new innovative life insurance product with investment risk, investing into the funds basket VITAFOND NALOŽBENI PAKET (Vitafond investment packages). The insured may, according to their needs and relation to the risk, select three baskets: conservative, balanced and dynamic.
- On **1 March** the company introduced several novelties in the field of automobile liability insurance, among other the company made possible for the insured the up-to-date renewal of this insurance trough internet and therewith related website for renewal of vehicle registration.
- In **March** the company offered to the market AZIJA GARANT PLUS - by two more funds richer version of life insurance with guaranteed principal at endowment, developed within the frame of KD group together with Slovenica Življenje. Last year's insurance AZIJA GARANT was a market success, new insurances AZIJA GARANT PLUS however will enter into force on 1 June 2007, the premium for 10-years insurance, which amounts at least to EUR 1,000, is also paid as a lump-sum. The insurance offers a 100-percent guarantee of principal, the insured has an insurance protection in case of death, which lies at 110 % of paid in premium, the possibility of high yields is offered by globally dispersed investments. Special benefit of new insurance is that all so far cumulated payments into this insurance shall be taken into consideration when assessing the level of input costs for new AZIJA GARANT PLUS.
- As ISA prohibited the general meeting of Vzajemna, the Management Board of ADRIATIC SLOVENICA took on **20 April** the position that all further integration procedures between insurance companies, which do not pursue decisions of insurance regulator, are impossible. Therefore the Management Board of ADRIATIC SLOVENICA also adopted a decision to cancel the general meeting of shareholders of ADRIATIC SLOVENICA, announced for 14 May, which should discuss integration of both companies.

4

Report on sustainable development

4.1

Employees

For ADRIATIC SLOVENICA's employees a year 2006 was a year of radical changes and conformations. Merger of both insurance companies brought numerous of changes, and process of harmonisation and unification was implemented in all spheres, including human resources management.

Most attention was dedicated to unification of human resources systems of both merged companies and to following synergic effects in the field of employees. Together with syndicate we started in 2006 and successfully brought to the final stage negotiations for new unified business collective wage agreement, just as well before the end of 2006 renovation projects of

systematisation and wage model with introduction of systematic working efficiency monitoring of all employees were mostly concluded, which will enable a uniform approach in human resources management.

For its success, ADRIATIC SLOVENICA perceives thus its employees as an asset due to their high motivation and loyalty, knowledge, skills and talent – the qualities that enable them to respond creatively and efficiently and to adjust to requirements of the working environment, as well as personal values and targets, harmonised with the company's targets and its corporate culture. Therefore in 2006 all systems were set as to support goals, which we pursue in the field of human resources.

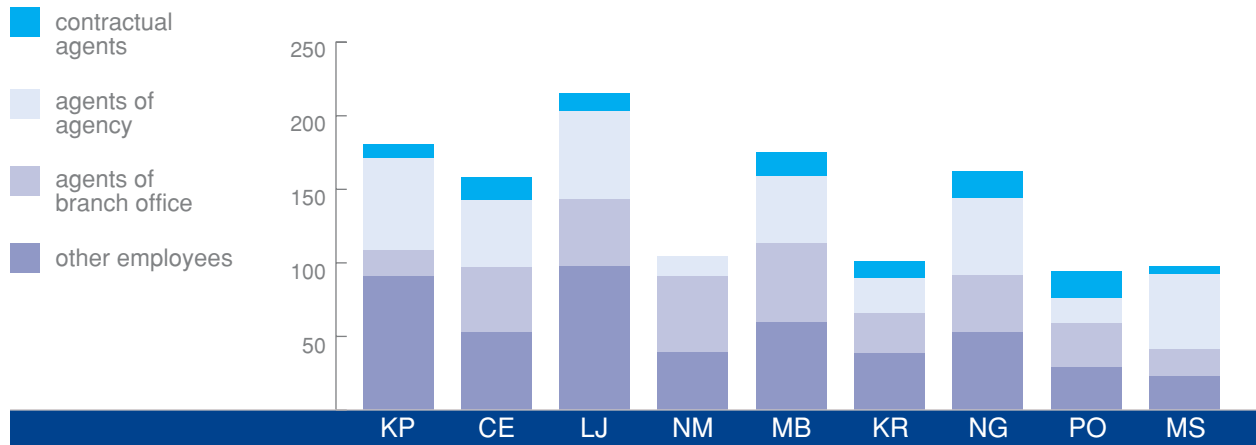
4.1.1

Number of employees and educational structure

In 2006 we have recruited mostly for value added jobs, i.e. in the fields of marketing expertise. In recruitment process we select candidates with development potential, corresponding competencies as well as values and interests that correspond to goals and organisation structure of the company. Despite new employments we reduced the number of employees by 1.5 % in comparison to 2005. At the end of 2006 the company employed 1,106 staff, which is a direct synergic effect of merger in the productivity sphere.

The company has a well-branched marketing network in all Slovenian regions, which yet strengthened by merger and counts to 780 insurance agents. At the end of 2006, within the framework of the branch offices and representative offices, the company's insurance products were marketed by 310 insurance agents, employed in ADRIATIC SLOVENICA, 354 agents who market our insurances through certified agencies as well as 116 contractual agents.

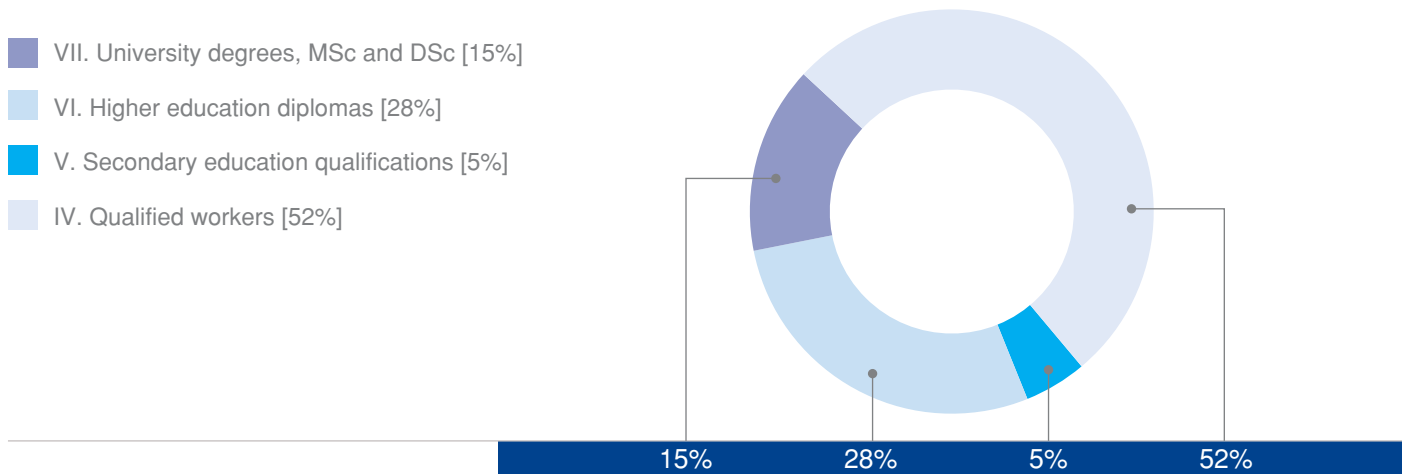
Number of employees in branch offices and certified agencies in 2006



Education structure of employees improves each year. At the end of 2006 the major share (52 percent) represent employees with 5th degree of technical education, as a

consequence of strengthening of insurance agents' network, yet 28 percent of all employees achieved 7th or higher degree of education.

Educational structure of employees in 2006



4.1.2

Education and development of employees

Through education we complete and develop competences of employees to the level which allows them to successfully manage working requirements and changes in working environment. With employees we stimulate and develop the ability of innovative problem solving, effective realisation of ideas and conceptions and the ability of individual as well as team work.

In the process of education and qualification most attention is given to groups of employees who have the highest influence on the key internal processes. These are employees who are in direct contact with customers, management and leading as well as professional employees within development. Due to introduction of new information support in the company the widest possible range of employees or 98 percent respectively was in 2006 included in education and trainings. Each employee was educated and qualified for 74 hours in average.

91 percent of all educations and trainings were organised within the company with the contents prepared for individual target groups. Because we are convinced that the effect of education is at highest level if we combine

knowledge coming from outside with the exchange and transfer of knowledge between the employees, 85 percent of educations were performed by our proper employees.

The result of educations and trainings is 37 employees, who in 2006 received a licence of Insurance Supervision Agency for independent practising of insurance agent activities, prescribed by the Insurance Act for insurance agents and all others employees, who independently conclude insurance contracts.

At the company, we are aware of the meaning and are stimulating acquisition of new knowledge, therefore we support employees also in studying in order to achieve higher degree of education. In 2006, 61 employees or 6 percent of all employees studied with the financial support of the company. Thereof 18 percent studied on postgraduate level. The result of such approach is, beside improved education structure of employees, also a high share, around 80 percent of employees, with adequate or higher degree of education as requested for working place they occupy.

4.1.3

Projects in the field of human resource management

In ADRIATIC SLOVENICA we introduced already in previous years up-to-date systems of human resource management, and in 2006 we completed them. Thus we have developed systems for selecting new employees and evaluation of their potential, education and development, annual development discussions and satisfaction measuring of employees and the organization climate. We have an elaborate methodology of monitoring human resource indicators for monitoring effectiveness and successfulness of human resource management function. Before the end of 2006 we have brought to the final

phase a project of a new wage system with methodology of monitoring working efficiency and a project of systematization renewal. We are completing a new information technology for monitoring and evaluation of employees' working efficiency, which will form the base for rewarding working efficiency regarding contribution of an individual. A base for introducing all projects in the field of human resources however is the signature of a new business collective wage agreement, expected in the beginning of 2007.

4.2

Relation towards social and natural environment

ADRIATIC SLOVENICA acts proactively, recognises and plans reactions to needs of the environment, as it strives for sustainable development of local as well as of wider social environment. Insurance company was also in 2006 involved in various activities and actions of organizations, institutions, unions and associations and within the frame of its own possibilities contributed to the realisation of initiatives and their needs. On this level, the company cooperates through projects, which are accordingly to the business politics performed as donations and sponsorship. In the field of cooperation, help and financial aid, defined in business politics of the company for 2006, ADRIATIC SLOVENICA traditionally supported especially projects in the field of health, education, culture and sport.

Priority field in the company ADRIATIC SLOVENICA remains support to health services. In spring of 2006 we, at the same time with presentation of the merged company in all nine regions, where the company has branch offices, **donated the up to date medical equipment and funds for prevention programmes to 9 hospitals, health houses and other medical institutions:** We made it possible to Health centre Ilirska Bistrica the purchase of a new ambulance, to General hospital of Dr. Franc Derganc Nova Gorica the purchase of the instrument for 24-hours blood pressure measurement, to Health centre Ljubljana the purchase of the tympanum-metre for needs of ORL dispensary, we helped General hospital in Murska Sobota with a purchase of the instrument for intra-operative measuring of blood flow, to Health centre Dr. Adolf Drovc Maribor with purchase of defibrillator for needs of child dispensary, we co-financed a project "School for healing asthma for children and their parents" to Youth health and holiday resort Debeli rtič, we financed preventive programmes for addicted to Foundation Vincenc Draksler, we helped the General hospital Trbovlje with purchase of new gynaecologic ultrasound appliance, we made it possible for Health centre Novo mesto to buy the ultrasound appliance. The company cooperates closely in the field of health insurance with performers of health services

and supports education and initiatives, which contribute to development and reputation of the health profession. At 10th jubilee of action My doctor the company was a sponsor of this all-Slovene action in which in selecting the best doctors took part over 14 thousand users of health services.

All branch offices of ADRIATIC SLOVENICA became in March 2006 **in collaboration with Unicef Slovenia safe points** within the frame of this all-Slovene project. The project was supported by the insurance company and was involved in it with voluntaries - employees of ADRIATIC SLOVENICA in 9 branch offices and thus contributed to higher safety of children and youngsters in the biggest city centres.

For **the safety of youngest participants in traffic** ADRIATIC SLOVENICA organised on the first school day, on 1 September 2006 a brand **new and unique social responsible action**. The action was carried out as common contribution to safety by a business company as well as by employees who were voluntary involved in the action, and at the same time it was a constituent part of the insurance company's effort to, along with quality offer of personal accident insurances, contribute to the safety in widest sense. On this occasion we also handed over to **Elementary school Koseze** means for the renewal of children playground and additional preventive education programmes for safer school.

The most visible and long-term cooperation of ADRIATIC SLOVENICA in the field of culture and education is going on with **Festival of Ljubljana, Theatre of Koper** and **University of Primorska**. The Festival of Ljubljana with his topmost programme is becoming an European scene of cultural offer and marked in 2006 under sponsorship of ADRIATIC SLOVENICA the theatre season with the top level Pandur's performance Tesla Electric Company. The Theatre of Koper is overgrowing into the regional culture centre of three most visible and various cultural institutions: Theatre of Koper, Avditorij Portorož and Galleries of Obala.

With the support to University of Primorska we ever

since the foundation try to establish qualitative, competitive and up-to-date education programmes, and in partnership within the frame of University we also cooperate with University incubator in the field of online insurance services trade project.

The support of ADRIATIC SLOVENICA to sport is various, most of the help is intended for top sports and Olympic representations ever since 1993 in cooperation with the **Olympic committee of Slovenia**. The protégé of AS is also Olympic athlete from OG in Athens, the sailor Vasilij Žbogar from Izola. The important support is given by the insurance company to all Slovene sports associations, among them Football association, Tennis association, Association of societies trotting central and Chess association of Slovenia as well as to various sports lines, associations and clubs. Among them let us mention: Football club Primorje, Basketball club Koper, Ski club Triglav Kranj, Handball club Cimos Koper, alpine associations Ljubljana Matica and Novo mesto and Sailing club Izola.

The World Cup Ugar 2006 - the culmination of equine

sport in Slovenia took place in September under the sponsorship of ADRIATIC SLOVENICA. The organizer received the recognition from more than 60 competitors from 16 countries and almost 3000 spectators who saw final competitions in obstacle jumps. Complete and complex insurance of the estate Ugar and the execution of event at the highest level was insured by AS.

Company's activity is not burdening to the environment, however ADRIATIC SLOVENICA is striving in all its branch offices for responsible treatment with natural sources and saving of non renewable energy sources. The company is carefully supervising consumption of energy and energetic effectiveness and takes care for adequate management and maintenance of all consumers in branch offices. Therefore it devotes lots of attention to economical heating and lightening, selects energetically economic buildings or renovates them appropriately and regularly updates driving park, and at the same time follows environmental safety recommendations and directives in this field.

5

Selected operating indicators

All data values in the indicators review are in thousand SIT.

in SIT '000

	Current year			Previous year		
	Data in numerator	Data in denominator	Indicator value	Data in numerator	Data in denominator	Indicator value
	Gross written premium of current year	Gross written premium of previous year		Gross written premium of current year	Gross written premium of previous year	
Gross written premium growth						
All insurances together	55.865.134	47.931.153	117%	47.931.153	30.948.744	155%
Non-life insurance except health insurance	33.136.986	32.033.153	103%	32.033.153	16.036.691	200%
Life insurance	3.969.200	2.673.717	148%	2.673.717	2.289.579	117%
Health insurance	18.758.948	13.224.283	142%	13.224.283	12.622.474	105%

in SIT '000

	Current year			Previous year		
	Data in numerator	Data in denominator	Indicator value	Data in numerator	Data in denominator	Indicator value
	Gross written premium of current year	Gross written premium of previous year		Gross written premium of current year	Gross written premium of previous year	
Gross claims paid trend						
All insurances together	35.936.634	29.447.000	122%	29.447.000	19.726.002	149%
Non-life insurance except health insurance	18.822.111	19.646.123	96%	19.646.123	10.588.055	186%
Life insurance	1.012.894	1.022.820	99%	1.022.820	1.019.791	100%
Health insurance	16.101.629	8.778.058	183%	8.778.058	8.118.156	108%

in SIT '000

	Current year			Previous year		
	Data in numerator	Data in denominator	Indicator value	Data in numerator	Data in denominator	Indicator value
	Gross claims paid	Gross written premium		Gross claims paid	Gross written premium	
Loss ratio						
All insurances together	35.936.634	55.865.134	64%	29.447.000	47.931.153	61%
Non-life insurance except health insurance	18.822.111	33.136.986	57%	19.646.123	32.033.153	61%
Life insurance	1.012.894	3.969.200	26%	1.022.820	2.673.717	38%
Health insurance	16.101.629	18.758.948	86%	8.778.058	13.224.283	66%

in SIT '000

	Current year			Previous year		
	Data in numerator	Data in denominator	Indicator value	Data in numerator	Data in denominator	Indicator value
	Operating expenses	Gross written premium		Operating expenses	Gross written premium	
Operating expenses in % of gross written premium						
All insurances together	14.790.689	55.865.134	26%	14.446.893	47.931.153	30%
Non-life insurance except health insurance	9.968.356	33.136.986	30%	10.175.622	32.033.153	32%
Life insurance	1.121.898	3.969.200	28%	935.543	2.673.717	35%
Health insurance	3.700.436	18.758.948	20%	3.335.728	13.224.283	25%

in SIT '000

	Current year			Previous year		
	Data in numerator	Data in denominator	Indicator value	Data in numerator	Data in denominator	Indicator value
	Acquisition costs	Gross written premium		Acquisition costs	Gross written premium	
Acquisition costs in % of gross written premium						
All insurances together	2.541.602	55.865.134	5%	2.247.258	47.931.153	5%
Non-life insurance except health insurance	2.009.852	33.136.986	6%	1.854.709	32.033.153	6%
Life insurance	79.962	3.969.200	2%	60.028	2.673.717	2%
Health insurance	451.788	18.758.948	2%	332.520	13.224.283	3%

in SIT '000

	Current year			Previous year		
	Data in numerator	Data in denominator	Indicator value	Data in numerator	Data in denominator	Indicator value
	Investment return	(Investment balance at the beginning of the year + investment balance at the end of the year)/2		Investment return	(Investment balance at the beginning of the year + investment balance at the end of the year)/2	
Investment efficiency in % of average investment balance						
All investments together	4.331.992	41.601.923	10%	2.760.480	45.982.579	6%
Investments of long-term business fund of life insurances	909.429	8.876.296	10%	703.895	7.910.646	9%
Investments of long-term business fund of life insurances, whereat policyholder bears the investment risk	223.192	1.259.245	18%	17.598	466.663	4%
Investments of long-term business fund of co-payment health insurances	245.710	3.184.694	8%	267.194	7.806.138	3%
Investments of long-term business fund of other health insurances	10.844	237.718	5%	-	-	-
Investments of long-term business fund of pension insurances	34.384	368.466	9%	9.109	289.722	3%
Investments of liability fund without long-term business fund	2.814.895	26.389.270	11%	1.839.813	27.537.352	7%
Investments of equity capital	93.538	1.286.235	7%	-77.128	1.972.057	-4%

in SIT '000

	Current year			Previous year		
	Data in numerator	Data in denominator	Indicator value	Data in numerator	Data in denominator	Indicator value
	Gross profit or loss of the current year	Net written premium		Gross profit or loss of the current year	Net written premium	
Gross profit or loss of the current year in % of net written premium						
- all insurances together	4.716.135	53.586.164	9%	793.057	45.897.622	2%
- non-life insurance except health insurances	3.919.335	30.906.763	13%	-2.063.879	30.049.797	-7%
- life insurance	275.536	3.920.453	7%	-964.199	2.623.542	-37%
- health insurance	521.264	18.758.948	3%	3.821.134	13.224.283	29%

in SIT '000

	Current year			Previous year		
	Gross profit or loss of the current year	(Capital balance at the beginning of the year + capital balance at the end of the year)/2	Indicator value	Gross profit or loss of the current year	(Capital balance at the beginning of the year + capital balance at the end of the year)/2	Indicator value
Gross profit or loss of the current year in % of average capital						
- all insurances together	4.716.135	12.926.284	36%	793.057	6.655.227	12%
- non-life insurance	4.440.598	11.980.230	37%	1.757.256	6.491.301	27%
- life insurance	275.536	946.054	29%	-964.199	163.926	-588%

in SIT '000

	Current year			Previous year		
	Gross profit or loss of the current year	(Assets balance at the beginning of the year + assets balance at the end of the year)/2	Indicator value	Gross profit or loss of the current year	(Assets balance at the beginning of the year + assets balance at the end of the year)/2	Indicator value
Gross profit or loss of the current year in % of average assets						
- all insurances together	4.716.135	71.497.266	7%	793.057	57.544.869	1%
- non-life insurance	4.440.598	59.417.338	7%	1.757.256	48.354.831	4%
- life insurance	275.536	12.775.129	2%	-964.199	9.190.038	-10%

in SIT '000

	Current year			Previous year		
	Gross profit	Nr. of shares	Indicator value (in SIT)	Gross profit	Nr. of shares	Indicator value (in SIT)
Gross profit or loss of the current year per share						
- all insurances together	4.716.135	6.671.280	707	793.057	3.666.580	216
- non-life insurance	4.440.598	6.671.280	666	1.757.256	3.666.580	479
- life insurance	275.536	6.671.280	41	-964.199	3.666.580	-263

in SIT '000

	Current year			Previous year		
	Net profit	(Capital balance at the beginning of the year + capital balance at the end of the year)/2	Indicator value	Net profit	(Capital balance at the beginning of the year + capital balance at the end of the year)/2	Indicator value
Gross profit or loss in % of average capital						
- all insurances together	3.234.842	12.926.284	25%	1.252.604	6.655.227	19%

in SIT '000

Available capital of insurance company in % of minimum capital of insurance company	Current year			Previous year		
	Available capital of insurance company	Minimum capital of insurance company	Indicator value	Available capital of insurance company	Minimum capital of insurance company	Indicator value
- all insurances together	11.464.962	6.868.483	167%	5.682.350	6.276.023	91%
- non-life insurance	10.654.828	6.283.920	170%	5.865.120	5.765.500	102%
- life insurance	810.134	584.563	139%	-182.769	510.524	-36%

in SIT '000

Net written premium in respect of average capital balance	Current year			Previous year		
	Net written premium	Average capital balance	Indicator value	Net written premium	Average capital balance	Indicator value
- all insurances together	53.586.164	12.926.284	415%	45.897.622	6.655.227	690%
- non-life insurance	49.665.710	11.980.230	415%	43.274.080	6.491.301	667%
- life insurance	3.920.453	946.054	414%	2.623.542	163.926	1600%

in SIT '000

Capital in respect of liabilities	Current year			Previous year		
	Capital	Liabilities	Indicator value	Capital	Liabilities	Indicator value
- all insurances together	17.059.946	79.508.621	21%	7.118.243	60.984.080	12%
- non-life insurance	15.298.282	65.770.898	23%	7.301.012	50.957.148	14%
- life insurance	1.761.664	15.128.127	12%	-182.769	10.026.932	-2%

in SIT '000

Net technical provisions in respect of liabilities	Current year			Previous year		
	Net technical provisions	Liabilities	Indicator value	Net technical provisions	Liabilities	Indicator value
- all insurances together	53.518.452	80.899.025	66%	49.574.609	60.984.080	81%
- non-life insurance	40.585.750	65.770.898	62%	39.403.877	50.957.148	77%
- life insurance	12.932.702	15.128.127	85%	10.170.732	10.026.932	101%

in SIT '000

Gross written premium in respect of number of full-time employees	Current year			Previous year		
	Gross written premium	Number of full-time employees	Indicator value	Gross written premium	Number of full-time employees	Indicator value
- all insurances together	55.865.134	1.118	49.969	47.931	1.130	42.436

Safe, | **to set out for a long journey**





6

Financial Report

All figures in financial statements are stated in thousand SIT. The financial reporting period is a calendar year. The Management Board hereby confirms financial statements for the year ending on 31 December 2006, from the point 7.1. to 7.4. and the used accounting

guidelines and explanations to financial statements from the point 7.5.1. to 7.5.5. of the annual report and business report, shown from point 1.1. to 6.

Statement of the Management's responsibility

The Management Board is responsible for preparing financial statements in such way, that they represent true and fair view of the company's property position and results of its operations for 2006.

The Management Board confirmed on 25 May 2007 financial statements, listed from point 7.1 to 7.4.

The Management Board confirms that all accounting guidelines were consistently used and all accounting estimations were made on the principle of prudence and good management. The Management Board also confirms that the financial statements together with explanations are made on the presumption basis of ongoing business and according to valid legislation and Slovenian Accounting Standards.

The Management Board is furthermore responsible for keeping proper accounting records, for adopting appropriate measurements to insure property and for preventing and discovering of frauds and other irregularities or illegitimacies respectively.

Tax authorities may at any time within five years after expiration of the year, in which the tax must be assessed, audit the company's operation, which consequentially may result in additional obligations of tax payment, interests for delay and fines from corporate profit tax or other taxes and duties. The Management Board is not aware of any circumstances which may lead to eventual important obligation thereof.

Koper, 25 May 2007

Milena Georgievski,
Member of the Management Board



Gabrijel Škof,
Deputy President of the Management Board



6.1 Balance sheet per 31 December 2006

in SIT '000

Description	31. 12. 2006	31. 12. 2005	1. 1. 2006
Assets	79.508.621	60.983.510	63.485.910
A. Intangible assets, long-term prepayments and accrued income	610.224	477.730	465.652
B. Investments in land and buildings and financial investments	63.623.625	47.956.981	49.927.244
I. Land and buildings	6.680.539	6.671.213	6.661.579
a.) Used in direct insurance operations	5.298.439	677.496	5.208.199
b.) Investments in fixed property, not intended for direct insurance	1.382.100	5.993.718	1.453.380
II. Financial investments in affiliated undertakings and participating interests	133.287	101.032	105.555
III. Other financial investments	56.809.799	41.184.736	43.160.110
IV. Reinsurers' financial investments in respect of reinsurance agreements at cedant	0	0	0
C. Investments for the benefit of life-assurance policyholders who bear the investment risk	2.450.703	623.231	623.231
D. Receivables	11.176.726	9.870.278	10.231.313
I. Receivables arising out of direct insurance operations	6.584.027	5.304.890	5.579.699
II. Receivables arising out of co- and reinsurance operations	384.869	431.705	411.234
III. Other receivables and deferred receivables for tax	4.207.830	4.133.684	4.240.380
IV. Unpaid called-up capital	0	0	0
E. Other assets	1.356.639	1.352.872	2.207.423
I. Tangible fixed assets except land and buildings	916.182	789.105	789.105
II. Pecuniary means	418.395	547.120	1.401.670
III. Inventories and other assets	22.062	16.648	16.648
F. Short-term prepayments and accrued income	290.704	702.418	31.047
G. Off-balance-sheet records	3.267.453	3.386.141	3.384.037

in SIT '000

Description	31. 12. 2006	31. 12. 2005	1. 1. 2006
Liabilities	79.508.621	60.983.510	63.485.910
A. Capital	17.059.946	7.117.673	8.792.623
I. Subscribed capital	6.671.280	3.666.728	3.666.728
II. Share premium account	708.037	707.934	707.934
III. Revenue reserves	1.156.082	1.035.931	1.035.931
IV. Revaluation surplus	2.954.166	4.918	910.618
V. Net company's results brought forward	3.287.497	583.252	2.471.412
VI. Net company's results for the financial year	2.282.884	1.118.910	0
B. Subordinated liabilities	960.155	959.897	959.897
C. Net technical provisions and deferred premium income	51.108.409	48.901.517	48.901.517
I. Net provisions for unearned premiums	15.323.967	13.447.862	13.447.819
II. Net mathematical provisions	10.258.848	12.093.421	12.093.421
III. Net claims outstanding	23.728.866	20.556.876	20.556.917
IV. Net provisions for bonuses and rebates	77.201	372.048	372.048
V. Equalization provision	312.993	336.937	336.937
VI. Other net technical provisions	1.406.534	2.094.373	2.094.375
D. Technical provisions for the benefit of life insured who bear investment risk	2.410.043	673.092	673.092
E. Provisions for other risk and charges	396.554	0	320.043
F. Liabilities for reinsurers' financial investments in respect of reinsurance agreements at cedant	0	0	0
G. Other liabilities	6.454.308	3.002.907	3.306.436
I. Liabilities arising out of direct insurance operations	2.324.233	544.488	468.790
II. Liabilities arising out of co- and reinsurance operations	469.652	459.736	456.352
III. Debenture loans	0	0	0
IV. Amounts owed to banks	0	0	0
V. Other liabilities	3.660.423	1.998.683	2.381.294
H. Accruals and deferred income	1.119.206	328.424	532.302
I. Off-balance-sheet records	3.267.453	3.386.141	3.384.037

6.2 Profit and loss account for 2006

in SIT '000

Description	Current year	Previous year
A. Technical account - Non-life insurance except health insurances		
I. Net revenues from insurance premiums	29.324.963	28.384.783
II. Allocated investment return transferred from the net technical account of insurance company (D. VIII.)	2.819.822	1.839.212
III. Other technical income, net of reinsurance	267.434	281.100
IV. Net claims incurred	(18.893.791)	(19.122.644)
V. Change in other net technical provisions (+/-)	687.657	(1.335.686)
VI. Net expenses for bonuses and rebates	130.861	(131.680)
VII. Net operating expenses	(9.613.886)	(9.807.780)
VIII. Other net insurance expenses	(929.618)	(2.859.609)
IX. Change in the equalization provision (+/-)	23.944	287.588
X. Balance on the technical account for non-life insurance except health insurances	3.817.386	(2.464.716)
B. Technical account - Life insurance		
I. Net revenues from insurance premiums	3.898.252	2.637.265
II. Investment income	981.188	903.586
III. Net unrealized profits on investments from life insured who bear investment risk	224.413	26.483
IV. Other net insurance income	363.875	246.598
V. Net claims incurred	(942.745)	(1.122.243)
VI. Change in other net technical provisions (+/-)	(2.788.946)	(2.301.017)
1. Change in mathematical provisions	(2.788.946)	(2.301.017)
2. Change in other technical provisions, net of reinsurance	0	0
VII. Net expenses for bonuses and rebates	0	0
VIII. Net operating expenses	(1.107.338)	(921.259)
IX. Investment charges	(37.726)	(196.950)
X. Unrealized losses on investments from life insured who bear investment risk	0	(151)
XI. Other net insurance expenses	(315.912)	(269.197)
XII. Allocated investment return transferred to the profit and loss account of ordinary operations (-)	(869)	(2.358)
XIII. Balance on the technical account - life insurance	274.192	(999.243)
C. Technical account - Health insurance		
I. Net revenues from insurance premium	18.487.589	13.418.943
II. Investment income	384.975	459.687
III. Other net insurance income	455	4.988
IV. Net claims incurred	(17.286.799)	(8.737.286)
V. Change in other net technical provisions (+/-)	2.893.248	2.379.165
1. Change in mathematical provisions	2.893.067	(101.189)
2. Change in other technical provisions, net of reinsurance	181	2.480.354

in SIT '000

Description	Current year	Previous yearNe
VI. Net expenses for bonuses and rebates	163.986	(170.719)
VII. Net operating expenses	(3.700.436)	(3.335.728)
VIII. Investment charges	(78.703)	(176.328)
IX. Other net insurance expenses	(323.043)	(223.770)
X. Allocated investment return transferred to the profit and loss account of ordinary operations (-)	(49.717)	(14.396)
XI. Balance on the technical account - health insurance before allocating half of positive balance of the technical account from co-payment health insurance	491.555	3.604.556
XII. Allocated half of positive balance of the technical account from co-payment health insurance (-)	(46.038)	0
XIII. Balance of the technical account - Health insurance (XI-XII)	445.517	3.604.556
Ca. Technical account - Co-payment insurance		
I. Net revenues from insurance premiums	17.560.670	0
II. Investment income	374.093	0
III. Other net insurance income	455	0
IV. Net claims incurred	(16.984.163)	0
V. Change in other net technical provisions (+/-)	2.863.945	0
1. Change in mathematical provisions	2.863.945	0
2. Change in other technical provisions, net of reinsurance	0	0
VI. Net expenses for bonuses and rebates	263	0
VII. Net operating expenses	(3.324.210)	0
VIII. Investment charges	(78.666)	0
IX. Other net insurance expenses	(270.595)	0
X. Allocated investment return transferred to the profit and loss account of ordinary operations (-)	(49.717)	0
XI. Balance on the technical account - health insurance before allocating half of positive balance of the technical account from co-payment health insurance	92.075	0
D. Calculation of net technical account of the insurance company		
I. Balance of the technical account - Non-life insurance except health insurances (A. X.)	3.817.386	(2.464.716)
II. Balance of the technical account - Life insurance (B. XIII.)	274.192	(999.243)
III. Balance of the technical account - Health insurance (C. XIII.)	445.517	3.604.556
IV. Investment income	3.043.185	2.585.822
V. Allocated investment return transferred from the life insurance technical account (B. XII.)	869	2.358
VI. Allocated investment return transferred from health-insurance technical account (C. X.)	49.717	14.396
VII. Investment charges	(185.340)	(841.669)
VIII. Allocated investment return transferred to non-life insurance except health insurance technical account (A. II.)	(2.819.822)	(1.839.212)
IX. Other income from insurance	12.884	12.022
X. Other charges from insurance	(11.176)	0
XI. Other income	89.447	730.712
XII. Other charges	(724)	(11.968)
XIII. Tax on profit	(1.455.374)	(446.931)
XIV. Deferred taxes	(25.919)	906.477
XV. Profit or loss for the financial year	3.234.842	1.252.604

6.3 Statement according to indirect determined cash-flow method

in SIT '000

Description	Current year	Previous year
A. Cash-flow at operations		
a) Items on profit and loss account	8.815.492	6.400.048
1. Net written premium within the period	53.586.909	45.891.227
2. Investment income (except financial income), financed from	4.633.950	3.465.053
2.1. technical provisions	4.517.575	2.733.415
2.2. other sources	116.374	731.638
3. Other income from operations (except for revaluation and without provision decrease) and financial income from operating receivables	734.094	1.275.419
4. Net claims paid within the period	-33.951.346	-25.777.502
5. Expenses paid for bonuses and discounts, mathematical provisions and equalization provisions	1.064.713	0
6. Net operating expenses without redemption costs and without change in acquisition costs accruals	-13.904.922	-13.512.163
7. Investment charges (without redemption and financial expenses) financed from	-286.139	-1.130.512
7.1. technical sources	-258.905	-366.612
7.2. other sources	-27.234	-763.900
8. Other operating expenses without redemption (except for revaluation and without provision increase)	-1.580.473	-3.364.545
9. Taxes on profit and other taxes, not covered in operating expenses	-1.481.293	-446.931
b) Change in net current assets (and accruals and deferrals and tax liabilities) of operating items on balance sheet	3.540.098	-223.618
1. Initial minus final receivables from direct insurances	-1.004.328	-430.095
2. Initial minus final receivables from reinsurances	26.365	18.200
3. Initial minus final other operating receivables	6.884	-693.168
4. Initial minus final prepayments and accrued income	-259.658	-53.795
5. Initial minus final deferred receivables for tax	25.666	906.478
6. Initial minus final inventories	-5.415	3.525
7. Final minus initial debts from direct insurances	1.855.443	-230.261
8. Final minus initial debts from reinsurances	13.300	-247.944
9. Final minus initial other operating debts	1.715.809	322.336
10. Final minus initial accruals and deferred income (except unearned premiums)	586.904	181.107
11. Final minus initial deferred liabilities for tax	579.126	0
c) Income surplus in operation or expense surplus in operation (a + b)	12.355.591	6.176.429

in SIT '000

Description	Current year	Previous year
B. Cash-flow at investing		
a) Income at investing	3.608.192	510.525
1. Income on interests, referring to investing and to	0	0
1.1. investments, financed from technical provisions	0	0
1.2. other investments	0	0
2. Income on share from third party's profit, referring to	0	0
2.1. investments, financed from technical provisions	0	0
2.2. other investments	0	0
3. Income on estrangement of intangible assets, financed from	0	0
3.1. technical provisions	0	0
3.2. other sources	0	0
4. Income on estrangement of tangible fixed assets, financed from	0	0
4.1. technical provisions	0	0
4.2. other sources	0	0
5. Income on estrangement of long-term financial investments, financed from	3.211.557	510.525
5.1. technical provisions	3.211.557	478.799
5.2. other sources	0	31.726
6. Income on estrangement of short-term financial investments, financed from	396.635	0
6.1. technical provisions	396.635	0
6.2. other sources	0	0
b) Expenses at investing	-19.936.249	-6.536.773
1. Expenses for acquirement of intangible assets	-271.087	-192.837
2. Expenses for acquirement of tangible fixed assets, financed from	-552.076	-226.083
2.1. technical sources	0	-62.827
2.2. other sources	-552.076	-163.256
3. Expenses for acquirement of long-term financial investments, financed from	-14.343.173	-6.082.320
3.1. technical sources	-14.343.173	-6.674.501
3.2. other sources	0	592.182
4. Expenses for acquirement of short-term financial investments, financed from	-4.769.912	-35.533
4.1. technical sources	-4.769.912	-35.533
4.2. other sources	0	0
c) Income surplus in investing or expense surplus in investing (a + b)	-16.328.057	-6.026.247

in SIT '000

Description	Current year	Previous year
C. Cash-flow at financing		
a) Income at financing	3.004.655	0
1. Income on paid-up capital	3.004.655	0
2. Income on obtained long-term loans	0	0
3. Income on obtained short-term loans	0	0
b) Expenses at financing	-15.463	-326.752
1. Expenses for interests given	0	0
2. Expenses for capital refund	0	0
3. Expenses for financial redemptions	258	-103
4. Expenses for short-term financial repayments	0	0
5. Expenses for payments of dividends and other profit shares	-15.721	-326.649
c) Income surplus in financing or expense surplus in financing (a + b)	2.989.192	-326.752
Č. Final balance of pecuniary means and its parallels	418.395	547.120
x) Cash result within a period (sum of surpluses A. c), B. c) in C. c)	-983.275	-176.570
y) Initial balance of pecuniary means and its parallels	1.401.670	723.689

6.4 Statement on capital movements

in SIT '000

Description	Subscribed capital		Capital reserves	Revenue reserves					Net company's results brought forward		Net company's results of financial year		Revaluation surplus		Total
	Nominal capital	Uncalled capital (as deductible)		Legal reserves	Reserves for retentions	Common shares and proper business shares	Statutory reserves	Other reserves from profit	Net profit brought forward	Net loss brought forward	Net profit of financial year	Net loss of financial year	General capital revaluation adjustment	Surplus from revaluation	
A. Balance per 31. 12. 2005	3.666.728	0	294.052	162.063	2.292	0	0	872.145	583.252	535	1.118.376	0	413.882	4.918	7.118.243
Transfers between items	0	0	0	0	0	0	0	0	1.811.049	-692.673	-1.118.376	0	0	0	0
Changes at transition to new SRS	0	0	413.882	0	0	-570	0	0	769.250	0	0	0	-413.882	0	768.680
Initial balance per 01. 01. 2006	3.666.728	0	707.934	162.063	2.292	-570	0	872.145	3.163.551	-692.139	0	0	0	4.918	7.886.923
B. Moves to capital	3.004.552	0	103	0	0	0	0	0	0	0	3.234.842	0	0	2.949.248	9.188.744
a) Subscription of called-up nominal capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
b) Subscription of uncalled nominal capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
c) Call of subscribed nominal capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
č) Entry of additional capital payments	3.004.552	0	0	0	0	0	0	0	0	0	0	0	0	0	3.004.552
d) Entry of net company's results for the financial year	0	0	0	0	0	0	0	0	0	0	3.234.842	0	0	0	3.234.842
e) Entry of capital revaluation amount	0	0	0	0	0	0	0	0	0	0	0	0	0	2.949.248	2.949.248
f) Other capital components increases	0	0	103	0	0	0	0	0	0	0	0	0	0	0	103
g) Purchase of common shares and proper business shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C. Moves within capital	0	0	0	120.152	0	0	0	0	0	831.806	-951.958	0	0	0	0
a) Allocation of net profit as a capital component under the decision of Management Board and Supervisory Board	0	0	0	120.152	0	0	0	0	0	0	-120.152	0	0	0	0
b) Allocation of net profit for setting additional reserves under the decision of the assembly of shareholders	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
c) Loss settlement as a deductible capital component	0	0	0	0	0	0	0	0	0	831.806	-831.806	0	0	0	0
č) Reserving for common shares and proper business shares from other capital components	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
d) Reserve reduction for common shares and proper business shares and allocation to other capital components	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
e) Dividend payments (account) in form of shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
f) Other allocations of capital components	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Č. Moves from capital	0	0	0	0	0	0	0	0	15.721	0	0	0	0	0	15.721
a) Dividends payments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
b) Capital refund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
c) Usage of revaluation surplus (for assets debilitation)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
č) Transfer of revaluation surplus (to operating income of financial income)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
d) Other removals of capital components	0	0	0	0	0	0	0	0	15.721	0	0	0	0	0	15.721
e) Estrangement of withdrawal of common shares and proper business shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
D. Final balance within period	6.671.280	0	708.037	282.215	2.292	-570	0	872.145	3.832.105	-544.608	2.282.884	0	0	2.954.166	17.059.946

Review of using balance profit or balance loss for 2006

in SIT '000

Description	Current year			Previous year		
	Life insurance	Non-life insurance	Total	Life insurance	Non-life insurance	Total
a) Net company's results for the financial year	147.530	3.087.311	3.234.842	-692.673	1.945.277	1.252.604
b) + profit brought forward / loss brought forward	-692.139	2.378.579	1.686.440	535	711.654	712.188
b) + profit brought forward at passing to new SRS	154.628	614.622	769.250	0	0	0
c) + reduction of reserves from profit	0	0	0	0	0	0
č) Increase of reserves from profit (legal reserves, proper share reserves and statutory reserves) and making up a loss under decision of Management Board	0	120.152	120.152	0	62.630	62.630
d) Increase of reserves from profit under decision of Management Board and Supervisory Board (other reserves from profit)	0	0	0	0	200.000	200.000
e) Balance profit (a+b+c-č-d), allocated by the assembly of shareholders	-389.981	5.960.361	5.570.381	-692.139	2.394.301	1.702.162
- to shareholders	0	0	0	0	0	0
- to other reserves	0	0	0	0	0	0
- for transfer into the next year	0	0	0	0	0	0
- for other purposes	0	0	0	0	15.721	15.721

6.5

Explanations to financial statements

6.5.1

General information on Company

- Company: ADRIATIC SLOVENICA zavarovalna družba d.d.
- Head office: Ljubljanska cesta 3a, Koper, Slovenia
- Legal form of organisation: joint stock company
- The company is entered in the court register with the District Court in Koper, entry nr. 1/015555/00.
- The company is registered for following operations:
 - 6601 - life insurance,
 - 6602 - pension funds operations,
 - 6603 - other insurances, except life insurance,
 - 6720 - auxiliary activities in insurance business and pension funds.

Managing company composing consolidated annual report for the narrowest scope of companies within the group and in relation to whom the company is a subordinate company: KD Holding d. d., Celovška 206, Ljubljana. Consolidated annual financial report of KD Holding d. d. is composed according to International Standards of Financial Reporting (ISFR). Consolidated annual report is available at its Head Office.

Managing company composing consolidated annual report for the widest scope of companies within the group: KD Group d. d., Celovška 206, Ljubljana. Consolidated annual financial report of KD Group d. d. is composed according to ISFR. Consolidated annual report is available at its Head Office.

ADRIATIC SLOVENICA d. d. paid out in 2006 the amount of SIT 120,673 thousand of income to members of Management Board, SIT 964,011 thousand of income to other workers of the company, employed based on the contract, for whom the tariff part of collective wage agreement does not apply, and SIT 20,978 thousand of session fees to members of Supervisory Board. In 2006 members of Supervisory Board received SIT 15,721 thousand from participation in balance profit sharing from 2005. Members of Management Board and other workers of the company, employed based on the contract, for whom the tariff part of collective wage agreement does not apply, did not receive any payments from extended profit in 2006. In 2006, the company approved of no advances and loans to members of Management Board, members of Supervisory Board and other workers of the company, employed based on the contract, for whom the tariff part of collective wage agreement does not apply, and approved of no guarantees for liabilities of these persons.

Pursuant to Article 57 of ZGD-1 ADRIATIC SLOVENICA d. d. is obliged to audit annual report. In 2006, the company consumed for all auditors' services the amount of SIT 31,470 thousand and calculated in advance costs in the amount of SIT 20,130 thousand, which will definitely arise for auditors' services in the next year and refer to auditing services of annual report 2006.

Amounts of auditors' auditing and other services

in SIT '000

Auditor	Auditing of annual report 2005	In advance calculated auditing costs for annual report 2006	Other auditing services	In advance calculated costs of other auditing services	Tax consultancy services	Other non-auditing services	Total of all services
Deloitte & Touche revizija d.o.o.						14.376	14.376
Ernst & Young d.o.o.	5.356					11.514	16.871
PricewaterhouseCoopers d.o.o.		14.378	223	5.752			20.353

6.5.2

Changes of financial statements due to passing to new Slovenian Accounting Standards

At the beginning of 2006 the operations of ADRIATIC SLOVENICA d. d. was denoted with important changes, occurred due to passing on usage of new Slovenian Accounting Standards (SRS 2006) and in places also with changes due to synchronic preparations for use of International Standards of Financial Reporting (ISFR) by 1 January 2007.

At passing to SRS 2006 the company followed all regulations, defined in item 15 of the Introduction to SRS 2006, and pursuant to regulations kept a record in balance sheet of a new opening balance per 1 January 2006.

The company composed financial statements for 2006 according to SRS 2006. Due to changes of SRS the

comparing figures in balance sheet for 2005 are logically reallocated in the valid balance scheme and by calculated amounts by SRS 2006 per 01 January 2006. In the profit and loss account the figures for 2005 are logically reallocated in the valid scheme of profit and loss account. Among new SRS 2006 especially changed general SRS from 1 to 30 influenced the changes in insurance business, while SRS 32 handling specificities of insurance companies did not change significantly.

The most important effects of changes, which due to adjustments and calculations represent a result of passing to new SRS 2006 and influenced operating results brought forward and revaluation surplus, are as follows:

Effect of changes

in SIT '000

Assets specification	Balance per 31. 12. 2005	Operating results brought forward		Revaluation surplus		Transfer to other items of assets/liabilities	Transfer of financial investments to pecuniary means	Balance per 1. 1. 2006
		Debit	Credit	Debit	Credit			
Intangible long-term assets, long-term prepayments and accrued income	477.730	12.026	0	0	0	-51	0	465.653
Land and buildings	6.671.214*	0	0	4.888	0	-4.747	0	6.661.579
FINANCIAL INVESTMENTS (Financial investments in companies in group or in associated companies, other financial investments and investments for the benefit of life insured who bear investment risk)	41.908.999	0	972.387	0	1.214.117	647.944	-854.551	43.888.896
Pecuniary means	547.120	0	0	0	0	0	854.551	1.401.671
Prepayments and accrued income	702.418	0	0	0	0	-671.371	0	31.047
Receivables arising out of direct insurance operations	5.304.889	0	274.809	0	0	0	0	5.579.698
Receivables for deferred tax	906.478	0	57.860	0	0	0	0	964.338
Liabilities for deferred tax	0	0	0	0	-303.529	0	0	-303.529
Provisions for other risks and charges	0	320.043	0	0	0	0	0	-320.043
Accruals and deferred income	-328.424	203.737	0	0	0	-141	0	-532.302
Other items of assets/liabilities	0	0	0	0	0	28.366	0	28.366
Total effect	-	535.806	1.305.056	4.888	910.588	-	-	-
Total effect balance	-	-	769.250	-	905.700	-	-	-

* Note: Significant structural changes within lands and buildings are shown in a separated table.

Review of receivables and liabilities for deferred tax by individual categories and effect on operating result brought forward and revaluation surplus

in SIT '000

Assets specification	Balance per 31. 12. 2005	Operating results brought forward			Revaluation surplus	Balance per 1. 1. 2006
		Financial investments	Provision for other risks	Receivables arising out of direct insurance operations	Financial investments	
Receivables for deferred tax	906.478	38.200	80.010	-16.228	0	1.008.460
Liabilities for deferred tax	0	-44.122	0	0	-303.529	-347.651
Total effect	906.478	-5.922	80.010	-16.228	-303.529	660.809
Total effect balance	-	-	57.860	-	-	-

Liabilities for deferred tax, not formed at passing to new SRS 2006 and referring to the passage

in SIT '000

Description	Non-life	Life	Total
Basis in respect of changing PV receivables for premium	254.913	19.896	274.809
in respect of financial investment revaluation	807.054	165.332	972.386
less income elimination due to removal of debilitation	661.868	154.423	816.290
Basis for unaccounted liability for deferred tax at passage	400.099	30.806	430.905
Liability for deferred tax	100.025	7.702	107.726

At passing to new SRS 2006 the accounting of receivables value adjustment has changed, namely at passing the new methodology was followed only in forming receivables

adjustments, while receivables for deferred taxes and liabilities for deferred taxes were formed by methodology valid before the beginning of 2006.

Receivables for deferred tax, not formed at passing to new SRS 2006 and referring to the passage

in SIT '000

Description	Non-life	Life	Total
Basis in respect of NDS	12.026	-	12.026
Basis for unaccounted receivable for deferred tax at passage	12.026	-	12.026
Receivable for total deferred taxes	3.007	-	3.007

In case that at passing the above stated receivables and liabilities for deferred tax would be formed, a total effect would influence the reduction of profit brought forward from previous years in the amount of SIT 104,720 thousand.

Among intangible fixed assets a part of long-term deferred expenses for development of computer projects and a part of investments into foreign fixed assets were reallocated to debit of operating result brought forward; a total change effect amounts to SIT 12,026 thousand.

Financial investments were reallocated into four new groups of financial investments, namely to financial investments measured by fair value through operating result, financial investments in possession till due date for payment, financial investments into loans or receivables and financial investments available for sale. Reallocation of financial investments into new groups influenced the structural change within the frame of presenting financial investments

maturities, namely the company classified among short-term financial assets all investments measured by fair value through operating result, while it classified among long-term financial investments those investments, which in long term should achieve a certain yield and not be marketed with. Beside the reallocation also a financial investments revaluation was done due to passing from valuation according to purchase value to valuation according to fair value. Total change effect is recorded to credit of operating result brought forward in the amount of SIT 972,387 thousand and to credit of revaluation surplus in the amount of SIT 1,214,117 thousand. As a result of changed SRS among financial investments also interests belonging to principles are being stated, which in previous years were presented among prepayments and accrued income, to wit in the amount of SIT 671,371 thousand.

Structural changes of financial investments maturity

in SIT '000

Investment specification	31. 12. 2005	1. 1. 2006	Difference at passing to new SRS
Other financial investments	41.184.736	43.160.110	1.975.374
1. Long-term financial investments	30.125.598	33.605.859	3.480.262
Shares and other securities with variable yield and fund coupons	4.642.913	10.203.081	5.560.168
Loan stock and other securities with fixed yield	24.454.791	22.716.629	-1.738.162
Shares in investment funds	259.727	0	-259.727
Given mortgages	11.127	0	-11.127
Given loans, secured with lien	0	8.712	8.712
Other given loans	3.241	5.953	2.712
Bank deposits	670.974	671.484	510
Other financial investments	82.824	0	-82.824
2. Short-term financial investments	11.059.138	9.554.251	-1.504.888
Shares and portions bought for sale	6.387.000	4.014.744	-2.372.256
Securities bought for sale respectively with remaining maturity till one year	2.437.419	4.150.100	1.712.681
Given short-term loans	99.954	99.747	-206
Short-term bank deposits	2.134.680	1.284.772	-849.908
Other short-term financial investments	86	4.888	4.802

Anew were formed provisions for jubilee awards and superannuation redundancies in the amount of SIT 320,043 thousand. Effect of change was recorded to debit of operating result brought forward.

Within the frame of accruals and deferred income the provisions for unexploited holidays were formed anew, which influenced increase of in advance calculated costs in the amount of SIT 203,737 thousand, while the effect of change in the same amount was recorded to debit of operating result brought forward.

Within the frame of receivables from premium at passing to new SRS 2006 the accounting procedure of receivables value adjustment was changed, whereat due to new methodology of receivables value adjustment formation in respect of receivables adjustment from

premium the effect of change in the amount of SIT 274,809 thousand was recorded to credit of operating result brought forward.

Also receivables for deferred tax had influence on operating result brought forward, namely in the amount of SIT 80,011 from formed provisions for jubilee awards and superannuation redundancies, while within the frame of this item the value was reduced by receivables for deferred tax in respect of receivables value adjustment from premium due to changed methodology in the amount of SIT 16,228 thousand and receivables for deferred tax from long-term and short-term financial investments in the amount of SIT 5,922 thousand.

When passing to new SRS 2006 also liabilities for deferred tax from financial investments were

acknowledged, influencing the reduction of revaluation surplus in the amount of SIT 303,529 thousand.

Callable deposits were transferred to pecuniary means.

When passing to new SRS 2006 the company performed also more significant structural changes within financial investments, namely based on performed appraisal of authorized appraiser from company Tekos d.o.o. lands and buildings were reallocated to lands and buildings intended for direct insurance operations and to lands and buildings presented among investment real-estates. Beside the above mentioned also a division to land and

corresponding land shares was performed within the frame of real-estates. After the performed reallocation the balance of investment real-estates per 01 January 2006 was reduced by SIT 9,635 thousand, whereat the investment real-estate, located in Postojna, was reallocated to other short-term financial investments in possession for sale in the amount of SIT 4,747 thousand and to revaluation surplus in the amount of SIT 4,888 thousand. Effect of change is shown under item of lands and buildings in the tables above, showing effect at passing to the new SRS.

in SIT '000

Land and buildings	Balance per 31. 12. 2005	Investment real-estates		Tangible fixed assets		Balance per 1. 1. 2006
		Increase	Decrease	Increase	Decrease	
Used in direct insurance operations	677.496			4.530.703		5.208.199
Land used in direct insurance operations	82.000			1.062.547		1.144.547
Buildings used in direct insurance operations	595.496			3.468.157		4.063.653
Investments in fixed property, not intended for direct insurance operations	5.993.718		4.530.703			1.463.014
Land	227.930	156.939				384.870
Buildings	5.765.787		4.697.277			1.068.510

At passing to new SRS 2006 the balance of general capital revaluation adjustment, which per 31 December 2005

amounted to SIT 413,882 thousand, was at opening on 01 January 2006 entirely transferred among capital reserves.

in SIT '000

Assets specification	Balance per 31. 12. 2005	Transfer of general capital revaluation adjustment		Balance per 1. 1. 2006
		Debit	Credit	
General capital revaluation adjustment	413.882	413.882	0	0
- property	307.074	307.074		0
- life	106.808	106.808		0
Capital reserves	294.052	0	413.882	707.934
- property	294.052		307.074	601.126
- life	0		106.808	106.808

6.5.3

Figures and illustrations regarding accounting guidelines

Financial statements for ADRIATIC SLOVENICA zavarovalna družba d. d. for 2006 are composed according to provisions of Companies Act (ZGD-1), Slovenian Accounting Standards (SRS 2006), especially SRS 32 regulating accounting proposes for insurance companies, and Decree on annual report and quarterly financial statements of insurance companies, issued by Insurance Supervision Agency (Official Gazette of Republic of Slovenia Nr. 111/02, 129/03, 74/04, 139/04, 89/05 and 31/06). For composition of financial data is among executive regulations, issued on the basis of Insurance Act, of great importance also a Decree on detailed book items evaluation method and on financial statements composing (Official Gazette of Republic of Slovenia Nr. 95/02, 30/03 and 128/06).

The importance grade in disclosure of financial statement categories is 2 % of capital book value, unless a lower

limit is set by Companies Act, Decree on annual report and quarterly financial statements of insurance companies, or SRS 32. The capital book value per 31 December 2006 amounts to SIT 17,059,946 thousand, meaning that the importance limit in disclosures to financial statements for 2006 amounts to SIT 341,199 thousand.

All amounts, originally nominated in foreign currency, were converted into SIT according to the middle rate of exchange of Bank of Slovenia per 31 December 2006.

All figures in illustrations to financial statements are stated in thousand SIT, as well as all data values in tables are stated in thousand SIT. Sums in tables are rounded up to thousand SIT, therefore the sum of rounded-up amounts does not always correspond to the value of sum. In disclosures, the expression reinsurance also refers to coinsurance, except in case, when coinsurance is being explicitly quoted.

6.5.4 Disclosures to Balance sheet

Intangible long-term assets, long-term prepayments and accrued income

Movement of intangible long-term assets and long-term prepayments and accrued income of non-life insurances in 2006 and final balance per 31 December 2006

in SIT '000

	Reputation	Long-term deferred expenses	Investments in rights to industrial property	Advances on intangible long-term assets	Total
Purchase value					
1 January 2006	0	1.705.846	0	0	1.705.846
Increases by merger	0	0	0	0	0
Direct increases - investments	0	380.396	0	0	380.396
Indirect increases - advances	0	116.126	0	0	116.126
Decreases during the year	0	-383.195	0	0	-383.195
Revaluation for strengthening	0	0	0	0	0
Moves between groups of NS and OOS	0	284.942	0	0	284.942
Other changes	0	0	0	0	0
Balance per 31 December 2006	0	2.104.115	0	0	2.104.115
Value adjustment					
1 January 2006	0	1.240.193	0	0	1.240.193
Increases by merger	0	0	0	0	0
Redemption within the year	0	125.320	0	0	125.320
Decreases during the year	0	-143.804	0	0	-143.804
Revaluation for debilitation					0
Revaluation for strengthening	0	0	0	0	0
Moves between groups of NS and OOS	0	272.184	0	0	272.184
Other changes	0	0	0	0	0
Balance per 31 December 2006	0	1.493.893	0	0	1.493.893
Current value per 1 January 2006	0	465.653	0	0	465.653
Current value per 31 December 2006	0	610.223	0	0	610.223

Long-term property rights per 31 December 2006

in SIT '000

Assets specification	Value not written off per 31. 12. 2006
Project of information system renovation	50.602
Licence OSL	48.407
Internet Application	31.456
Oracle Real Application Cluster - LICENCE	20.164
Programme recovery	13.240
Licence for Microsoft Software	9.294
Other property rights - software	130.786
TOTAL LONG-TERM PROPERTY RIGHTS	303.949

Long-term deferred expenses for development of computer projects per 31 December 2006

in SIT '000

Assets specification	Value not written off per 31. 12. 2006
Project SKOK	18.318
Project EPA 2002	34.419
Project MIG-2003	18.728
Project VAR-1,2	12.850
Project INIS	179.653
TOTAL LONG-TERM DEFERRED DEVELOPMENT EXPENSES	263.968

INVESTMENTS IN LAND AND BUILDINGS AND FINANCIAL INVESTMENTS

Investments in land and buildings

Movement of investments in land and buildings in 2006 and final balance per 31 December 2006

in SIT '000

Investment line	Value at the beginning of financial year			Changes during the year			Book value at the end of financial year
	Purchase value	Value adjustments	Book value	Acquirements	Estrange-ments	Value adjustment	
NON-LIFE INSURANCE							
USED IN DIRECT INSURANCE OPERATIONS							
Investments in land							
Land used in direct insurance operations	1.144.546	0	1.144.546	35.700	0	0	1.180.246
Investments in buildings							
Buildings used in direct insurance operations - administrative building and office space	4.599.281	552.890	4.046.391	100.900	0	55.559	4.091.732
Buildings used in direct insurance operations - administrative building and office space under construction or composition	1.270	0	1.270	9.365	0	0	10.635
Buildings used in direct insurance operations - acquired by financial lease	16.302	310	15.992	0	0	166	15.826

in SIT '000

Investment line	Value at the beginning of financial year			Changes during the year			Book value at the end of financial year
	Purchase value	Value adjustments	Book value	Acquirements	Estrange-ments	Value adjustment	
INVESTMENTS NOT INTENDED FOR USE IN DIRECT INSURANCE OPERATIONS							
Investments in land, financed from PSOI	5.348	0	5.348	0	0	0	5.348
Investments in land, financed from TSOI	355.878	0	355.878	0	19.788	0	336.090
Investments in buildings, financed from PSOI	5.325	2.679	2.646	34.104	0	6.811	29.939
Investments in buildings, financed from TSOI	1.136.228	125.727	1.010.501	0	80.277	-2.414	932.638
TOTAL NON-LIFE INSURANCE INVESTMENTS IN LAND AND BUILDINGS	7.264.178	681.606	6.582.572	180.069	100.065	60.122	6.602.454
LIFE INSURANCE							
INVESTMENTS NOT INTENDED FOR USE IN DIRECT INSURANCE OPERATIONS							
Investments in land	23.643	0	23.643	0	0	0	23.643
Investments in buildings	70.931	15.568	55.363	0	0	922	54.441
TOTAL LIFE INSURANCE INVESTMENTS IN LAND AND BUILDINGS	94.574	15.568	79.006	0	0	922	78.084
TOTAL NON-LIFE AND LIFE INSURANCE INVESTMENTS IN LAND AND BUILDINGS	7.358.752	697.174	6.661.578	180.069	100.065	61.044	6.680.538

Within the frame of investments in land and buildings used in direct insurance operations we bought in 2006 business premises in Ljubljana, Celovška 91 and additional smaller premises in Postojna, Novi trg 6. The value increase of buildings under construction used in direct insurance operations refers to documentation preparation regarding premises solution in Koper,

Ljubljanska cesta 3. Value adjustment refers to accounted redemption.

Buildings, acquired by financial lease in the amount of SIT 15,825 thousand, refer to business premises in Ilirska Bistrica.

In investments in land and buildings from non-life insurance, not intended for direct insurance operations, it

is within the frame of acquisitions a matter of transfer of three real-estates from investments to buildings, financed by means of liability fund, to buildings financed from equity capital of non-life insurance, while the

remaining part of SIT 65,960 thousand in estrangements refers to selling premises in Ljubljana, Slovenska cesta 56; the corresponding value adjustment amounts to SIT 10,720 thousand.

Comparison of book values and fair values of investment real-estates at the end of financial year 2006

in SIT '000

Investment line	Book value at the end of financial year	Fair value at the end of financial year
INVESTMENTS NOT INTENDED FOR USE IN DIRECT INSURANCE OPERATIONS		
NON-LIFE INSURANCE		
Investments in land, financed from PSOI	5.348	3.367
Investments in land, financed from TSOI	336.090	601.285
Investments in buildings, financed from PSOI	29.939	27.476
Investments in buildings, financed from RSOI	932.638	1.981.589
TOTAL NON-LIFE INSURANCE INVESTMENTS IN LAND AND BUILDINGS	1.304.015	2.613.717
LIFE INSURANCE		
Investments in land	23.643	29.739
Investments in buildings	54.441	89.217
TOTAL LIFE INSURANCE INVESTMENTS IN LAND AND BUILDINGS	78.084	118.956
TOTAL NON-LIFE AND LIFE INSURANCE INVESTMENTS IN LAND AND BUILDINGS	1.382.099	2.732.673

Insurance company ADRIATIC SLOVENICA d. d. did not reevaluate investment real-estates in financial year 2006 due to strengthening, but carried out an appraisal of real-estates, which is shown separately in the column of fair values. Real-estates revaluation was done for buildings and lands, belonging among tangible fixed assets, namely in the second half of 2006 at last, whereat it was established, that there are no greater differences between market and book values.

FINANCIAL INVESTMENTS IN AFFILIATED UNDERTAKINGS AND PARTICIPATING INTERESTS

Adriatic Slovenica d. d. was in 2006 a parent company to following companies:

Zap, zavarovalno zastopniška družba d. o. o.

Head office: Lendavska ulica 22, 9000 Murska Sobota, Slovenia
 Company identification number: 5401305
 VAT Id Number: 40407942
 Nr. of employees: 17
 Line of business: Auxiliary activities in insurance business and pension funds
 The company is to 100 % owned by parent company.
 Nominal amount of capital shares: SIT 2,100 thousand
 Operating result in 2006: SIT 1,508 thousand

Assistance Coris d. o. o.

Head office: Ulica Bratov Babnik 10, 1000 Ljubljana, Slovenia
 Company identification number: 5775582
 VAT Id Number: 67556639
 Nr. of employees: 10

Line of business: Auxiliary activities in insurance business and pension funds

The company is to 37.94-percent owned by parent company.

Nominal amount of capital shares: SIT 2,100 thousand

Operating result in 2006: SIT 155,492 thousand

NGP nizke gradnje d. d.

Head office: Puhova ulica 6, Ptuj, Slovenia

Company identification number: 5481503

VAT Id Number: 70652704

Nr. of employees: in average 70.59 in 2004

Line of business: Construction of roads, railway lines, airports

The company is to 20.00-percent owned by parent company.
Nominal amount of capital shares: SIT 90,700 thousand

Pursuant to item 8 Art. 56 of ZGD-1 Adriatic Slovenica d.d. did not prepare consolidated financial statements for 2006, as the subordinated companies are individually and jointly too small to significantly influence the genuine and fair presentation of financial situation and operating result of the group. With exception of investment into Assistance Coris d. o. o., which was assessed by capital method, all other above mentioned investments were in 2006 assessed by investment method.

OTHER FINANCIAL INVESTMENTS

Other financial investments from life insurance per 31 December 2006

in SIT '000

Investment line	Balance value at the beginning of financial year	At the end of financial year				
		Gross value	Adjustment	Balance value	Structure in %	Change of balance values
1. Long-term financial investments	7.604.555	10.799.160	-124.658	10.674.502	87,4	3.069.947
Shares and other securities with variable yield and mutual fund coupons and participations in other funds	806.745	2.025.766	-28.811	1.996.956	16,3	1.190.210
Loan stock and other securities with fixed yield	6.792.210	8.773.394	-95.847	8.677.547	71	1.885.337
Shares in investment funds	0	0	0	0	0	0
Given mortgages	0	0	0	0	0	0
Given loans, secured with lien	0	0	0	0	0	0
Other given loans	0	0	0	0	0	0
Bank deposits	5.600	0	0	0	0	-5.600
Other financial investments	0	0	0	0	0	0
2. Short-term financial investments	1.708.794	1.552.005	-8.987	1.543.018	12,6	-165.776
Shares and portions for sale	1.263.065	914.896	-14	914.882	7,5	-348.182
Securities bought for sale respectively with remaining maturity till one year	342.611	520.648	-638	520.010	4,3	177.399
Given short-term loans	82.311	8.335	-8.335	0	0	-82.311
Short-term bank deposits	20.806	108.125	0	108.125	0,9	87.319
Other short-term financial investments	0	0	0	0	0	0
TOTAL FINANCIAL INVESTMENTS	9.313.350	12.351.165	-133.645	12.217.521	100	2.904.171

Within the frame of investment balance value from life insurance into loan stock and other securities with fixed yield SIT 5,817,937 thousand refers to debentures issued by Republic of Slovenia, SIT 1,596,845 thousand to

debentures issued by EU member countries, and SIT 1,534,637 to bank and entrepreneurial debentures.

Other financial investments from non-life insurance per 31 December 2006

in SIT '000

Investment line	Balance value at the beginning of financial year	At the end of financial year				
		Gross value	Adjustment	Balance value	Structure in %	Change of balance values
1. Long-term financial investments	26.001.304	34.655.393	-620.152	34.035.241	76,3	8.033.937
Shares and other securities with variable yield and mutual fund coupons and participations in other funds	9.396.335	14.877.299	-545.344	14.331.956	32,1	4.935.620
Loan stock and other securities with fixed yield	15.924.419	19.293.763	-74.808	19.218.955	43,1	3.294.536
Shares in investment funds	0	0	0	0	0	0
Given mortgages	0	0	0	0	0	0
Given loans, secured with lien	8.712	0	0	0	0	-8.712
Other given loans	5.953	4.331	0	4.331	0	-1.622
Bank deposits	665.884	480.000	0	480.000	1,1	-185.884
Other financial investments	0	0	0	0	0	0
2. Short-term financial investments	7.845.456	10.635.731	-78.694	10.557.037	23,7	2.711.581
Shares and portions for sale	2.751.679	3.006.142	-8.289	2.997.853	6,7	246.174
Securities bought for sale respectively with remaining maturity till one year	3.807.488	3.103.042	-39.715	3.063.327	6,9	-744.161
Given short-term loans	17.436	48.552	-30.690	17.862	0	425
Short-term bank deposits	1.263.965	4.473.108	0	4.473.108	10	3.209.143
Other short-term financial investments	4.888	4.888	0	4.888	0	0
TOTAL FINANCIAL INVESTMENTS	33.846.760	47.291.124	-698.846	44.592.278	100	10.745.518

Within the frame of investment balance value from non-life insurance into loan stock and other securities with fixed yield SIT 11,552,234 thousand refers to debentures issued by Republic of Slovenia.

For given short-term loans from previous years, for which judicial proceedings are instituted, adjustments up to entire

value in a total amount of SIT 39,025 thousand are being formed.

Within the frame of short-term investments the investment real-estate in possession for sale are comprised in the amount of SIT 4,888 thousand.

Review of financial investments in the balance sheet, assessed by fair value and classified by the purpose, by individual groups per 31 December 2006

in SIT '000

Financial means per 31 December 2006	LIFE		NON-LIFE		Total of all insurances	
	Fair value	Original value	Fair value	Original value	Fair value	Original value
Financial means according to fair value through operating result	3.835.582	3.157.687	6.061.180	4.713.586	9.896.762	7.871.272
Financial investments in possession till due date for payment	-	-	-	-	-	-
Loans and receivables, deposits	158.139	166.335	4.975.300	4.972.069	5.133.439	5.138.405
Financial means available for sale	10.691.683	10.105.787	33.667.017	30.046.642	44.358.700	40.152.429
Total	14.685.404	13.429.809	44.703.497	39.732.297	59.388.901	53.162.106

In the balance sheet all financial investments are assessed by fair value and no investment is assessed by original value. In the table also the original investment value is shown.

The company has no long-term financial investments, representing subordinated instruments at issuer.

INVESTMENTS FOR THE BENEFIT OF INSURED WHO BEAR THE INVESTMENT RISK

Investments for the benefit of life insured who bear the investment risk and which amount to total SIT 2,450,703 thousand, are in the amount of SIT 2,400,689 thousand invested into mutual funds, according to the choice of policyholders. Means of insured of Azija Garant product are invested into investment certificates linked to the index of selected mutual funds and principle guarantee by the issuer Deutsche Bank AG London. The difference in the amount of SIT 50,014 thousand represents the balance of bank deposits with accrued interests per 31 December 2006.

RECEIVABLES

Structure of receivables in gross and net value

in SIT '000

Description	Balance per 31. 12. 2006			1. 1. 2006	Index
	Gross value	Value adjustment	Net value	Net value	
Receivables arising out of direct insurance operations	9.079.704	2.495.677	6.584.027	5.579.699	118,0
- receivables towards policyholders	8.960.392	2.436.324	6.524.068	5.459.894	119,5
- receivables towards insurance brokers	52.405	42.894	9.511	83.933	11,3
- other receivables arising out of direct insurance operations	66.907	16.459	50.448	35.872	140,6
Receivables arising out of co- and reinsurance operations	385.260	391	384.869	411.234	93,6
- receivables for premium from accepted co-insurance	34.969	10	34.959	37.192	94,0
- receivables for shares of claims from co-insurance	101.522	381	101.141	44	229.865,9
- receivables for shares of claims from reinsurance	248.769	0	248.769	373.998	66,5
- other receivables arising out of co- and reinsurance operations	0	0	0	0	0,0
Other receivables	11.729.190	7.521.360	4.207.830	4.240.381	99,2
- other short-term receivables arising out of insurance operations	6.020.346	3.698.656	2.321.690	2.154.887	107,7
- short-term receivables from financing	108.332	47.719	60.613	32.814	184,7
- other short-term receivables	6.788.655	3.770.002	3.018.653	1.053.934	286,4
- other short-term receivables - internal reconciliation between receivables and liabilities	-1.265.888	0	-1.265.888	0	-
- other long-term receivables	21.729	4.983	16.746	34.407	48,7
- deferred receivables for tax	180.532	0	180.532	964.339	18,7
- deferred receivables for tax - internal reconciliation between receivables and liabilities	-124.516	0	-124.516	0	-
TOTAL RECEIVABLES	21.194.154	10.017.428	11.176.726	10.231.314	109,2

Receivables arising out of direct insurance operations

in SIT '000

Description	1. 1. 2006			31. 12. 2006		
	Gross value	Adjustment	Adjustment in %	Gross value	Adjustment	Adjustment in %
Receivables towards policyholders	7.351.598	1.891.705	25,7	8.960.392	2.436.324	27,2
- non-life insurance, except health insurances	4.826.897	1.379.802	28,6	5.335.578	1.639.574	30,7
- life insurance	176.196	7.960	4,5	148.102	5.986	4,0
- health insurance	2.348.505	503.943	21,5	3.476.712	790.764	22,7
Receivables towards insurance brokers	123.158	39.225	31,8	52.405	42.894	81,9
- non-life insurance, except health insurances	26.006	37.705	145,0	44.112	41.374	93,8
- life insurance	0	0	0	0	0,0	
- health insurance	97.152	1.520	1,6	8.293	1.520	18,3
Other receivables arising out of direct insurance operations	52.929	17.057	32,2	66.906	16.458	24,6
- non-life insurance, except health insurances	52.349	16.497	31,5	47.301	15.887	33,6
- life insurance	226	206	91,2	14.000	217	1,6
- health insurance	354	354	100,0	5.605	354	6,3
TOTAL	7.527.685	1.947.987	25,9	9.079.703	2.495.676	27,5

Maturity structure of receivables towards policyholders at the end of 2006

in SIT '000

Description	Non-life insurance (Gross value)	Structure (in %)	Life insurance (Gross value)	Structure (in %)
Mature receivables	5.160.860	58,6	62.107	41,9
- up to 30 days	672.099	7,6	40.512	27,4
- from 31 till 60 days	372.835	4,2	8.246	5,6
- from 61 till 90 days	321.726	3,7	5.657	3,8
- from 91 till 270 days	761.650	8,6	6.881	4,6
- maturer than 271 days	3.032.550	34,4	811	0,5
Undue receivables	3.651.430	41,4	85.995	58,1
TOTAL	8.812.290	100,0	148.102	100,0

Structure of other receivables from life insurance per 31 December 2006

in SIT '000

Description	Balance at the end of 2006			Net value 1. 1. 2006	Index
	Gross value	Adjustment	Net value		
Other short-term receivables arising out of insurance operations	7.747	50	7.697	8.108	94,9
- enforced recourses	77	50	27	27	100,0
- receivables for indemnity payments on the foreign account in the country	0	0	0	0	0,0
- receivables for indemnity payments on the foreign account abroad	0	0	0	0	0,0
- other short-term receivables arising out of insurance operations	7.670	0	7.670	8.081	94,9
Short-term receivables from financing	6.474	4.919	1.555	1.568	99,2
Other short-term receivables	69.218	848	68.371	17.078	400,4
- other short-term receivables towards the state and other institutions	0	0	0	0	0,0
- short-term receivables towards employees	0	0	0	0	0,0
- short-term receivables towards customers	1.596	85	1.511	844	179,0
- receivables towards suppliers for given advances	0	0	0	0	0,0
- receivables from manager in respect of pension insurance	1.151	0	1.151	717	160,5
- receivables for commissions for costs of underwriting with investment risk	63.410	0	63.410	15.390	412,0
- receivables in respect of factoring - assignment	0	0	0	0	0,0
- other short-term receivables	3.061	763	2.298	126	1823,8
Long-term receivables	0	0	0	0	0,0
Deferred receivables for tax	431	0	431	51.332	0,8
TOTAL	83.870	5.817	78.053	78.086	100,0

Increase of other receivables from life insurances was especially influenced by receivables from provisions for costs of unit-linked life insurance conclusions, for which however is in 2006 characteristic a high premium

growth, especially in unit-linked life insurance line recording an index of 275.2 in comparison to previous year.

Structure of other receivables from non-life insurance per 31 December 2006

in SIT '000

Description	Balance at the end of 2006			Net value 1. 1. 2006	Index
	Gross value	Adjustment	Net value		
Other short-term receivables arising out of insurance operations	6.012.599	3.698.606	2.313.993	2.146.779	107,8
- enforced recourses	5.781.033	3.673.040	2.107.993	1.919.778	109,8
- receivables for indemnity payments on the foreign account in the country	14.492	210	14.282	14.844	96,2
- receivables for indemnity payments on the foreign account abroad	95.067	19.437	75.630	60.071	125,9
- other short-term receivables arising out of insurance operations	122.007	5.919	116.088	152.086	76,3
Short-term receivables from financing	101.858	42.799	59.059	31.246	189,0
Other short-term receivables	6.719.437	3.769.156	2.950.281	1.036.856	284,5
- other short-term receivables towards the state and other institutions	4.557.933	3.465.340	1.092.593	637.266	171,5
- short-term receivables towards employees	60.129	9.028	51.101	39.548	129,2
- short-term receivables towards customers	16.470	515	15.955	39.412	40,5
- receivables towards suppliers for given advances	37.351	24.320	13.031	7.124	182,9
- receivables from manager in respect of pension insurance	0	0	0	0	0,0
- receivables for commissions for costs of underwriting with investment risk	0	0	0	0	0,0
- receivables in respect of factoring - assignment	433.340	256.469	176.871	180.761	97,8
- other short-term receivables	1.614.214	13.484	1.600.730	132.745	1.205,9
Long-term receivables	21.729	4.983	16.746	34.407	48,7
Long-term receivables for deferred tax	180.101	0	180.101	913.006	19,7
TOTAL	13.035.725	7.515.544	5.520.181	4.162.295	132,6

Among other short-term receivables arising out of direct insurance operations the greatest share represent enforced recourses (90.8-percent share), which in comparison to the opening balance of 2006 are higher by 9.8 % and refer almost entirely to non-life insurances. In the structure of these a receivables growth is especially

present in motor vehicle insurance (by 10.2 % in gross receivables) and in insurance line credit and suretyship insurances (by 1.6 % in gross receivables), while the receivables balance in other non-life insurances decreased by 5 % in comparison to the beginning of the year.

Receivables for deferred tax are formed from debilitation of following means

in SIT '000

Deferred receivables for tax	31. 12. 2006		Total per 31. 12. 2006	1. 1. 2006		Total per 1. 1. 2006	Index
	Non-life insurance	Life insurance		Non-life insurance	Life insurance		
Receivable arising out of direct insurance operations	377.339	1.365	378.704	226.417	1.466	227.883	166,2
Long-term and short-term financial investments	11.270	403	11.673	171.664	42.512	214.176	5,5
Other short-term receivables arising out of insurance operations	431.403	0	431.403	425.139	0	425.139	101,5
Provisions for superannuation redundancies and jubilee rewards	73.920	6.699	80.619	72.730	7.281	80.011	100,8
Redemption above the limited rate for software	13.732	0	13.732	1.459	0	1.459	940,9
Other short-term receivables	22.399	142	22.541	15.597	72	15.669	143,9
Total	930.064	8.607	938.672	913.006	51.332	964.338	97,3

Review of receivables for deferred taxes by individual means illustrates an actual balance of receivables for deferred taxes per 31 December 2006. In balance sheet receivables for deferred tax are reconciled with liabilities for deferred tax, therefore the presented amount is lower and in consolidated balance sheet amounts to SIT 56,016 thousand. At first the company performed reconciliation of such receivables on the level of individual long-term business funds and then also in the amount of SIT 124,516

thousand on the level of joint receivables for deferred taxes, whereat the final balance of receivables in balance sheet does not equal the sum of receivables for deferred taxes in balance sheets for life and non-life insurances.

The company based on previous operations expects also in the future to arise taxable profits, which will exceed profits from removal of existing taxable temporary differences, therefore it acknowledges receivables for deferred taxes.

Structure of enforced recourses by insurance fields

in SIT '000

	Decrease in 2006						
	Balance per 1. 1. 2006	Increase in 2006	Payments by parties liable for recourse	Receivables write-offs	Balance per 31. 12. 2006	Account. adjustments per 31. 12. 2006	Net value
Non-life insurance	5.580.610	1.747.547	1.502.568	44.556	5.781.033	3.673.041	2.107.992
- motor vehicles insurance	1.304.097	800.008	663.814	3.114	1.437.177	710.578	726.599
- credit and suretyship insurance	4.240.125	860.658	750.056	41.442	4.309.285	2.936.491	1.372.794
- other non-life insurance	36.388	86.881	88.698	0	34.571	25.972	8.599
Life insurance	77	0	0	0	77	50	27
TOTAL	5.580.687	1.747.547	1.502.568	44.556	5.781.110	3.673.091	2.108.019

Among recourses written-off from credit insurances there are no receivables written-off towards company's employees.

Unsecured and secured business receivables according to balance per 31 December 2006

in SIT '000

	Unsecured business receivables	Secured business receivables	Total (Net value)
Receivables towards policyholders	6.524.068	-	6.524.068
Receivables towards insurance brokers	9.511	-	9.511
Other receivables arising out of direct insurance operations	50.448	-	50.448
Receivables for premium from accepted co-insurance	34.959	-	34.959
Receivables for shares of claims from co-insurance	101.141	-	101.141
Receivables for shares of claims from reinsurance	248.769	-	248.769
Other receivables arising out of co- and reinsurance operations	0	-	0
Other short-term receivables arising out of insurance operations	2.179.942	141.748	2.321.690
Short-term receivables from financing	60.613	-	60.613
Other short-term receivables	1.752.765	-	1.752.765
Other long-term receivables	16.746	-	16.746
Receivables for deferred tax	56.016	-	56.016
TOTAL	11.034.978	141.748	11.176.726

OTHER ASSETS

Tangible fixed assets used in direct insurance operations, except land and buildings

Tangible fixed assets per 31 December 2006

in SIT '000

	Other equipment	Fixed assets in acquisition	Advances for fixed assets	Total
Purchase value				
1 January 2006	3.214.448	0	0	3.214.448
Increases by merger	0	0	0	0
Direct increases - investments	467.926	13.753	0	481.678
Indirect increases - advances	0	0	0	0
Transfer from investments in progress	0	0	0	0
Decreases during the year	-384.699	0	0	-384.699
Revaluation for debilitation / strengthening	0	0	0	0
Moves between groups of OOS and NS	-284.376	0	0	-284.376
Other changes	0	0	0	0
Balance per 31 December 2006	3.013.299	13.753	0	3.027.052
Value adjustment				
1 January 2006	2.425.343	0	0	2.425.343
Increases by merger	0	0	0	0
Redemption within the year	334.495	0	0	334.495
Decreases during the year	-376.910	0	0	-376.910
Revaluation for debilitation / strengthening	0	0	0	0
Moves between groups of OOS and NS	-272.058	0	0	-272.058
Other changes	0	0	0	0
Balance per 31 December 2006	2.110.870	0	0	2.110.870
Current value per 1 January 2006	789.105	0	0	789.105
Current value per 31 December 2006	902.429	13.753	0	916.182

Pecuniary means

Pecuniary means per 31 December 2006

in SIT '000

Type of pecuniary means	At the beginning of the year	At the end of the year
PECUNIARY MEANS OF NON-LIFE INSURANCES		
Pecuniary means - premium and claim cash in hand	1.255	5.188
Pecuniary means - cheques received	270.093	19.848
Pecuniary means - cash in transit	1.297	469
Pecuniary means on bank accounts and in other financial organisations:		
- instantly available pecuniary means	77.123	60.611
- cash at call	538.009	95.842
- pecuniary means in foreign currency	19.517	8.862
- pecuniary means on other special accounts	177.426	44.112
Pecuniary means on special accounts of long-term health insurance business funds	178.015	87.336
Pecuniary means on special accounts of long-term other health insurance business funds	388	1.206
PECUNIARY MEANS OF LIFE INSURANCES		
Pecuniary means on special accounts of long-term life insurance business funds	70.655	46.400
Pecuniary means on special accounts of long-term unit-linked life insurance business funds	67.810	47.853
Pecuniary means on special accounts of long-term pension insurance business funds	81	668
TOTAL PECUNIARY MEANS	1.401.670	418.395

All pecuniary means in foreign currency on foreign exchange accounts are converted into SIT according to the middle rate of exchange of Bank of Slovenia per 31 December 2006.

Initial pecuniary means balance includes the increase of pecuniary means from transition to new accounting standards in the amount of SIT 854,551 thousand, namely due to transfer of assets from short-term financial investments. In comparison to the balance at the beginning of the financial year the amount of pecuniary means is lower by SIT 983,275 thousand. The biggest change is recorded in cash at call within the frame of pecuniary means on bank accounts and in other financial organisations, the amount of which is lower by SIT

442,167 thousand, followed by balance decrease in pecuniary means from cheques received in the amount of SIT 250,245 thousand, being a result of abandoning the above mentioned premium payment method and passing over to other premium payment ways.

The company has on bank transaction accounts no agreed amounts of automatic indebtedness.

Inventories and other assets

Total inventories balance of forms and office material, forms of internal administration evidence, advertising and publicity material as well as office supplies amounted at the end of the year to SIT 22,063 thousand.

SHORT-TERM PREPAYMENTS AND ACCRUED INCOME

in SIT '000

Description	At the beginning of the year	At the end of the year	Difference
Short-term deferred insurance acquisition costs	1.336	0	-1.336
- non-life insurance	1.336	0	-1.336
Other short-term prepayments and accrued income	29.710	290.705	260.995
- operating expenses — non-life insurance	29.021	16.469	-12.552
- other short-term deferred investment charges — life insurance	0	30.543	30.543
- other short-term deferred investment charges — non-life insurance	0	130.840	130.840
- disputed claims health insurance	0	112.839	112.839
- other short-term prepayments and accrued income — non-life insurance	689	14	-675
TOTAL	31.047	290.704	259.659

Short-term prepayments and accrued income for operating expenses, formed in 2005, amounted at the

beginning of financial year to SIT 21,021 thousand and were almost entirely used.

in SIT '000

Items	Balance per 1. 1. 2006	Used in 2006	Balance per 31. 12. 2006
for operating expenses	29.021	26.951	2.070
Total	29.021	26.951	2.070

NOMINAL CAPITAL AND RESERVES

Capital structure per 31 December 2006

in SIT '000

Capital components	End of financial year	Structure (in %)	Beginning of financial year	Structure (in %)
Nominal capital — common shares	6.671.280	39,1 %	3.666.728	41,7 %
- non-life insurance	4.870.861	28,6 %	3.266.309	37,1 %
- life insurance	1.800.419	10,6 %	400.419	4,6 %
Capital reserves	708.037	4,2 %	707.934	8,1 %
- non-life insurance	601.229	3,5 %	601.126	6,8 %
- life insurance	106.808	0,6 %	106.808	1,2 %
Revenue reserves	1.156.082	6,8 %	1.035.931	11,8 %
- non-life insurance	1.153.940	6,8 %	1.033.788	11,8 %
- life insurance	2.143	0,0 %	2.143	0,0 %
Revaluation surplus	2.954.166	17,3 %	910.618	10,4 %
- non-life insurance	2.711.891	15,9 %	752.032	8,6 %
- life insurance	242.275	1,4 %	158.586	1,8 %
Net company's results brought forward	3.287.497	19,3 %	2.471.412	28,1 %
- non-life insurance	3.677.477	21,6 %	3.008.923	34,2 %
- life insurance	-389.981	-2,3 %	-537.511	-6,1 %
Net company's results for current year	2.282.884	13,4 %	0	0,0 %
- non-life insurance	2.282.884	13,4 %	0	0,0 %
- life insurance	0	0,0 %	0	0,0 %
TOTAL	17.059.946	100,0 %	8.792.623	100,0 %

Break-down of capital reserves

in SIT '000

Capital reserves	Balance per 31. 12. 2006	Structure (in %)	Balance per 1. 1. 2006	Structure (in %)	Index
Payments exceeding the minimum issuing amount of shares or the amount of nominal stakes (paid-in capital surplus)	5.109	0,7	5.154	0,7	99,1
Payments, gained by issuing exchangeable bonds or bonds with share purchase option above the nominal bond amount	0	0,0	0	0,0	0,0
Payments of partners for acquirement of additional right from shares	0	0,0	0	0,0	0,0
Other payments of capital on the basis of statute	0	0,0	0	0,0	0,0
Amounts from simplified decrease of nominal capital or decrease of nominal capital by share withdrawal	0	0,0	0	0,0	0,0
General capital revaluation adjustment	702.928	99,3	702.780	99,3	100,0
Total	708.037	100	707.934	100	100

Reserves from profit are set by the company on the basis of ZGD-1 in respect of legal reserves formation and based on decision of Management Board in accordance with the Supervisory Board regarding requirements for

achieving and preserving an appropriate level of capital adequateness (other reserves from profit). The company also formed reserves for common shares, intended for eventual acquirement of common shares.

Operating result regarding revaluation

in SIT '000

Capital components	Revaluation effect with index of price growth of life necessities	Revaluation index by change in Euro exchange rate
	2,8 %	-0,03 %
Nominal capital	102.668	-1.100
Nominal capital — injection of capital since 05.09.2006 onwards	8.499	-301
Capital reserves	19.822	-212
Revaluation surplus	25.497	-273
Revenue reserves	29.006	-311
Net company's results brought forward	69.200	-741
Total revaluation effect	254.693	-2.938

If the insurance company would perform a general capital revaluation, the revaluated effect would be as follows:

- by capital revaluation with the price growth rate of life necessities, the operating results at the end of financial year 2006 would be reduced by SIT 254,693 thousand,
- by revaluation with the rate of change of Euro exchange rate, the operating result at the conclusion of financial year would increase by SIT 2,938 thousand.

On the general meeting of shareholders of the company ADRIATIC SLOVENICA on 30 May 2006 the shareholders were deciding on sharing balance profit and decided that the part of retained balance profit from 2003 in the amount of SIT 15,721 thousand shall be used for payments to members of Supervisory Board as a participation in balance profit. The remaining part of balance profit from years 2003, 2004 and profit from year 2005 remain unallocated and shall be brought forward to the balance profit of following years.

On the general meeting the shareholders also adopted a decision on issuing new shares for realisation of the provision of Insurance Supervision Agency, with which a merging permission of Adriatic and Slovenia was issued. On 5 September the company successfully completed additional capitalisation and issued additional 3,004,700 ordinary registered shares with a nominal value of SIT 1,000 and thus raised nominal capital by SIT 3,004,700,000. The issued shares were equalised with the existing ordinary shares and were entirely registered in and paid-up.

The company had 3,666,728 ordinary shares before additional capitalisation and 6,671,208 ordinary shares after the additional capitalisation, which represents by the balanced average in entire accounted period 4,668,221 ordinary registered shares in enforcement.

The general meeting of shareholders agreed on 12 December 2006 due to development plans and strategic

targets of the company the conditional rise of nominal capital by SIT 3,335,640 thousand within the period of five years.

Company's operating result for 2006 before taxes amounts to:

• from non-life insurances, except health insurance	SIT 3,919,335 thousand
• from life insurances	SIT 275,536 thousand
• from health insurances	SIT 521,264 thousand
Consolidated company's operating result before taxation	SIT 4,716,135 thousand

Company's operating result after taxes amounts to:

• operating results before taxation amounts to	SIT 4,716,135 thousand
• corporate profit tax	SIT -1,455,374 thousand
• deferred taxes	SIT -25,919 thousand

Net profit after taxes
amounts to SIT 3,234,842 thousand

According to Article 64 Paragraph 11 of ZGD-1 the net profit of financial year is primarily used for coverage loss brought forward, to wit:

• non-life insurances	SIT 684,276 thousand
• life insurances	SIT 147,530 thousand

Thus the net profit for 2006 after taxation and coverage of loss amounts to SIT 2,403,036 thousand. According to Article 64 Paragraph 4 of Companies Act (ZGD-1) and Article 228 Paragraph 1 Point 2 of ZGD-1 a part of company's net profit in the amount of SIT 120,152 thousand shall be used for forming legal reserves. After forming legal reserves the company's net profit for 2006 amounts to SIT 2,282,884 thousand.

Companies' balance profit per 31 December 2006 amounts altogether to SIT 5,570,381 thousand (part from year 2003 amounts to SIT 171,374 thousand, part from 2004 amounts to SIT 357,939 thousand, part from 2005 amounts to SIT 1,988,934 thousand) and the increase of

profit brought forward due to the passing to new accounting standards, formed on 1 January 2006, amounts to SIT 769,250 thousand.

Net profit, assigned to shareholders, belongs entirely to regular shareholders.

Common shares

Common shares state per 1 January 2006 and 31 December 2006 amounts to 370 shares in total value of SIT 570 thousand (0.0085-percent share in nominal capital). There are no transactions in the financial year 2006.

Disclosure to statement on capital movements

In 2006 the accounting guidelines and financial accounting changed due to passing to new SRS 2006, whereat the effect of changes for previous periods influenced in opening balance a total balance increase of operating result brought forward in the amount of SIT 769,250 thousand and an increase of revaluation surplus by SIT 905,700 thousand.

When passing to new SRS there was also a movement in capital, to wit general capital revaluation adjustment was brought forward to capital reserves and special capital revaluation adjustment to revaluation surplus. Within the frame of revaluation surplus the revaluation surplus of long-term financial investments in the value of SIT 2,043,547 thousand was formed anew during the year due to strengthening of financial assets, available for sale. To a minor extent, to wit in the amount of SIT 4 thousand, the revaluation surplus of tangible fixed assets was formed in 2006, and thus at the end of the year the consolidated revaluation surplus amounted to SIT 2,954,166 thousand. In the accounting period the company had no revaluation surplus from short-term financial investments and other revaluation surpluses. It also had no error adjustments which would influence the balance of operating result brought forward.

Revaluation surplus per 31 December 2006

in SIT '000

Revaluation surplus type	31. 12. 2006	1. 1. 2006	Difference	Index	Share per 31. 12. 2006
Revaluation surplus regarding tangible fixed assets	34	30	4	112,3	0,0 %
- non-life insurance	34	30	4	112,3	0,0 %
- life insurance	0	0	0	0,0	0,0 %
Revaluation surplus regarding long-term financial investments	2.954.132	910.588	2.043.544	324,4	100,0 %
- non-life insurance	2.711.857	752.002	1.959.855	360,6	91,8 %
- life insurance	242.275	158.586	83.689	0,0	8,2 %
Total non-life insurance	2.711.891	752.032	1.959.858	472,94	91,8 %
Total life insurance	242.275	158.586	83.689	0,00	8,2 %
Revaluation surplus - total	2.954.166	910.618	2.043.547	324,4	100,0 %

SUBORDINATED LIABILITIES

ADRIATIC SLOVENICA has as a legal successor of Slovenica d.d. issued bonds, which have status of subordinated debt with following characteristics:

- Type: subordinated, non materialized registered bond.
- Date of issue: 16. 6. 2003.
- Maturity date of the last coupon and principal is 16 June 2010.
- The coupon interest rate is a 6-month EURIBOR + 2.5 %. The value clause on EUR is used and is set according to the movement of average exchange rate of BS for SIT/EUR or eventual replacement accounting category respectively, used by BS. The nominal exchange rate and the surcharge above EURIBOR are fixed.
- Total nominal value of entire emission is SIT 1,200,000 thousand. Entire emission comprises 12,000 denominations per SIT 100 thousand. The nominal

value of one lot of bonds, converted to EUR according to average exchange rate of the Bank of Slovenia for SIT/EUR.

Pursuant to division plan of the transferable company SLOVENICA d.d. the property in the amount of SIT 240,000 thousand was transferred from issued bonds to the new company SLOVENICA ŽIVLJENJE d.d. (in the same share as the sharing of capital) and according with that in the same amount also liabilities arising from the issued bonds.

Balance of subordinated liabilities per 31 December 2006 is SIT 960,155 thousand and is entirely disclosed among property insurances.

TECHNICAL PROVISIONS

Net technical provisions with 62.6 percent represent the biggest item within liabilities in the balance sheet.

Structure of technical provisions

in SIT '000

Description	31. 12. 2006	1. 1. 2006	Index
Net provisions for unearned premiums	15.323.967	13.447.819	114,0
Net mathematical provisions	10.258.848	12.093.421	84,8
Net outstanding claims provision	23.728.865	20.556.917	115,4
Net provisions for bonuses and rebates	77.201	372.048	20,8
Equalization provision	312.993	336.937	92,9
Other net technical provisions	1.406.534	2.094.375	67,2
Net technical provisions for the benefit of life insured who bear investment risk	2.410.043	673.092	358,1
TOTAL	53.518.452	49.574.609	108,0

Formation and usage of technical provisions with greater significance of value in financial year 2006

in SIT '000

Provision line	1. 1. 2006	Formation within period	Usage within period	31. 12. 2006
Net provisions for unearned premiums - non-life insurance	13.332.720	13.570.191	11.716.287	15.186.623
Net provisions for unearned premiums - life insurance	115.143	137.344	115.143	137.344
Net provisions for unearned premiums - total	13.447.862	13.707.535	11.831.430	15.323.967

in SIT '000

Provision line	1. 1. 2006	Formation within period	Usage within period	31. 12. 2006
Net mathematical provisions - health insurance	2.934.973	0	2.893.067	41.906
Net mathematical provisions - life insurance (without unit-linked life insurances)	9.164.947	1.925.458	873.463	10.216.942
Net mathematical provisions - unit-linked life insurances	673.092	1.751.363	14.412	2.410.043
Net mathematical provisions - total	12.773.012	3.676.821	3.780.943	12.668.891

in SIT '000

Provision line	1. 1. 2006	Provision increase of a current year	Provision decrease due to payments	Change in provision from previous years +/-	31. 12. 2006
Net outstanding claims provision - total	20.556.917	12.111.169	8.032.437	-906.783	23.728.866

in SIT '000

Provision line	1. 1. 2006	31. 12. 2006
Net outstanding claims provision - reported losses - non-life insurance	9.969.784	12.756.258
Net outstanding claims provision - reported losses - life insurance	71.857	106.793
Net outstanding claims provision - unreported losses - non-life insurance	10.363.086	10.804.237
Net outstanding claims provision - unreported losses - life insurance	152.190	61.577
Net outstanding claims provision - total	20.556.917	23.728.866

Provisions for unearned premiums

Accounted provisions for unearned premium are reduced by the insurance company by proportional share of insurance acquisition costs. In 2006 only acquisition costs were taken into account, as considered in the corresponding

item on profit and loss account (costs of agents and brokers), while in 2005 provisions for unearned premium were reduced also by other costs relating to premium acquisition (agents' wages, advertising costs...). The table below presents insurance acquisition costs reducing provisions for unearned premium, for years 2005 and 2006.

Share of acquisition costs in provisions for unearned premium by ins. lines

in SIT '000

Insurance line	Year 2006		Year 2005	
	Acquisition costs in provisions for unearned premium	% in provision for unearned premium	Acquisition costs in provisions for unearned premium	% in provision for unearned premium
Accident insurance	65.473	6,0	219.107	19,1
Health insurance	54.355	2,4	164.842	7,8
Land motor vehicles insurance	176.091	5,5	431.742	14,6
Aircraft insurance	138	9,8	580	31,1
Ship insurance	9.860	13,9	14.830	23,8
Marine & Transport insurance	2.817	7,7	4.874	16,5
Fire and natural forces insurance	85.209	11,5	209.151	31,1
Other damage to property insurance	83.557	11,9	175.847	30,8
Motor vehicle liability insurance	265.125	4,7	793.372	13,8
Aircraft liability insurance	69	2,3	671	19,3
Marine liability insurance	3.368	7,5	11.128	28,2
General liability insurance	24.706	7,8	67.776	22,6
Credit insurance	5.376	0,3	210.921	9,6
Suretyship insurance	19	0,1	3.323	20,0
Miscellaneous financial loss insurance	1.353	5,8	4.892	22,4
Legal expense insurance	100	4,8	246	12,9
Assistance insurance	1.683	4,5	8.567	28,7
Life insurance	1.813	1,2	35.700	22,0

Effect of altered dealing with insurance acquisition costs reflects in higher provisions for unearned premium by

SIT 1,655,238 thousand. Detailed explanations are stated among accounting guidelines, namely among expenses.

Mathematical provisions

Review of mathematical provisions balance by long-term business funds

in SIT '000

Long-term business fund	Long-term business fund identification number	Gross provision per 31. 12. 2006	Reins. prov.	Net provision per 31. 12. 2006	Net provision per 31. 12. 2005
Life insurances	5063361022	9.695.407	0	9.695.407	8.814.990
Pension insurances	5063361021	521.535	0	521.535	343.458
Unit-linked life insurance	5063361024	2.410.043	0	2.410.043	673.092
Co-payment health insurances	5063361023	0	0	0	2.934.973
Other health insurances	5063361026	41.906	0	41.906	0
TOTAL		12.668.891	0	12.668.891	12.766.513

Notes

- Mathematical provisions of unit-linked life insurances are classified in the balance sheet under the item D - net technical provisions for the benefit of life insured who bear investment risk.
- Based on legislation changes per 1 January 2006 the former LTBF of health insurances was divided into two LTBF: co-payment health insurances and other health insurances; the value of mathematical provisions of former LTBF of health insurances per 31 December 2005 is based on the principle of predominance shown in LTBF of co-payment health insurances. In 2006 the insurance company decomposed the formed provisions

for old age and transferred them to liabilities for payment. Till the end of 2006 half of these liabilities were paid to the insured.

- In life insurances the mathematical provisions were increased by another SIT 148,086 thousand due to the changed valuation by using lower interest rate, which means higher safety for the company and insured from the viewpoint of risk management.
- In mathematical provisions for life insurance the added share of insured in the result for 2005 in the amount of SIT 25,000 thousand is taken into account and endorsement for 2006 in the amount of SIT 25,000 thousand is included in calculation.

Outstanding claims provision

Adequacy of outstanding claims provision per 01 January 2006

in SIT '000

Insurance line	Outstanding claims provision per 1. 1. 2006	Settlement in 2006 from outstanding claims provision per 1. 1. 2006	Outstanding claims provision per 31. 12. 2006 from claims outstanding per 1. 1. 2006	Difference*	Adequacy*
Accident insurance	2.720.815	1.260.767	1.324.486	135.562	5%
Health insurance	541.116	537.095	35	3.985	1%
Land motor vehicles insurance	1.568.602	1.120.422	326.179	122.001	8%
Aircraft insurance	2.490	0	3.000	-510	-20%
Ship insurance	209.709	155.820	101.461	-47.572	-23%
Marine & Transport insurance	95.791	12.217	74.055	9.519	10%
Fire and natural forces insurance	432.423	249.169	219.559	-36.305	-8%
Other damage to property insurance	473.734	304.985	125.546	43.203	9%
Motor vehicle liability insurance	12.148.036	3.688.863	8.455.417	3.757	0%
Aircraft liability insurance	141.918	43.810	78.346	19.762	14%
Marine liability insurance	1.803.682	546.247	1.696.262	-438.827	-24%
Credit insurance	1.596.544	355.639	376.629	864.276	54%
Suretyship insurance	33.949	0	3.254	30.694	90%
Miscellaneous financial loss insurance	12.399	14.716	16.859	-19.176	-155%
Legal expense insurance	-	-	500	-500	-
Assistance insurance	1.908	1.947	21	-59	-3%
Life insurance	234.499	88.080	95.260	51.159	22%
TOTAL	22.017.615	8.379.777	12.896.869	740.969	3%

* Negative values signify underreserving.

In estimating liabilities within the frame of outstanding claims provision the company does not use the discount procedure.

Provisions for occurred yet not paid reported claims (IBNR), included in outstanding claims provision

in SIT '000

Insurance line	Provision for occurred yet not reported losses (IBNR) 31. 12. 2006	Provision for occurred yet not reported losses (IBNR) 31. 12. 2005
Accident insurance	1.396.828	1.551.165
Health insurance	896.375	502.481
Land motor vehicles insurance	240.079	221.428
Aircraft insurance	0	190
Ship insurance	21.466	17.015
Marine & Transport insurance	5.849	18.368
Fire and natural forces insurance	26.778	37.609
Other damage to property insurance	133.238	140.753
Motor vehicle liability insurance	6.277.948	6.079.680
Aircraft liability insurance	0	0
Marine liability insurance	8.674	24.803
General liability insurance	1.424.131	837.296
Credit insurance	250.308	1.043.496
Suretyship insurance	1.023	33.949
Miscellaneous financial loss insurance	28.514	5.643
Legal expense insurance	0	0
Assistance insurance	1.915	1.209
Life insurance	61.749	156.418
TOTAL	10.774.875	10.671.503

In 2006, the methodology of calculating outstanding claims for occurred yet not paid reported claims (IBNR provision) has changed or was uniformed respectively. The calculation was done by triangle method of acknowledged claims (Chain Ladder Method) for insurance lines of accident insurance, automobile and general liability insurance as well as some credit insurances. The calculation for health insurances was performed by triangle method of accounted losses, and for the rest of insurance lines based on modified statistical method. The calculation of outstanding claims for IBNR was performed on collective insurance company's figures

for individual insurance lines.

The new calculation methodology of outstanding claims for IBNR caused an evaluated effect of outstanding claims increase in the amount of SIT 716,595 thousand. This calculation was carried out by a parallel calculation of outstanding claims according to previous methodology - separated for loss portfolio of former Adriatic d.d. and Slovenica d.d..

To decrease outstanding claims for expected recourses the company applied in 2006 lower evaluation for credit insurance than in previous years. The purpose of such change was to achieve greater security in the provision

calculation. The influence of using expected recourse evaluation of 25% in comparison to evaluation of 30%, used by the insurance company in previous years, signifies an outstanding claims increase by SIT 113,975 thousand. Gross outstanding claims provision includes also a provision for evaluation costs respectively claims settling costs - bound to settling claims from outstanding claims provision. Claims settling costs are calculated by insurance lines based on the ratio between realised costs for claims settling and gross indemnities in 2006. Realised costs for claims settling are composed of direct costs for claims settling and a part of common costs, divided by insurance lines by ponderation.

Appraisal costs represent altogether 5.9 % (in previous year: 6.3 %) outstanding claims provision increase, which amounts to SIT 1,510,345 thousand.

Equalization provision

Based on provisions of Art. 118 of Insurance Act, which entered into force in 2006 and dictate equalization provision formation only for credit insurance line, formed ADRIATIC SLOVENICA d. d. in 2006 equalization provision only for credit insurances. Equalization provision level in other insurance lines was not changed in 2006, with exception of accident insurance line, land motor vehicle insurance, aircraft hull insurance and automobile liability insurance, which were reduced to 0. Pursuant to Insurance Act - A these insurance lines needed to be loosened within 5 years, each year by 20 %. 2006 was the fifth year of loosening, and thus provisions based on Insurance Act - A were entirely loosened on 31 December 2006.

in SIT '000

Insurance line	31. 12. 2006 Equalization provision	31. 12. 2005 Equalization provision
Accident	0	17.981
Land motor vehicle insurance	0	30.235
Aircraft hull	0	176
Ship hull	0	0
Cargo	44.210	44.210
Property	47.327	47.327
Automobile liability	0	44.204
Marine liability	14.714	14.714
General liability	100.226	100.226
Credits	68.651	0
Financial losses	37.865	37.865
Other insurances	312.993	336.937
Health insurances	0	0
Life insurances	0	0
TOTAL	312.993	336.937

Other technical provisions

Change in other technical provisions

in SIT '000

Provision line	31. 12. 2006	31. 12. 2005	Index
Provision for nuclear perils	201.358	182.896	110
Provision for earthquake peril	123.977	110.369	112
Provision for non-expired risks	789.617	1.531.480	52
Provisions for unexpired perils commission costs	216.048	195.471	111
Provision for other perils	75.535	74.157	102
TOTAL	1.406.535	2.094.373	67

Provision for unexpired perils

Provisions for unexpired perils are formed as additional provisions above the provision for unearned premium for perils which are due after the accounting year, for

covering claims and costs related to existing insurance contracts. The insurance company is obliged to set these provisions, if estimated liabilities for unexpired perils comprising claims and administrative costs exceed provisions for unearned premium.

in SIT '000

Insurance line	31. 12. 2006 Provision for unexpired risks	31. 12. 2005 Provision for unexpired risks
Motor vehicle insurance	263.513	228.893
Aircraft hull	459	31
Marine hull	13.128	8.773
Fire	0	1.443
Property	39.471	95.594
Marine liability	0	4.837
General liability	0	162.086
Credits	469.059	1.002.239
Suretyship	0	25.764
Financial losses	3.986	1.820
Other insurances	789.617	1.531.480
Health insurances	0	0
Life insurances	0	0
TOTAL	789.617	1.531.480

PROVISIONS FOR OTHER RISKS AND CHARGES

in SIT '000

Provision line	31. 12. 2006	1. 1. 2006	Difference	Index
Provisions for superannuation redundancies and jubilee rewards	350.516	320.043	30.473	109,5
Long-term deferred income from positive balance of the technical account from co-payment health insurance	46.038	0	46.038	-
Total	396.554	320.043	76.511	123,9

At the beginning of 2006 the company for the first time systematically planned provisions for superannuation redundancies and jubilee awards in the amount of SIT 320,043 thousand. During the year the amount used (actually paid) for superannuation redundancies and jubilee awards was SIT 34,965 thousand and the amount of additionally formed provisions SIT 65,438 thousand, thus the provision balance at the end of the year amounted to SIT 350,516 thousand.

Within the frame of provisions for other risks and charges the company intended in 2006, based on provisions of ZZVZZ-H, for the first time a half of its positive balance of the technical account from co-

payment health insurance for long-term deferred income.

OTHER LIABILITIES

ADRIATIC SLOVENICA d. d. annotates per 31 December 2006 balance of other liabilities in the amount of SIT 6,454,309 thousand, namely as liabilities:

- arising out of direct insurance operations in the amount of SIT 2,324,233 thousand,
- arising out of co-insurance and reinsurance operations in the amount of SIT 469,652 thousand, and
- other liabilities in the amount of SIT 3,660,423 thousand.

Liabilities arising out of direct insurance operations

in SIT '000

Type of liabilities	31. 12. 2006	1. 1. 2006	Difference	Index	Share 2006
1. Liabilities towards policyholders	2.138.144	382.286	1.755.858	559,3	92,0 %
- non-life insurance	2.135.679	379.845	1.755.834	562,3	91,9 %
- life insurance	2.465	2.441	24	101,0	0,1 %
2. Liabilities towards insurance brokers	45.628	32.590	13.038	140,0	2,0 %
- non-life insurance	45.292	32.368	12.924	139,9	1,9 %
- life insurance	336	222	114	151,4	0,0 %
3. Other liabilities arising out of direct insurance operations	140.462	53.914	86.548	260,5	6,0 %
- non-life insurance	106.647	47.678	58.969	223,7	4,6 %
- life insurance	33.815	6.236	27.579	542,3	1,5 %
Total non-life insurance	2.287.618	459.891	1.827.727	497,4	98,4 %
Total life insurance	36.616	8.899	27.717	411,5	1,6 %
TOTAL	2.324.234	468.790	1.855.444	495,8	100,0 %

Balance of liabilities arising out of direct insurance operations in 2006 in respect of the beginning of the year is by 395.8 % higher, which can be in great deal ascribed to higher liabilities towards policyholders, who in the structure of entire liabilities arising out of direct insurance operations represent 92%. Within the frame of liabilities towards policyholders on the last day of 2006

prevail liabilities for health insurance indemnities holding 65% , to wit those indemnities referring exclusively to liabilities for old-age provision payments, to which policyholders are entitled according to the change of ZZVZZ-H since March 2006 and must be paid by the company till the end of August 2007.

Liabilities arising out of co- and reinsurance operations

in SIT '000

Type of liabilities	31. 12. 2006	1. 1. 2006	Difference	Index	Share 2006
1. Liabilities from co-insurance premium	4.359	8.963	-4.604	48,6	0,9 %
- non-life insurance	4.359	8.963	-4.604	48,6	0,9 %
- life insurance	0	0	0	0,0	0,0 %
2. Liabilities from reinsurance premium	460.556	444.661	15.895	103,6	98,1 %
- non-life insurance	435.854	418.019	17.835	104,3	92,8 %
- life insurance	24.702	26.642	-1.940	92,7	5,3 %
3. Liabilities from the share of claims from co-insurance	4.737	2.728	2.009	173,6	1,0 %
- non-life insurance	4.737	2.728	2.009	173,6	1,0 %
- life insurance	0	0	0	0,0	0,0 %
4. Liabilities from the share of claims from reinsurance	0	0	0	0,0	0,0 %
- non-life insurance	0	0	0	0,0	0,0 %
- life insurance	0	0	0	0,0	0,0 %
Total non-life insurance	444.950	429.710	15.240	103,5	94,7 %
Total life insurance	24.702	26.642	-1.940	92,7	5,3 %
TOTAL	469.652	456.352	13.300	102,9	100,0 %

In liabilities from co-insurance and reinsurance at the end of 2006 prevail liabilities for reinsurance premium, which are higher by 3.6% in respect of the balance at the beginning of the year and are demonstrated towards the reinsurer Sava in the amount of SIT 215,369 thousand and from non-life insurance and towards reinsurance broker

Tysers in the amount of SIT 222,483 thousand. Within the frame of other liabilities the company demonstrates other long-term liabilities in the amount of SIT 12,106 thousand and other short-term liabilities in the amount of SIT 3,648,317 thousand.

Other long-term liabilities

in SIT '000

Type of liabilities	31. 12. 2006	1. 1. 2006	Difference	Index	Share 2006
1. Long-term liabilities from financial lease	12.106	13.894	-1.789	87,1	100,0 %
- non-life insurance	12.106	13.894	-1.789	87,1	100,0 %
- life insurance	0	0	0	0,0	0,0 %
2. Other long-term liabilities	0	2.500	-2.500	0,0	0,0 %
- non-life insurance	0	2.500	-2.500	0,0	0,0 %
- life insurance	0	0	0	0,0	0,0 %
4. Deferred liabilities for tax	0	303.529	-303.529	0,0	0,0 %
Reconciliation of liabilities and receivables for deferred taxes	-124.516	-	-	-	-
- non-life insurance	60.072	250.667	-190.595	24,0	496,2 %
- life insurance	64.444	52.862	11.582	121,9	532,3 %
Total non-life insurance	72.178	267.062	-194.884	27,0	596,2 %
Total life insurance	64.444	52.862	11.582	121,9	532,3 %
TOTAL	12.106	319.924	-307.818	3,8	100,0 %

Among other long-term liabilities per 31 December 2006 on the level of consolidated balance sheet the amount of SIT 12,106 thousand of liabilities from financial lease for buildings is indicated, while at individual insurance lines the company indicates also liabilities from deferred liabilities for tax. Deferred liabilities for insurance tax of life insurances in the amount of SIT 64,444 thousand and

non-life insurances in the amount of SIT 60,072 thousand were not compounded by the company with receivables for deferred taxes of such insurances by individual long-term business funds, but performed a reconciliation in the amount of SIT 124,516 thousand only on the level of consolidated liabilities and receivables for deferred taxes.

Other short-term liabilities

in SIT '000

Type of liabilities	31. 12. 2006	1. 1. 2006	Difference	Index	Share 2006
1. Short-term liabilities towards employees	441.771	420.243	21.528	105,1	12,1 %
- non-life insurance	441.771	420.243	21.528	105,1	12,1 %
- life insurance	0	0	0	0,0	0,0 %
2. Other short-term liabilities arising out of insurance operations	622.620	518.622	103.998	120,1	17,1 %
- non-life insurance	622.270	518.265	104.005	120,1	17,1 %
- life insurance	350	357	-7	98,0	0,0 %
4. Short-term liabilities from financing	38.169	9.973	28.196	382,7	1,0 %
- non-life insurance	34.807	6.954	27.853	500,5	1,0 %
- life insurance	3.362	3.019	343	111,4	0,1 %
5. Other short-term liabilities	2.545.757	1.112.532	1.433.225	228,8	69,8 %
Reconciliation of mutual liabilities and receivables	-1.265.888	-	-	-	-
- non-life insurance	3.597.131	1.160.198	2.436.933	310,0	98,6 %
- life insurance	214.514	-47.666	262.180	-450,0	5,9 %
Total non-life insurance	4.695.979	2.105.660	2.590.319	223,0	128,7 %
Total life insurance	218.226	-44.290	262.516	-492,7	6,0 %
TOTAL	3.648.317	2.061.370	1.586.947	177,0	100,0 %

Among other short-term liabilities especially the beginning of the new financial year.
December liabilities are shown, falling due at the

Short-term liabilities towards employees

in SIT '000

Type of liabilities	31. 12. 2006	1. 1. 2006	Difference	Index	Share 2006
Liabilities for net wages and benefits	225.333	212.669	12.664	99,2	51,0 %
- non-life insurance	225.333	212.669	12.664	106,0	51,0 %
- life insurance	0	0	0	0,0	0,0 %
Liabilities for other income	57.094	48.107	8.987	118,7	12,9 %
- non-life insurance	57.094	48.107	8.987	118,7	12,9 %
- life insurance	0	0	0	0,0	0,0 %
Contributions and taxes from gross wages and benefits	154.071	157.421	-3.350	97,9	34,9 %
- non-life insurance	154.071	157.421	-3.350	97,9	34,9 %
- life insurance	0	0	0	0,0	0,0 %
Contributions and taxes from other income	5.273	2.046	3.227	257,7	1,2 %
- non-life insurance	5.273	2.046	3.227	257,7	1,2 %
- life insurance	0	0	0	0,0	0,0 %
Total non-life insurance	441.771	420.243	21.528	105,1	100,0 %
Total life insurance	0	0	0	0,0	0,0 %
TOTAL	441.771	420.243	21.528	105,1	100,0 %

Other short-term liabilities arising out of insurance operations

in SIT '000

Type of liabilities	31. 12. 2006	1. 1. 2006	Difference	Index	Share 2006
Liabilities towards SZZ for claims cover contributions for uninsured and unknown vehicles and vessels	332.502	302.402	30.100	110,0	53,4 %
- non-life insurance	332.502	302.402	30.100	110,0	53,4 %
- life insurance	0	0	0	0,0	0,0 %
Liabilities for insurance tax on insurance premium paid	263.246	178.083	85.163	147,8	42,3 %
- non-life insurance	262.896	177.726	85.170	147,9	42,2 %
- life insurance	350	357	-7	98,0	0,1 %
Other liabilities	26.872	38.136	-11.264	70,5	4,3 %
- non-life insurance	26.872	38.136	-11.264	70,5	4,3 %
- life insurance	0	0	0	0,0	0,0 %
- non-life insurance	622.270	518.264	104.006	120,1	99,9 %
- life insurance	350	357	-7	98,0	0,1 %
TOTAL	622.620	518.621	103.999	120,1	100,0 %

Other short-term liabilities

in SIT '000

Type of liabilities	31. 12. 2006	1. 1. 2006	Difference	Index	Share 2006
Short-term liabilities towards suppliers	850.640	610.173	240.467	139,4	33,4 %
- non-life insurance	850.640	610.173	240.467	139,4	33,4 %
- life insurance	0	0	0	0,0	0,0 %
Taxes and contributions on wages paid and other payments	88.081	90.251	-2.170	97,6	3,5 %
- non-life insurance	88.081	90.251	-2.170	97,6	3,5 %
- life insurance	0	0	0	0,0	0,0 %
Liabilities for tax on profit and other duties from result	1.456.945	285.039	1.171.906	511,1	57,2 %
- non-life insurance	1.371.392	284.515	1.086.877	482,0	53,9 %
- life insurance	85.553	524	85.029	16.326,9	3,4 %
Other liabilities	150.091	127.069	23.022	118,1	5,9 %
Reconciliation of mutual liabilities and receivables	-1.265.888	-	-	-	-49,7 %
- non-life insurance	1.287.018	175.258	1.111.760	734,4	50,6 %
- life insurance	128.961	-48.189	177.150	-267,6	5,1 %
Total non-life insurance	3.597.131	1.160.197	2.436.934	310,0	141,3 %
Total life insurance	214.514	-47.665	262.179	-450,0	8,4 %
TOTAL	2.545.757	1.112.532	1.433.225	228,8	100,0 %

SHORT-TERM ACCRUALS AND DEFERRED INCOME

Accruals and deferred income per 31 December 2006

in SIT '000

Description	At the beginning of the year	Formed during the year	Used during the year	At the end of the year	Change of balance
Short-term deferred income					
- life insurance	47.670	12.909	0	60.579	12.909
- non-life insurance	43.818	169.186	2.252	210.752	166.934
In advance calculated costs and expenses					
- operating expenses non-life insurance	368.210	189.426	164.473	393.163	24.953
- in advance calculated expenses from equalisation scheme of co-payment health insurance	0	419.366	0	419.366	419.366
- other in advance calculated costs non-life insurance	47.944	404.719	443.025	9.638	-38.306
Other accruals and deferred income					
- life insurance	47	25	0	72	25
- non-life insurance	24.612	151.199	150.175	25.636	1.024
TOTAL	532.302	1.346.830	759.925	1.119.206	586.905

OFF-BALANCE SHEET RECORDS

Off-balance sheet record shows total value of SIT 3,267,453 thousand, thereof the greatest part is expressed in un-enforced recourses in the amount of SIT 2,640,476 thousand, followed by receivable towards the state in the

amount of SIT 579,324 thousand and potential company's liabilities in the amount of SIT 47,653 thousand. The company had no liabilities from pension payments and liabilities towards companies within the group, which would not be comprised within the balance sheet.

6.5.5

Disclosures to Profit and loss account

BALANCE ON THE TECHNICAL ACCOUNT FOR NON-LIFE INSURANCE, EXCEPT HEALTH INSURANCES

Gross written premium, claims paid and operating expenses in 2006

in SIT '000

Insurance line	Gross written premium in financial year	Gross written premium for financial year	Gross claims paid in financial year	Gross claims paid for financial year	Gross operating expenses
Accident insurance	4.423.202	4.324.763	1.959.380	1.716.005	1.287.497
Land motor vehicles insurance	7.749.251	7.256.630	5.722.778	6.087.523	2.170.341
Railway rolling stock insurance	0	0	0	0	0
Aircraft insurance	3.667	3.676	3.049	4.306	1.489
Ship insurance	175.127	161.510	219.263	140.468	83.337
Marine & Transport insurance	243.158	234.297	55.106	73.357	92.474
Fire and natural forces insurance	2.292.979	2.101.745	778.915	822.154	906.924
Other damage to property insurance	1.935.838	1.711.309	1.147.845	1.282.671	774.090
Motor vehicle liability insurance	14.175.611	13.736.214	7.450.372	8.545.529	3.808.210
Aircraft liability insurance	8.550	8.439	0	0	3.234
Marine liability insurance	102.753	89.633	45.897	-16.541	44.811
General liability insurance	1.190.123	1.130.709	679.274	1.378.442	402.687
Credit insurance	572.205	525.512	656.680	1.355.905	310.559
Suretyship insurance	30.006	28.011	3.000	-30.263	9.100
Miscellaneous financial loss insurance	149.535	144.638	73.094	114.245	45.591
Legal expense insurance	5.240	4.916	0	527	1.943
Assistance insurance	79.740	65.231	27.458	28.585	26.069
Total non-life insurance, except health insurances	33.136.987	31.527.233	18.822.111	21.502.915	9.968.356

Other net insurance income from non-life insurances, except health insurance, in 2006

in SIT '000

Name	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Income from Green Card sale	156.068	58,4	153.685	54,7	101,6
Income from domestic accommodation claim settling	29.308	11,0	-	-	-
Income from services for foreign insurance companies	26.071	9,7	27.359	9,7	95,3
Income from services of indemnity recouring	34.362	12,8	34.356	12,2	100,0
Income from services for other insurance companies	6.879	2,6	42.023	14,9	16,4
Income from services from other insurance operations	-	-	324	0,1	-
Rental income	5.718	2,1	-	-	-
Income from other services	4.847	1,8	17.600	6,3	27,5
Reval. bus. income in RS - sale of fixed assets - prop.	4.181	1,6	5.752	2,0	72,7
Total	267.434	100,0	281.100	100,0	95,1

Operating expenses by natural lines

in SIT '000

Type of cost	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Operating material costs	275.886	2,8	237.311	2,3	116,3
Acquisition costs	2.009.852	20,2	1.854.709	18,2	108,4
Operating service costs	2.180.032	21,9	2.240.691	22,0	97,3
Redemption	347.058	3,5	347.344	3,4	99,9
Other provisions	20.653	0,2	-	-	-
Operating labour costs	4.934.981	49,5	5.319.952	52,3	92,8
Other expenses	199.894	2,0	175.614	1,7	113,8
Total operating expenses	9.968.356	100,0	10.175.622	100,0	98,0

Other provisions costs are related to labour costs, in the item among other labour costs. therefore in the profit and loss account they are included

Operating expenses by functional groups

in SIT '000

Type of cost	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Acquisition costs	3.191.521	32,0	5.763.243	56,6	55,4
Appraisal costs	1.019.842	10,2	1.119.555	11,0	91,1
Other operating costs	5.756.993	57,8	3.292.824	32,4	174,8
Total	9.968.356	100,0	10.175.622	100,0	98,0

In 2006, a unification of dividing keys used in autonomous insurance companies Adriatic and Slovenica as well as new definition of insurance acquisition costs had an influence on structural changes in costs, divided by functional groups.

For direct insurance business, i.e. underwriting, insurance renewals and recoveries, the company accounted in 2006 commissions in the amount of SIT 2,009,852 thousand, however it did not account commissions for insurance portfolio management and other commissions.

Redemption expenses

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Redemption of intangible fixed assets	75.045	21,6	75.954	21,9	98,8
Redemption of buildings for insurance operations	38.845	11,2	4.867	1,4	798,1
Redemption of equipment for insurance operations	231.437	66,7	265.257	76,4	87,3
Redemption of office supplies	1.731	0,5	1.266	0,4	136,7
Total	347.058	100,0	347.344	100,0	99,9

Labour costs and employee payment costs

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Wages and salaries	3.529.221	71,2	3.808.039	71,6	92,7
- wages and salaries - regularly work	3.143.958	63,4	3.355.266	63,1	93,7
- wages benefits of employees	385.263	7,8	452.773	8,5	85,1
Social security and pension insurance costs	657.667	13,3	761.340	14,3	86,4
- contributions on wages paid (with contributions on recourse)	586.818	11,8	699.751	13,2	83,9
- employer's payments for employees' pensions	70.849	1,4	61.589	1,2	115,0
Other labour costs	768.745	15,5	750.572	14,1	102,4
- recourse for annual holiday	150.307	3,0	155.851	2,9	96,4
- taxes on wages paid	208.484	4,2	270.656	5,1	77,0
- benefits for lunch and transport at work	353.057	7,1	303.248	5,7	116,4
- other labour costs	56.898	1,1	20.818	0,4	273,3
Total	4.955.633	100,0	5.319.952	100,0	93,2

Other net insurance expenses from non-life insurances, except health insurance, in 2006

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Revaluation operating expenses - of receivables value adjustments	491.006	52,8	574.767	20,1	85,4
Receivables value write-offs	272.025	29,3	1.643.795	57,5	16,5
Costs of assistance services and other net insurance costs	232.817	25,0	310.956	10,9	74,9
Expenses for preventive activities	152.875	16,4	73.723	2,6	207,4
Claims cover contribution for uninsured and unknown vehicles and vessels	132.944	14,3	132.162	4,6	100,6
Coverage of supervisory body costs	41.347	4,4	52.994	1,9	78,0
Revaluation operating expenses - NDS and OOS	14.710	1,6	71.213	2,5	20,7
Income from removal of receivables value adjustment	-408.106	-43,9	-	-	-
Total	929.618	100	2.859.609	100	32,5

BALANCE ON THE TECHNICAL ACCOUNT - LIFE INSURANCE

Net income from life insurance premium amount in 2006 to SIT 3,898,252 thousand, net claims incurred to SIT 942,745 thousand.

Gross written premium of life insurance in 2006

in SIT '000

Insurance line	Premium for individual insurance	Premium for group insurances	Premium paid in instalments	Premium, paid by a lump-sum payment	Premium from contracts with invariable sums insured	Premium from contracts with a profit share	Premium from contracts whereat policyholders bear the investment risk
Life insurance	1.978.554	0	32.992	1.945.562	1.978.554	1.978.554	0
Insurance for case of wedding or childbirth	0	0	0	0	0	0	0
Unit-linked life insurance	1.841.106	0	958.771	882.335	0	0	1.841.106
Tontine	0	0	0	0	0	0	0
Capital redemption policy	0	149.540	149.540	0	0	0	0
Income insurance due to accident or illness	0	0	0	0	0	0	0
Total life insurance	3.819.660	149.540	1.141.302	2.827.897	1.978.554	1.978.554	1.841.106

Other technical income from life insurance, net of reinsurance

in SIT '000

Name	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Comm.income for costs of insurance acquisition - unit-linked life insurance	228.999	62,9	196.404	79,6	116,6
Comm.income for costs of unit-linked life insurance management	71.520	19,7	34.961	14,2	204,6
Income from management and brokerage commission - unit-linked life insurance	46.191	12,7	1.409	0,6	3.279,2
Income from other services	6.851	1,9	6.777	2,7	101,1
Income from commission for management of pension fund	5.297	1,5	3.524	1,4	150,3
Income from entrance commission - of pension fund	5.016	1,4	3.523	1,4	142,3
Total	363.875	100,0	246.598	100,0	147,6

Operating expenses by natural lines

in SIT '000

Type of cost	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Operating material costs	14.159	1,3	18.388	2,0	77,0
Acquisition costs	79.962	7,1	60.028	6,4	133,2
Operating service costs	210.685	18,8	170.911	18,3	123,3
Redemption	29.755	2,7	20.179	2,2	147,5
Other provisions	1.739	0,2	-	-	-
Operating labour costs	774.191	69,0	657.653	70,3	117,7
Other costs	11.407	1,0	8.384	0,9	136,1
Total operating expenses	1.121.898	100,0	935.543	100,0	119,9

Operating expenses by functional groups

in SIT '000

Type of cost	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Acquisition costs	555.624	49,5	587.393	62,8	94,6
Appraisal costs	74.567	6,6	16.515	1,8	451,5
Other operating costs	491.707	43,8	331.636	35,4	148,3
Total	1.121.898	100,0	935.543	100,0	119,9

In 2006, a unification of dividing keys of two former insurance companies Adriatic and Slovenica as well as new definition of insurance acquisition costs and life premium increase after successful marketing of a new product within unit-linked life insurances, had an

influence on structural changes in costs, divided by functional groups.

Other provisions costs are related to labour costs, therefore in the profit and loss account they are included in the item among other labour costs.

Redemption expenses

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Redemption of intangible fixed assets	8.989	30,2	5.434	26,9	165,4
Redemption of buildings for insurance operations	2.965	10,0	411	2,0	720,8
Redemption of equipment for insurance operations	17.668	59,4	14.182	70,3	124,6
Redemption of office supplies	132	0,4	152	0,8	86,9
Total	29.755	100,0	20.179	100,0	147,5

Labour costs and employee payment costs

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Wages and salaries	635.000	81,8	490.667	74,6	129,4
- wages and salaries - regularly work	569.245	73,4	445.355	67,7	127,8
- wages benefits of employees	65.755	8,5	45.312	6,9	145,1
Social security and pension insurance costs	55.306	7,1	84.095	12,8	65,8
- contributions on wages paid (with contributions on recourse)	49.341	6,4	79.796	12,1	61,8
- employer's payments for employees' pensions	5.965	0,8	4.299	0,7	138,8
Other labour costs	85.624	11,0	82.891	12,6	103,3
- recourse for annual holiday	31.017	4,0	21.516	3,3	144,2
- taxes on wages paid	18.094	2,3	32.101	4,9	56,4
- benefits for lunch and transport at work	26.953	3,5	26.622	4,0	101,2
- other labour costs	9.560	1,2	2.651	0,4	360,6
Total	775.930	100,0	657.653	100,0	118,0

Other net insurance expenses from life insurances in 2006

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Accounted provisions - unit-linked life insurance	303.565	96,1	232.773	86,5	130,4
Revaluation operating expenses - of receivables value adjustments	326	0,1	26.167	9,7	1,2
Accounted provisions and entrance costs - pension insurance	10.313	3,3	7.048	2,6	146,3
Coverage of supervisory body costs	3.510	1,1	2.267	0,8	154,8
Receivables write-offs abroad - interests	10.949	3,5	912	0,3	1.200,6
Income from removal of receivables value adjustment	-12.922	-4,1	-	-	-
Other net insurance expenses	173	0,1	30	0,0	575,7
Total	315.912	100,0	269.198	100,0	117,4

BALANCE ON THE TECHNICAL ACCOUNT - HEALTH INSURANCE

Net income from health insurance premium amount in 2006 to SIT 18,487,589 thousand, net claims incurred to SIT 17,286,799 thousand.

Gross written premium of health insurance in 2006

in SIT '000

Insurance line	Premium of individual insurances	Premium of group insurances	Premium paid in instalments	Premium, paid by a lump-sum payment	Premium from contracts with invariable sums insured	Premium from contracts with a profit share	Premium from contracts, whereat policyholder bears the investment risk
Health insurance	18.758.948	0	18.758.948	0	0	0	0

Reinsurance result from health insurance

in SIT '000

Insurance line	Reinsur. premiums	Reinsur. claims	Net reinsur. result	Reinsur. commissions	Gross reinsur. result
Health insurance	0	0	0	0	0

Other net insurance income from health insurances in 2006

in SIT '000

Name	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Income from performing services of other insurance business	455	100,0	4.872	97,7	9,3
Income from services of indemnity recouring	-	-	116	2,3	-
Total	455	100	4.988	100	9,1

In 2006, the company annotates within the frame of net expenses for bonuses and rebates from health insurance the amount of SIT 163,987 thousand of income from provisions change for bonuses, rebates and cancellations.

From total income SIT 163,710 thousand refers to bonuses and SIT 277 thousand to cancellations. Net operating expenses from health insurances amount to total of SIT 3,700,436 thousand.

Operating expenses by natural lines

in SIT '000

Type of cost	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Operating material costs	104.614	2,8	102.668	3,1	101,9
Acquisition costs	451.788	12,2	332.520	10,0	135,9
Operating service costs	1.346.115	36,4	1.338.251	40,1	100,6
Redemption	139.925	3,8	185.081	5,5	75,6
Other provisions	8.081	0,2	-	-	-
Operating labour costs	1.592.075	43,0	1.278.697	38,3	124,5
Other costs	57.838	1,6	98.511	3,0	58,7
Total operating expenses	3.700.436	100,0	3.335.728	100,0	110,9

Other provisions costs are related to labour costs, in the item among other labour costs, therefore in the profit and loss account they are included

Operating expenses by functional groups

in SIT '000

Type of cost	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Acquisition costs	579.804	15,7	1.205.959	36,2	48,1
Appraisal costs	395.701	10,7	199.080	6,0	198,8
Other operating costs	2.724.930	73,6	1.930.689	57,9	141,1
Total	3.700.436	100,0	3.335.728	100,0	110,9

In 2006, a unification of dividing keys of two former insurance companies Adriatic and Slovenica as well as new definition of insurance acquisition costs had an influence on structural changes in costs, divided by functional groups.

For direct insurance business, i.e. underwriting, insurance renewals and recoveries, the company accounted in 2006 commissions in the amount of SIT 451,788 thousand, however it did not account commissions for insurance portfolio management and other commissions.

Redemption expenses

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Redemption of intangible fixed assets	42.483	30,4	127.476	68,9	33,3
Redemption of buildings for insurance operations	13.915	9,9	1.530	0,8	909,5
Redemption of equipment for insurance operations	82.907	59,3	55.525	30,0	149,3
Redemption of office supplies	620	0,4	550	0,3	112,7
Total	139.925	100,0	185.081	100,0	75,6

Labour costs and employee payment costs

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Wages and salaries	1.075.192	67,2	907.893	71,0	118,4
- wages and salaries - regularly work	954.594	59,7	816.506	63,9	116,9
- wages benefits of employees	120.597	7,5	91.388	7,1	132,0
Social security and pension insurance costs	257.058	16,1	168.054	13,1	153,0
- contributions on wages paid (with contributions on recourse)	229.336	14,3	150.253	11,8	152,6
- employer's payments for employees' pensions	27.722	1,7	17.801	1,4	155,7
Other labour costs	267.907	16,7	202.749	15,9	132,1
- recourse for annual holiday	42.196	2,6	33.089	2,6	127,5
- taxes on wages paid	81.222	5,1	69.510	5,4	116,8
- benefits for lunch and transport at work	126.474	7,9	92.969	7,3	136,0
- other labour costs	18.015	1,1	7.180	0,6	250,9
Total	1.600.157	100,0	1.278.697	100,0	125,1

Other net insurance expenses from health insurances in 2006

in SIT '000

Description	Year 2006	Exp. (in %)	Year 2005	Exp. (in %)	Index
Revaluation operating expenses	351.968	109,0	186.868	83,5	188,4
Coverage of supervisory body costs	16.498	5,1	17.472	7,8	94,4
Other net insurance expenses	13.194	4,1	8.334	3,7	158
Receivables value write-offs	5.588	1,7	11.097	5,0	50,4
Income from removal of receivables value adjustment	-64.206	-19,9	-	-	-
Total	323.043	100	223.770	100	144,4

Gross and net insurance company's results

in SIT '000

	Gross insurance company's results	Accounted corporate profit tax	Other taxes not shown in other items - deferred taxes	Net insurance company's results
Non-life insurance, except health insurance	3.919.335	-1.209.486	-31.544,	2.678.305,
Life insurance	275.536	-85.029	-42.977,	147.530,
Health insurance	521.264	-160.859	48.602	409.007
Total	4.716.135	-1.455.374	-25.919	3.234.842

Taxation of the company according to Corporate Profit Tax Act

in SIT '000

Tax expenses	31. 12. 2006			
	Non-life ins., except health insurance	Life insurance	Health insurance	Total
I. Amount of tax expense from accounted tax	1.209.486	85.029	160.859	1.455.374
II. Amount of tax expense resp. income for deferred tax:	31.544	42.977	-48.602	25.919
1 Amount of new acknowledged receivables for deferred tax (-)	-151.376	92	-81.806	-233.090
2 Amount of removed receivables for deferred tax (+)	131.461	42.349	29.413	203.222
3 Amount of acknowledged liabilities for deferred tax (+)	0	0	0	0
4 Amount of removed liabilities for deferred tax (-)	0	0	0	0
5 Difference in expenses resp. income from deferred tax due to changes of tax rates or other changes of tax regulations (+ or -)	51.460	536	3.791	55.787
III. Total tax expenses	1.241.030	128.006	112.257	1.481.293

The company has identified liabilities for deferred tax, which do not affect company's results to debit or credit

of capital from long-term and short-term financial investments.

in SIT '000

Receivables and liabilities for deferred tax not affecting company's results	31. 12. 2006	1. 1. 2006	Index
To debit of revaluation reserve	882.656	303.413	290,9
Non-life ins., except health ins.	622.760	198.537	313,7
Life insurance	72.620	52.862	137,4
Health insurance	187.275	52.013	360,1
To credit of revaluation reserve	253	698	36,2
Non-life ins., except health ins.	0	0	0,0
Life insurance	253	698	36,2
Health insurance	0	0	0

6.5.6 Disclosures to Statement according to indirect determined cash-flow method

Pecuniary means per 31 December 2006

in SIT '000

Type of pecuniary means	At the beginning of the year	At the end of the year
PECUNIARY MEANS OF NON-LIFE INSURANCES		
Pecuniary means - premium and claim cash in hand	1.255	5.188
Pecuniary means - cheques received	270.093	19.848
Pecuniary means - cash in transit	1.297	469
Pecuniary means on bank accounts and in other financial organisations:		
- instantly available pecuniary means	77.123	60.611
- cash at call	538.009	95.842
- pecuniary means in foreign currency	19.517	8.862
- pecuniary means on other special accounts	177.426	44.112
Pecuniary means on special accounts of long-term health insurance business funds	178.015	87.336
Pecuniary means on special accounts of long-term other health insurance business funds	388	1.206
PECUNIARY MEANS OF LIFE INSURANCES		
Pecuniary means on special accounts of long-term life insurance business funds	70.655	46.400
Pecuniary means on special accounts of long-term unit-linked life insurance business funds	67.810	47.853
Pecuniary means on special accounts of long-term pension insurance business funds	81	668
TOTAL PECUNIARY MEANS	1.401.670	418.395

The company has not carried out a special adjustment of pecuniary means, exposed in cash-flow statement and in balance sheet.

The company recorded no significant changes on the side of investing and financing, which would be performed without transmitting pecuniary means.

6.6

Appointed Actuary's Report

I have from actuary point of view audited state of technical provisions of insurance company Adriatic Slovenica d. d. per 31 December 2006. I have performed actuarial audit in accordance with provisions of Insurance Act (Official gazette of RS 109/2006) and corresponding executive regulations, which the insurance company was obliged to respect on 31 December 2006.

The state of technical provisions is a responsibility of insurance company's Management Board. My duty was to examine, whether the insurance company keeps proper evidences for evaluation purposes of long-term and non-life insurances, to express my opinion on adequacy of all provisions in respect of future company's liabilities, arising out of insurance contracts or in connection to them, and to examine the investment appropriateness of long-term business funds and liability fund. For new kinds of insurance contracts which the insurance company began to conclude during the year, to confirm whether premium and income from these contracts are adequate in respect of reasonable actuary expectations, taking into consideration other financial sources of insurance company available to this purpose, for company to fulfil its obligations from these contracts. My duty was also to determine the amount of minimum capital of the insurance company for requirements of long-term and non-life insurances as well as the fulfilment of insurance company's capital adequacy.

I am convinced that my actuarial auditing is a suitable groundwork for issuing an appointed actuary opinion.

In my opinion the premium height, which the insurance company accounted in financial year 2006, and the height of formed technical provisions for long-term liabilities of the insurance company per 31 December 2006 are adequate to ensure of continual fulfilment of all insurance company's liabilities from long-term insurance contracts.

In my opinion the premium height, which the insurance company accounted in financial year 2006, and the height of formed technical provisions for non-life insurances per 31 December 2006 are adequate to ensure of continual fulfilment of all insurance company's liabilities from non-life insurance contracts.

Koper, 10 April 2007

Jadranka Maček,
Appointed actuary
of ADRIATIC SLOVENICA d.d..



6.7

Auditor's Report**PricewaterhouseCoopers
d.o.o.**

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**AUDITOR'S REPORT INTENDEND FOR PUBLIC ANNOUNCEMENT
OF SUMMARIZED FINANCIAL STATEMENTS**

We have audited the financial statements of the Adriatic Slovenia insurance company d.d. for the year ended 31 December 2006, in accordance with the International Standards on Auditing. In our report dated 25 May 2007 we expressed an unqualified opinion on the financial statements, from which the summarized financial statements were derived, that those in all material respects present a true and fair value of the financial position of Adriatic Slovenia insurance company d.d. for the year ended 31 December 2006, and of the results of its operations and changes in financial position for the year then ended in accordance with Slovenian Accounting Standards.

In our opinion, the accompanying summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon.

Ljubljana, 30 June 2007

PricewaterhouseCoopers d.o.o.

Jože Plevnik
Member of the board / Certified Auditor

This audit report has been translated from the Slovenian original. This translation is provided for reference purposes only and is not to be signed.

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