

GENERALI OSIGURANJE d.d.

**FINANCIAL STATEMENTS
31 DECEMBER 2006**

FREE TRANSLATION FROM CROATIAN ORIGINAL

Independent auditor's report

To the Shareholder of GENERALI OSIGURANJE d.d.

PricewaterhouseCoopers d.o.o.
Alexandera von Humboldta 4
HR-10000 Zagreb
CROATIA
Telephone (385 1) 63 28 888
Facsimile (385 1) 61 11 556

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.
30 April 2007

Tatjana Rukavina
President of the Management Board

Dušica Madžarac
Certified auditor

GENERALI OSIGURANJE d.d., ZAGREB**BALANCE SHEET****AS AT 31 DECEMBER 2006**

<i>(all amounts expressed in HRK)</i>	<u>Note</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
ASSETS			
Intangible assets	4	1,727,347	1,443,100
Property, plant and equipment	5	7,120,416	3,975,143
Reinsurers' share in insurance provisions	17		
Unearned premiums, reinsurers' share		15,123,503	6,689,572
Claims provisions, reinsurers' share		11,064,937	5,537,565
Mathematical provisions, reinsurers' share		65,863,472	25,326,843
		92,051,912	37,553,980
Investments	6		
Land and buildings (investment property)	7	18,042,725	0
Available-for-sale investments	8	295,454,761	89,926,401
Loans	9	2,151,107	0
Term deposits with credit institutions	10	41,979,696	3,000,862
Other investments		147,909	247,909
		357,776,198	93,175,172
Receivables			
Receivables arising out of direct insurance operations	11	12,904,307	5,953,604
Receivables arising out of reinsurance operations	12	26,990,648	17,345,603
Other receivables	13	1,984,713	1,006,342
		41,879,668	24,305,549
Prepaid expenses and accrued income	14	5,772,326	0
Cash and cash equivalents	15	10,298,342	8,707,751
TOTAL ASSETS		516,626,209	169,160,695

The accompanying notes form an integral part of these financial statements.

GENERALI OSIGURANJE d.d., ZAGREB**BALANCE SHEET****AS AT 31 DECEMBER 2006**

<i>(all amounts expressed in HRK)</i>	<u>Note</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
EQUITY AND LIABILITIES			
Equity	16		
Share capital		81,000,000	36,000,000
Reserve for UGL on AFS investments		973,645	4,199,720
Capital reserve		12,000,000	12,000,000
Revenue reserve and other reserves		8,334,416	20,563,934
Accumulated losses		<u>-14,996,938</u>	<u>-17,413,106</u>
		87,311,123	55,350,548
Insurance provisions, gross amount	17		
Unearned premiums, gross amount		31,509,295	11,556,757
Claims provisions, gross amount		24,307,045	7,552,895
Mathematical provisions of life insurance, gross amount		203,624,680	50,531,262
Other insurance provisions, gross amount		<u>28,829,864</u>	<u>0</u>
		288,270,884	69,640,914
Retained deposits from business ceded to reinsurers		94,772,785	35,381,037
Payables			
Payables arising out of direct insurance operations	18	33,525,204	4,242,173
Payables arising out of reinsurance operations	19	1,485,607	360,660
Other payables including taxation and social security	20	<u>8,837,800</u>	<u>3,968,688</u>
		43,848,611	8,571,521
Deferred income and accrued expenses	21	2,422,806	216,675
TOTAL EQUITY AND LIABILITIES		<u>516,626,209</u>	<u>169,160,695</u>

These financial statements were approved by the Management Board on 30 April 2007.

Member of the Management Board

Jasminka Horvat Martinović

Chairman of the Management Board

Michele Ciriaco

The accompanying notes form an integral part of these financial statements.

GENERALI OSIGURANJE d.d., ZAGREB**INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2006**

<i>(all amounts expressed in HRK)</i>	Note	2006	2005
Earned premiums	22	94,955,843	31,969,749
Gross earned premium		178,348,405	72,074,926
Outward reinsurance premiums		-83,392,562	-40,105,177
Income from financial assets and investment properties	23	11,420,023	3,280,676
Other income	24	51,333,990	28,503,798
TOTAL INCOME		157,709,856	63,754,223
Net insurance benefits and claims	25	-64,934,405	-24,652,570
Gross amount		-121,543,325	-54,251,416
Reinsurers' share		56,608,920	29,598,846
Expenses from financial assets and investment properties	26	-2,564,456	-1,397,839
Acquisition and administration costs	27	-102,946,689	-54,042,426
Commissions and other acquisition costs		-54,368,382	-22,986,816
Administration costs		-48,578,307	-31,055,610
Other expenses	28	-3,649,408	-1,817,194
TOTAL EXPENSES		-174,094,958	-81,910,029
RESULT BEFORE TAXATION		-16,385,102	-18,155,806
Income tax	29	0	0
RESULT FOR THE ACCOUNTING PERIOD		-16,385,102	-18,155,806

The accompanying notes form an integral part of these financial statements.

GENERALI OSIGURANJE d.d., ZAGREB

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

<i>(in HRK)</i>	<u>Note</u>	<u>Share capital</u>	<u>Reserve for UGL on AFS investments</u>	<u>Capital reserve</u>	<u>Revenue reserve & other reserves</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 1 January 2005		33,000,000	1,417,112	0	30,258,301	-8,951,666	55,723,747
Change of reserve for UGL on AFS investments	16	-	2,782,608	-	-	-	2,782,608
Net income/expense recognised directly in equity		0	2,782,608	0	0	0	2,782,608
Result for the year		-	-	-	-	-18,155,806	-18,155,806
Total recognised income/expense for 2005		0	2,782,608	0	0	-18,155,806	-15,373,198
Coverage of previous year's result from reserves		-	-	-	-9,694,366	9,694,366	0
Capital increase through payment by owner		3,000,000	-	12,000,000	-	-	15,000,000
Balance at 31 December 2005		36,000,000	4,199,720	12,000,000	20,563,934	-17,413,106	55,350,548
Balance at 1 January 2006		36,000,000	4,199,720	12,000,000	20,563,934	-17,413,106	55,350,548
Change of reserve for UGL on AFS investments	16	-	-3,226,075	-	-	-	-3,226,075
Net income/expense recognised directly in equity		0	-3,226,075	0	0	0	-3,226,075
Result for the year		-	-	-	-	-16,385,102	-16,385,102
Total recognised income/expense for 2006		0	-3,226,075	0	0	-16,385,102	-19,611,176
Coverage of previous year's result from reserves		-	-	-	-16,993,951	16,993,951	0
Merger of Libertas osiguranje d.d.	34	31,216,800	-	-	4,764,432	1,807,319	37,788,551
Capital increase through payment by owner		13,783,200	-	-	-	-	13,783,200
Balance at 31 December 2006		81,000,000	973,645	12,000,000	8,334,416	-14,996,938	87,311,123

UGL = Unrealised Gains and Losses

AFS = Available for Sale

The accompanying notes form an integral part of these financial statements.

GENERALI OSIGURANJE d.d., ZAGREB**CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2006**

<i>(all amounts expressed in HRK)</i>	<u>2006</u>	<u>2005</u>
Result before taxation	-16,385,102	-18,155,806
Change in the provision for unearned premiums	8,236,500	3,837,766
Change in the provisions for outstanding claims	7,272,075	-6,104,055
Change in mathematical provisions and other insurance provisions	47,948,469	28,735,178
Change in deferred acquisition costs	-4,824,547	0
Change in prepaid expenses and accrued income	1,677,717	-69,662
Change in non/cash items	60,310,214	26,399,228
Change in receivables and payables arising out of direct insurance and reinsurance operations	55,838,574	23,189,336
Change in other receivables and payables	-3,488,575	957,324
Change in receivables and payables from operating activities	52,349,998	24,146,660
CASH FLOW FROM OPERATING ACTIVITIES	96,275,110	32,390,082
Acquisition of Libertas, net of cash acquired (note 34)	28,600,840	0
Net cash flow available for sale assets	-133,912,331	-41,828,325
Net cash flows from tangible and intangible assets	-3,156,229	-884,999
CASH FLOW FROM INVESTING ACTIVITIES	-108,467,720	-42,713,324
Net cash flow from shareholders equity to the company's equity holders	13,783,200	15,000,000
CASH FLOW FROM FINANCING ACTIVITIES	13,783,200	15,000,000
D) Net increase/decrease in cash and cash equivalents	1,590,590	4,676,757
E) Cash and cash equivalents at beginning of year	8,707,751	4,030,994
F) Cash and cash equivalents at end of year (Note 15)	10,298,342	8,707,751

The accompanying notes form an integral part of these financial statements.

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 1 – GENERAL INFORMATION

Generali osiguranje d.d. (hereinafter: the Company) is a joint stock company registered for the performance of non-life and life insurance operations, established in the Republic of Croatia.

The Company's registered office is located in Zagreb, Hektorovićeve 2, Croatia.

The sole shareholder of the Company is Generali Holding Vienna A.G., Austria, which is a member of the Assicurazioni Generali S.p.A. Group, Trieste, Italy.

At the beginning of 2006 Generali Holding Vienna A.G. was the owner of the former Generali životno osiguranje d.d. and Generali osiguranje d.d. since their foundation in 2002 and 2003 respectively. During 2006 Generali Holding Vienna A.G. has purchased Libertas osiguranje d.d. and has established control over Libertas at 1 July 2006.

Companies Generali životno osiguranje d.d. and Generali osiguranje d.d. have legally merged into Libertas osiguranje d.d. which changed its name to Generali osiguranje d.d. The merger was registered at the Commercial Court in Zagreb on 29 December 2006. More details of the merger are explained in note 34.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments.

In 2006, the Company completely adopted International Financial Reporting Standards (IFRS) for the first time. The transition to IFRS affects the financial position of the Company. Transition is further explained in Note 33.

These financial statements have been prepared in accordance with those standards and interpretations which were effective for the period to which these financial statements relate. The Company has not early adopted other standards and interpretations which are not yet effective.

The following standards, amendments and interpretations to existing standards are mandatory for the Company's accounting periods beginning on or after the effective date, but have not been early adopted by the Company:

IFRS 7, Financial Instruments: Disclosures and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Instruments: Disclosure and Presentation. The Company will apply IFRS 7 beginning 1 January 2007. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

The following standards and interpretations to existing standards are mandatory for the Company's accounting periods beginning on or after the effective date, but are not relevant to the Company's operations:

IFRS 8, Operating Segments (effective from 1 January 2009);
IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006);
IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006);
IFRIC 9, Reassessment of embedded derivatives (effective from 1 June 2006);
IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006);
IFRIC 11, IFRS 2 – Group and Treasury share transactions (effective from 1 March 2007);
IFRIC 12, Service Concession Arrangements (effective from 1 January 2008).

The preparation of financial statements requires the use of estimates and assumptions that affect assets and liabilities at the balance sheet date and income and expenses during the reporting period which are disclosed in the financial statements. Although these estimates are based on the management's best knowledge of current events and activities, actual results may differ from those estimates.

Both Generali osiguranje d.d. and Generali životno osiguranje d.d. that were merged into Libertas osiguranje d.d. and now form the Company prepared their closing financial statements at merger date 29 December 2006. Those financial statements are used for preparation of financial statements of the new formed Company at 31 December 2006.

The functional and presentation currency of financial statements is Croatian Kuna (HRK).

The basic accounting policies adopted for the preparation of the financial statements are given below:

2.1. Premiums

Earned premiums are the portion of written premiums that represent insurance coverage provided in the reporting period. Earned premium equals the total of all premiums written during a period plus the unearned premiums at the beginning of the period, minus the unearned premiums at the end of the period.

Written premiums from non-life insurance operations include all premium amounts written in the current accounting period for a maximum period of one year, regardless of whether a total or a part of these amounts relate to a subsequent accounting period or not.

Written premiums from life insurance operations include all premium amounts collected by the end of an accounting period, regardless of whether a total or a part of these amounts relate to a subsequent accounting period or not. Partially collected premium is recognised when the whole premium instalment is collected.

2.2. Reinsurance

The Company concludes reinsurance agreements in order to decrease the accepted insurance risk from policyholders.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Balances and transactions relating to reinsurance operations are presented in these financial statements on the basis of balances and transactions at the balance sheet date in accordance with the reinsurance agreement clauses. At the end of the year balances between the Company and each of the reinsurers are offset and resulting credit or debt is paid during the first quarter of the following year. For further information see also note 3.1..

Reinsurance receivables and payables are accounted for in accordance with IFRS 4.

2.3. Income from financial assets and investment properties

The item includes income from financial instruments not at fair value through profit and loss and from land and buildings (investment properties). In detail, it includes mainly interests from financial instruments measured using the effective interest method, interest income from cash and cash equivalents, income from properties used by third parties and realised gains from financial assets.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a financial asset is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired financial assets is recognised using the original effective interest rate.

2.4. Net insurance benefits and claims

Net insurance benefits and claims include the amounts paid in respect of claims, maturities and surrenders, as well as the amounts of changes in insurance provisions, net of recoveries and reinsurance.

All claims paid in the accounting period are disclosed, regardless of the accounting period in which they occurred, reduced by reinsurer's share on claims.

2.5. Acquisition costs

Acquisition costs comprise costs arising from concluded insurance contracts. These include all direct acquisition costs (acquisition commissions, issuing costs of insurance documents, costs of employees exclusively dealing with acquisition etc.) and indirect acquisition costs (advertising costs, costs of offer processing and policy issuing).

Direct acquisition costs of non-life insurance policies are deferred to the following accounting period according to the share of unearned premium in the written premium, i.e. based on the ratio in which they relate to the earned premium of the following accounting period. Deferred acquisition costs include acquisition costs attributable to the acquisition and renewal of contracts and deferrable over the term of the contract.

2.6. Administration costs

Administration costs comprise staff costs, rent, consulting services, travel expenses, premium collection charges, expenses arising from portfolio management, depreciation of tangible and amortization of intangible assets and other expenses.

2.7. Expenses from financial assets and investment properties

The item comprises expenses from land and buildings (investment properties) and from financial instruments not at fair value through profit and loss. It includes: depreciation from investment properties, realised losses from financial assets, impairment of financial assets, impairment of loans and receivables.

2.8. Equity attributable to the company's equity holders

Share capital

Ordinary share are recognised as share capital and their value equals nominal value.

Capital reserve

The item includes the share premium account of the Parent Company.

Revenue reserve and other reserves

The item includes reserves for future loss coverages and legal reserves.

Reserve for unrealised gains or losses on available for sale assets

The item includes gains or losses arising from changes in the fair value of available for sale financial assets according to IAS 39.

Retained earnings and accumulated losses

The item includes retained earnings or losses adjusted for the effect due to changes arising from first time application of IFRS.

2.9. Intangible assets

This category includes software. Intangible assets are stated at cost and amortised by using the straight-line method over the estimated useful life of two to five years. Amortisation is allocated between acquisition costs and administrative expenses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

2.10. Cash and cash equivalents

Cash comprises cash in hand and balances on accounts with banks that are available for day-to-day operations. Cash in hand and equivalent assets (cheques and credit cards), cash and balances with the banks payable on demand are accounted for in this item at their carrying amounts. Cheques and credit cards are qualified as cash equivalent only when they have a short term maturity of 3 months or less from the date of acquisition.

2.11. Insurance provisions and insurance contracts

2.11.1. Insurance and investment contracts – classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. The Company issues only insurance contracts.

Insurance receivables and payables are accounted for in accordance with IFRS 4.

2.11.2. Insurance contracts with Discretionary Participation Feature (DPF)

The Company issues certain life insurance contracts with Discretionary Participation Feature (DPF). Under these insurance contracts the Company may, but is not required, allocate additional benefits to the policyholders based on realised income on investment of mathematical provisions funds. Amounts allocated to policyholders based on discretionary decision of the Company are included in mathematical provisions for life insurance.

2.11.3. Insurance provisions calculation assumptions and methods

In calculation of life insurance mathematical provisions the following assumptions are used:

- Mortality tables used: Croatia male population 1989-1991, for females the same table is used with decrease of 5 years of age.
- Technical interest rate: 3% for former Generali portfolio, 3,6% for former Libertas portfolio.
- Expenses calculation is based on expenses used for calculation of tariff rates.
- Mathematical provisions are decreased for not depreciated real acquisition expenses (zilmmerisation) where appropriate with zilmmerisation rate not higher than 3,5%.

Technical interest rate is the interest rate used for discounting of future insurance liabilities both for the Company (insurance sums in case of survival or in case of death) and for the policyholders (premiums to be paid). Calculation is done individually for each insurance contract by a prospective net method as the difference of present value of all future liabilities. Calculation includes all active contracts and those cancelled within last 12 months where appropriate (possible reactivations) and is based on paid premium which is equal to written premium. Instalments are assumed to be paid in order of maturity.

Unearned Premium Reserve is a premium accrual between the insurance period and the accounting period, calculated for each contract separately on the basis of total written premium in the accounting period for each type of insurance. Unearned Premium Reserve (UPR) is calculated individually for each insurance contract. The main assumption for calculation of UPR is that the risk is evenly spread throughout the duration of the policy. Therefore, proportionate method based on number of days of duration for all contracts (short term, annual, long term) is used.

Unearned premium reserve of life insurance is calculated based on duration and payment of the contract in accordance with the insurance profession and recognized actuarial methods. For short term contracts it is calculated based on paid premium, for long term contracts based on technical premium and for contracts with single premium (endowment insurance) unearned premium reserve equals zero, as for these contract only mathematical reserve is calculated.

Claims Provisions are total estimated expenses of the Company for the outstanding claims incurred regardless of whether they were reported in the accounting period or not. Claims Provisions consist of Reported But Not Settled (RBNS) claims, Incurred But Not Reported (IBNR) claims and Loss Adjustment Expenses (LAE).

Estimation of RBNS claims reserve is done by individual case-by-case estimation of each reported claim by judgment of experienced claim handlers. Annuity claims are calculated assuming mortality from tables for Croatia for years 1989-91 and interest rate of 4,5%.

IBNR claims reserve is calculated as a percentage of earned premium based on market experience, portfolio structure, expected claims ratios and run-off analysis. Method is chosen taken into consideration young portfolio (3 years in Non-Life and 4 years in Life) and the fact that significant growth did not appear before middle of 2005. IBNR is calculated as a percentage of earned premium in last 12 months for every line of business separately. Percentages are corrected on quarterly basis considering run-off analysis, structure of portfolio, presumed growth of portfolio, Generali group experience, market statistics, trends etc.

Loss Adjustments Expenses claims reserve is estimated based on experience and refers to expenses associated with settling claims including salaries of claim handlers, legal fees, court costs, external experts and investigation costs. Allocated Loss Adjustment Expenses (ALAE) are associated with a particular claim and allocated to that claim. ALAE are consisting part of RBNS and are estimated simultaneously. Unallocated Loss Adjustment Expenses (ULAE) are not claim-file specific. Calculation method of ULAE: $ULAE = \text{coefficient} * (RBNS+IBNR)$. Coefficient for the year = $100 * \text{expenses allocated in claims department} / \text{incurred claims in the year}$.

2.11.4. Liability Adequacy Test

IFRS 4 requires a test for the adequacy of liabilities arising from insurance contracts. The Company assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under all of its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs) are inadequate in the light of the estimated future cash flows, the entire deficiency is charged to profit and loss account. The adequacy test provides an assessment of whether the book value of underwriting provisions must be increased on the grounds of estimates of future cash flows. The estimates of future cash flows are based on realistic actuarial assumptions taking into consideration claim occurrence experience, most recent demographic tables, aspects of mortality, morbidity, investment return, expenses and inflation.

2.11.5. Sensitivity on insurance risks

Morbidity and mortality

The Company's portfolio is not representative for observing insurance mortality due to its young nature.

The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Company's own experience and also using experiences from other countries.

Renewal expense level and inflation

The current level of expenses is taken as an appropriate expense base. Expense inflation is assumed to be 0.5% above current inflation rates at 3.3% per annum in the HRK.

Life insurance contracts

For liabilities under life insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The Company did not change its assumptions for insurance contracts.

Property insurance contracts

For property insurance contracts, climatic changes may give rise to more frequent and severe extreme weather events (for example, river flooding, storms...) and their consequences (for example, subsidence claims). For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Company has the right to reprice the risk and/or change the terms and conditions on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Company has reinsurance cover for such damage.

2.12. Foreign currencies

Business transactions stated in foreign currencies are translated at the official exchange rates ruling at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the balance sheet date at the mid exchange rate of the Croatian National Bank.

Foreign exchange rate differences arising on settlement or reporting of items at rates different from those at which they were initially recorded are recognized as income or expense for the period in which they arose.

Currency translation differences arising from balances and transactions of available for sale investments are recorded through income statement.

2.13. Income tax

Income tax is calculated by applying a rate of 20% to the tax base, which represents profit increased and decreased in accordance with the Income Tax Act.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.14. Impairment of non-financial assets

Assets that have an indefinite useful life (such as land) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15. Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimate useful lives. Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant.

Depreciation annual rates based on estimated useful lives are as follows:

	Annual rate	Useful life in yrs
Buildings	10%	10
Transportation vehicles	25%	4
Furniture and office equipment	10%	10
Other	10%	10

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised in the income statement.

2.16. Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Company's right to receive payment is established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables are carried at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement. Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale securities are recognised in the income statement when the Company's right to receive payment is established.

(d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A provision for impairment of financial assets is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of financial assets. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the financial asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.17. Investment property

Investment property, principally comprising office buildings and land, is held for rental yields or appreciation and is not occupied by the Company. Investment property is carried at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives of ten years.

2.18. Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Short-term employee benefits

The Company recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

2.19. Offsetting financial instruments

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

2.20. Leases

Where the Company is the lessor

A lease is defined as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. A lease may be classified as a finance or an operating lease. Finance leases are leases where substantially all the risks and rewards of ownership of an asset are transferred to the lessee. Ownership may, or may not be transferred. Operating leases are all leases other than finance leases.

The Company leases its investment property under operating leases. In operating lease the Company recognises the assets which are under the operating lease in its balance sheet in accordance with the nature of the asset. The income from operating lease is recognised linearly in income on the basis of the straight-line method during the period of the lease. Expenses, including depreciation, which have been incurred for earning of lease income are recognised as an expense.

Where the Company is the lessee

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Company uses no finance leases.

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

NOTE 3 – MANAGEMENT OF INSURANCE AND FINANCIAL RISK

3.1. Insurance risk

The Company's business exposes it to insurance risk. The risk under any one insurance contract is that the insured event occurs and the uncertainty of the amount of resulting claims. By the nature of insurance contract insurance risk is random and therefore unpredictable.

Company manages insurance risk by diversification of underwritten risks and relating policyholders and by entering into appropriate reinsurance agreements with members of the Generali Group including quota share, surplus and excess of loss reinsurance agreements.

Company has concluded proportional reinsurance contracts by which an excess of risk over retention per business lines is transferred. Furthermore, by unproportional reinsurance contracts protection from cumulative and catastrophe claims is enabled. For particular contracts exceeding retention or contract limit, reinsurance is concluded on facultative basis.

3.2. Financial risk factors

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. The Company does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company's Management.

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from recognised assets and liabilities denominated in foreign currencies.

The Company's policy is to minimise the currency risk by adjusting assets and liabilities on currency basis. The majority of Company's life insurance contracts are linked to EURO and therefore the Company invests the EUR denominated technical reserves in EUR denominated investments.

Movements in exchange rates between the EURO and Croatian Kuna may have an impact on the results of future operations and future cash flows. The Company does not use derivative instruments to actively hedge foreign exchange risk exposure.

b) Credit risk

Financial assets which potentially subject the Company to concentrations of credit risk consist of investments and reinsurance assets and receivables.

The Company has adopted guidelines to limit the credit risk of its investments. These favour the purchase of the investments with good credit rating and encourage the diversification and dispersion of the portfolio. Asset management department reports monthly to Generali Group on the exposure to the components of the credit risk. The investments are mostly (more than 70%) in fixed income investments of high rating standing, bank deposits and investment funds with high rating international banks. The Company has policies that limit the amount of credit exposure to any financial institution.

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

The Company's portfolio is reinsured mostly with Generali Holding Vienna (parent company) while the rest of portfolio is also reinsured within the Group what decreases credit risk out of reinsurance assets and receivables. Reinsurer's share in insurance provisions is backed up with retained deposits from business ceded to reinsurers.

(c) Liquidity risk

The treasury department regularly (on a daily basis) monitors available cash resources.

The assets are invested to meet the obligation towards both life and non-life policyholders and to earn a return on investments. The Company takes the following measures to meet the liquidity risk:

- planing of cash flow
- reporting on a daily basis
- taking appropriate measures to prevent and to avert the reasons for possible unliquidity.

(d) Cash flow and fair value interest rate risk

The Company's income and cash flows are substantially dependent on changes in market interest rates. The Company's interest rate risk mainly arises from interest-bearing financial assets and long term life insurance contracts.

Financial assets at variable interest rates expose the Company to cash flow interest rate risk, while financial assets at fixed rates expose the Company to fair value interest rate risk. All Company's available-for-sale financial assets carry a fixed interest rate and therefore their value is significantly exposed to changes in market interest rates.

The Company issues long term life insurance contracts for which mathematical provision is established. Decrease of market interest rates on financial assets that are used to back up this mathematical reserve below the technical interest rate that is used for calculation of these reserves would result in an increase of value of mathematical reserves required to provide for the liabilities the Company has, based on issued insurance contracts.

The Company does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

Company provides duration analysis between investments and insurance provisions. For calculation of investments duration, Company includes life and non life investment portfolio. For insurance provisions duration, calculation was provided for life and non life insurance provisions (mathematical provisions, outstanding claims).

Duration is a measure of the average (cash-weighted) term-to-maturity.

DURATION OF INVESTMENTS AND INSURANCE PROVISIONS

<i>(in years)</i>	<u>2006</u>	<u>2005</u>
INVESTMENTS	4,91	4,58
INSURANCE PROVISIONS	15,49	12,91

3.3. Fair value estimation

Financial instruments, receivables and payables

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying values of receivables and payables are assumed to approximate their fair values due to their short-term nature.

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 4 – INTANGIBLE ASSETS

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Acquisition cost at beginning of the year	2,983,738	1,636,140
Accumulated amortization at beginning of the year	<u>-1,540,638</u>	<u>-325,583</u>
Net book amount at beginning of the year	1,443,100	1,310,557
Additions	1,719,312	1,347,598
Amortisation for the year	<u>-1,435,065</u>	<u>-1,215,055</u>
Net book amount at year-end	1,727,347	1,443,100
Balance at year-end		
Acquisition cost	4,703,050	2,983,738
Accumulated amortization	<u>-2,975,703</u>	<u>-1,540,638</u>
Net book amount at year-end	1,727,347	1,443,100

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Tangible assets of the Company consist of business equipment and furniture. Changes in tangible assets during current and previous year were as follows:

<i>(in HRK)</i>	<u>Equipment</u>	<u>Furniture</u>	<u>Total</u>
For the year ended 31 December 2005			
Net book amount at beginning of the year	1,359,185	1,863,503	3,222,688
Additions	1,146,223	998,509	2,144,732
Disposals	-19,800	-15,818	-35,618
Depreciation for the year	<u>-1,084,525</u>	<u>-272,134</u>	<u>-1,356,659</u>
Net book amount at year-end	1,401,083	2,574,060	3,975,143
Balance at 31 December 2005			
Cost	3,110,421	3,408,242	6,518,663
Accumulated depreciation	<u>-1,709,338</u>	<u>-834,182</u>	<u>-2,543,520</u>
Net book amount as at 31 December 2005	1,401,083	2,574,060	3,975,143
Net book amount as at 31 December 2004	1,359,185	1,863,503	3,222,688

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

<i>(in HRK)</i>	<u>Equipment</u>	<u>Furniture</u>	<u>Total</u>
For the year ended 31 December 2006			
Net book amount at the beginning of the year	1,401,083	2,574,060	3,975,143
Acquisition of Libertas osiguranje d.d.	343,421	0	343,421
Additions	1,901,147	2,620,556	4,521,703
Disposals	-315,914	-26,331	-342,245
Depreciation for the year	-951,284	-426,322	-1,377,606
Net book amount at year-end	<u>2,378,453</u>	<u>4,741,963</u>	<u>7,120,416</u>
Balance at 31 December 2006			
Cost	5,677,777	6,002,467	11,680,244
Accumulated depreciation	-3,299,324	-1,260,504	-4,559,828
Net book amount as at 31 December 2006	<u>2,378,453</u>	<u>4,741,963</u>	<u>7,120,416</u>
Net book amount as at 31 December 2005	<u>1,401,083</u>	<u>2,574,060</u>	<u>3,975,143</u>

NOTE 6 - INVESTMENTS

INVESTMENTS STRUCTURE BY MATURITY (investment properties excluded)

<i>(in HRK)</i>	<u>Maturity (in years)</u>				31 December 2005
	<u>0-1</u>	<u>1-5</u>	<u>5-10</u>	<u>10-15</u>	<u>Total</u>
Available for sale	15,224,038	20,923,872	46,188,641	7,589,850	89,926,401
Loans	-	-	-	-	0
Term deposits with credit institutions	3,000,862	-	-	-	3,000,862
Other investments	247,909	-	-	-	247,909
Total	<u>18,472,809</u>	<u>20,923,872</u>	<u>46,188,641</u>	<u>7,589,850</u>	<u>93,175,172</u>
<i>(in HRK)</i>	<u>Maturity (in years)</u>				31 December 2006
	<u>0-1</u>	<u>1-5</u>	<u>5-10</u>	<u>10-15</u>	<u>Total</u>
Available for sale	64,592,943	24,071,048	182,050,003	24,740,767	295,454,761
Loans	2,151,107	-	-	-	2,151,107
Term deposits with credit institutions	41,979,696	-	-	-	41,979,696
Other investments	147,909	-	-	-	147,909
Total	<u>108,871,655</u>	<u>24,071,048</u>	<u>182,050,003</u>	<u>24,740,767</u>	<u>339,733,473</u>

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

INVESTMENTS STRUCTURE BY CURRENCY (investment properties excluded)

<i>(in HRK)</i>	Currency		31 December 2005
	HRK	EUR	Total
Available for sale	39,912,038	50,014,363	89,926,401
Loans	0	0	0
Term deposits with credit institutions	3,000,862	0	3,000,862
Other investments	247,909	0	247,909
Total	43,160,809	50,014,363	93,175,172

<i>(in HRK)</i>	Currency		31 December 2006
	HRK	EUR	Total
Available for sale	136,351,542	159,103,219	295,454,761
Loans	2,151,107	0	2,151,107
Term deposits with credit institutions	32,628,179	9,351,517	41,979,696
Other investments	147,909	0	147,909
Total	171,278,737	168,454,736	339,733,473

NOTE 7 – LAND AND BUILDINGS (INVESTMENT PROPERTY)

	<i>(in HRK)</i>
For the year ended 31 December 2006	
Net book amount at beginning of the year	0
Acquisition of Libertas osiguranje d.d.	19,253,905
Depreciation for the year	<u>-1,211,180</u>
Net book amount at end of the year	18,042,725
Balance as at 31 December 2006	
Cost	24,223,613
Accumulated depreciation	<u>-6,180,888</u>
Net book amount as at 31 December 2006	18,042,725

Investment properties are acquired from Libertas osiguranje d.d. during 2006. The registration of legal title over properties into land register is in process. The company had no investment property in 2005.

NOTE 8 – AVAILABLE-FOR-SALE INVESTMENTS

<i>(in HRK)</i>	31 December 2006	31 December 2005
Debt securities and other fixed yield securities	234,377,719	88,198,762
Shares and other variable yield securities	<u>61,077,042</u>	<u>1,727,639</u>
Total	295,454,761	89,926,401

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

SHARES AND OTHER VARIABLE YIELD SECURITIES

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
PBZ Global Fund	31,309,860	0
RBA Balanced Fund	20,548,960	0
PBZ Kuna Money Fund	9,187,764	863,667
PBZ Money Fund	30,458	863,972
Total	<u>61,077,042</u>	<u>1,727,639</u>

DEBT SECURITIES AND OTHER FIXED YIELD SECURITIES

<i>(in HRK)</i>	<u>Maturity</u>	<u>Effective interest rate '06.</u>	<u>31 December 2006</u>	<u>Effective interest rate '05.</u>	<u>31 December 2005</u>
Bonds RHMF-O-137A	2013	4.70%	72,448,548		0
Bonds RHMF-O-157A	2015	4.30%	54,141,116	4.24%	15,480,286
Bonds RHMF-O-142A	2014	4.77%	27,139,290	4.85%	12,596,354
Bonds RHMF-O-19BA	2019	4.85%	25,435,275	5.10%	7,620,190
Bonds RHMF-O-125A	2012	4.42%	15,412,495	5.11%	3,067,835
Bonds RHMF-O-085A	2008	4.94%	9,268,083	5.15%	9,516,241
Bonds C-EURB 5.00%	2014	4.25%	7,498,739		0
Bonds RHMF-O-103A	2010	4.97%	6,462,067	6.47%	6,761,384
Bonds RHMF-O-077A	2007	3.32%	4,435,839	3.32%	4,478,034
Bonds RHMF-O-15CA	2015	4.77%	4,145,090	4.72%	8,602,411
Bonds HBOR CBRD 5.75%	2012	5.76%	3,856,136	5.76%	4,049,825
Bonds RHMF-O-08CA	2008	5.42%	1,920,592	5.42%	2,028,933
Bonds RBA-O-112A	2011	4.13%	1,007,616		0
Bonds PLIVA-115A	2011	5.77%	608,688	5.77%	634,222
Bonds PODR-O-115A	2011	5.15%	598,145		0
Treasury bills of the Ministry of Finance	2006		0	3.00%	12,742,227
Bonds C-EURB 6.25%	2009		0		0
Bonds PODR-O-072A	2007		0	5.00%	620,820
Total			<u>234,377,719</u>		<u>88,198,762</u>

NOTE 9 – LOANS

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Loans	2,151,107	0

Loans are acquired from Libertas osiguranje d.d. The Company has no intention of giving further loans.

GENERALI OSIGURANJE d.d., ZAGREB**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

NOTE 10 – TERM DEPOSITS WITH CREDIT INSTITUTIONS

<i>(in HRK)</i>	<u>Effective interest rate '06.</u>	<u>31 December 2006</u>	<u>Effective interest rate '05.</u>	<u>31 December 2005</u>
IMEX banka	5.80%	14,411,852		0
Privredna banka Zagreb d.d.	3.43%	9,342,636	3.75%	1,500,462
Banka Sonic d.d.	5.25%	7,045,220		0
ERSTE banka	4.55%	6,139,096		0
NAVA banka	5.75%	4,023,577		0
Istarska kreditna banka d.d.	4.00%	1,017,315		0
Raiffeisenbank d.d.		0	3.25%	1,500,400
Total		<u>41,979,696</u>		<u>3,000,862</u>

NOTE 11 – RECEIVABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Receivables from policyholders	<u>12,904,307</u>	<u>5,953,604</u>

NOTE 12 – RECEIVABLES ARISING OUT OF REINSURANCE OPERATIONS

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Receivables arising out of reinsurance operations – Generali Group	<u>26,990,648</u>	<u>17,345,603</u>

Receivables relate to reinsurance agreement with the owner Generali Holding Vienna A.G. (see also income statement notes 24 and 28).

NOTE 13 – OTHER RECEIVABLES

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Advances paid	1,204,614	815,861
Lease of business premises	85,893	0
Other receivables	694,206	190,481
Total	<u>1,984,713</u>	<u>1,006,342</u>

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 14 – PREPAID EXPENSES AND ACCRUED INCOME

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Deferred acquisition costs	5,085,557	0
Prepaid rent	686,769	0
Total	<u>5,772,326</u>	<u>0</u>

Movement of deferred acquisition costs

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Net book amount at beginning of the year	0	0
Acquisition of Libertas osiguranje d.d. balance	261,010	-
Change for the year	4,824,547	-
Net book amount at end of the year	<u>5,085,557</u>	<u>0</u>

NOTE 15 – CASH AND CASH EQUIVALENTS

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Giro bank accounts	7,703,607	7,505,411
Foreign currency bank account	1,003,968	842,046
Cash in hand	144,410	14,536
Cheques and credit cards	1,446,357	345,758
Total	<u>10,298,342</u>	<u>8,707,751</u>

NOTE 16 – EQUITY

The Company's share capital amount to HRK 81,000,000 and is divided into 202,500 ordinary shares on name with a nominal value of HRK 400 per share. The sole owner is Generali Holding Vienna AG, Austria. Share capital was established by joining the capital of three merged companies. There are no treasury shares held by the Company.

Generali Holding Vienna AG increased share capital in Libertas osiguranje d.d. in October 2006 in amount of 13.783.200 HRK by issuing 34.458 of shares at nominal value of 400 HRK.

Reserves for unrealised gains and losses on available for sale investments

<i>(in HRK)</i>	<u>2006</u>	<u>2005</u>
Total at beginning of year	4,199,720	1,417,112
Revaluation	-2,237,760	1.791.258
Net gains transferred to net profit on disposal and impairment	-988,315	991,350
Total at end of year	<u>973,645</u>	<u>4,199,720</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 17 – INSURANCE PROVISIONS

<i>(in HRK)</i>	<u>Gross amount</u>		<u>Reinsurer's share</u>		<u>Net amount</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Unearned premiums	29,588,413	11,393,978	-14,827,478	-6,585,952	14,760,935	4,808,026
Claims reserves	17,193,346	4,755,145	-9,004,603	-3,959,230	8,188,743	795,915
Non-life insurance provisions	46,781,759	16,149,123	-23,832,081	-10,545,182	22,949,678	5,603,941
Unearned premiums	1,920,882	162,779	-296,025	-103,620	1,624,857	59,159
Claims reserves	7,113,699	2,797,750	-2,060,334	-1,578,335	5,053,365	1,219,415
Mathematical provisions of life insurance	203,624,680	50,531,262	-65,863,472	-25,326,843	137,761,208	25,204,419
Other insurance provisions	28,829,864	0	0	0	28,829,864	0
Life insurance provisions	241,489,125	53,491,791	-68,219,831	-27,008,798	173,269,294	26,482,993
TOTAL INSURANCE PROVISIONS	288,270,884	69,640,914	-92,051,912	-37,553,980	196,218,972	32,086,934

Acquired life insurance portfolio of Libertas osiguranje d.d. has no reinsurance cover and premium is calculated with 5% interest rate. Being that mathematical provision is calculated with 3,6% interest rate, a contingency reserve in other insurance provisions is created and calculated as 2,105% of sum at risk.

MOVEMENTS IN INSURANCE PROVISIONS

1. Claims provisions - non-life

<i>(in HRK)</i>	<u>2005</u>		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Notified claims	557,011	-286,800	270,211
Incurred but not reported	484,010	-249,212	234,798
Total at beginning of year	1,041,021	-536,012	505,009
Cash paid for claims settled in year	-667,764	343,825	-323,939
Increase in liabilities	4,381,888	-3,767,043	614,845
Total at end of year	4,755,145	-3,959,230	795,915
Notified claims	2,854,897	-2,377,045	477,852
Incurred but not reported	1,900,248	-1,582,185	318,063
Total at end of year	4,755,145	-3,959,230	795,915

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

<i>(in HRK)</i>	2006		
	Gross	Reinsurance	Net
Notified claims	2,854,897	-2,377,045	477,852
Incurred but not reported	1,900,248	-1,582,185	318,063
Total at beginning of year	4,755,145	-3,959,230	795,915
Cash paid for claims settled in year	-2,002,888	1,667,645	-335,243
Increase in liabilities	13,524,173	-6,713,018	6,811,155
Acquisition of Libertas liabilities	916,916	0	916,916
Total at end of year	17,193,346	-9,004,603	8,188,743
Notified claims	11,550,256	-6,335,590	5,214,665
Incurred but not reported	5,643,090	-2,669,013	2,974,077
Total at end of year	17,193,346	-9,004,603	8,188,743

2. Life insurance provisions - mathematical provisions and unearned premiums

<i>(in HRK)</i>	2006	2005
At beginning of year	50,694,041	8,075,563
Valuation premium	98,170,735	47,391,486
Fees deducted from account balances	-6,450,341	-3,133,467
Liabilities released for payments on death, surrender and other terminations in the year	-3,517,122	-3,015,777
Interest credited	2,273,707	562,604
Other movements	-9,220,868	813,632
Acquisition of Libertas provisions	73,595,410	0
At end of year	205,545,562	50,694,041

Valuation premiums are the amounts of premiums received that directly increase the insurance liabilities.

INSURANCE PROVISIONS FOR LIFE INSURANCE POLICIES (MATHEMATICAL PROVISION AND UNEARNED PREMIUM RESERVE) – BY MATURITY

<i>(in HRK)</i>	31 December 2006
Up to 1 year	1,964,939
Between 1 and 5 years	4,081,601
Between 6 and 10 years	16,126,272
Between 11 and 20 years	117,626,637
More than 20 years	65,746,113
	205,545,562

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

CURRENCY BREAKDOWN OF INSURANCE LIABILITIES

<i>(in HRK)</i>	EUR		HRK		TOTAL	
	2006	2005	2006	2005	2006	2005
Unearned premiums	-	-	29,588,414	11,393,978	29,588,414	11,393,978
Claims provisions	-	-	17,193,346	4,755,145	17,193,346	4,755,145
Non-life insurance provisions	0	0	46,781,760	16,149,123	46,781,760	16,149,123
Unearned premiums	1,920,882	162,779	-	-	1,920,882	162,779
Claims provisions	-	-	7,113,699	2,797,750	7,113,699	2,797,750
Mathematical provisions of life insurance	203,624,680	50,531,262	-	-	203,624,680	50,531,262
Other insurance provisions	28,829,865	0	-	-	28,829,865	0
Life insurance provisions	234,375,426	50,694,041	7,113,699	2,797,750	241,489,124	53,491,791
TOTAL INSURANCE PROVISIONS	234,375,426	50,694,041	53,895,458	18,946,873	288,270,884	69,640,915

NOTE 18 – PAYABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

<i>(in HRK)</i>	31 December 2006	31 December 2005
Commissions payables	27,866,308	2,548,523
Unallocated paid premium	4,282,305	978,320
Claims payable	841,833	128,081
Insurance taxes and contributions	534,758	477,003
Other	0	110,246
Total	33,525,204	4,242,173

NOTE 19 – PAYABLES ARISING OUT OF REINSURANCE OPERATIONS

<i>(in HRK)</i>	31 December 2006	31 December 2005
Outward reinsurance premiums – Generali Group	1,485,607	360,660
Total	1,485,607	360,660

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20 – OTHER PAYABLES INCLUDING TAXATION AND SOCIAL SECURITY

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Due to related parties – Generali Group	3,573,919	896,262
Due to suppliers	564,877	1,034,649
Due for salaries, taxes and contributions on salaries	3,336,438	1,989,892
Other	1,362,566	47,885
Total	<u>8,837,800</u>	<u>3,968,688</u>

NOTE 21 – DEFERRED INCOME AND ACCRUED EXPENSES

<i>(in HRK)</i>	<u>31 December 2006</u>	<u>31 December 2005</u>
Accrued lease expenses	2,055,326	216,675
Accrued interest	21,887	0
Other deferred income	345,593	0
Total	<u>2,422,806</u>	<u>216,675</u>

NOTE 22 – EARNED PREMIUMS

<i>(in HRK)</i>	<u>Gross amount</u>		<u>Reinsurer's share</u>		<u>Net income</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Written premium	63,079,688	24,779,952	-35,519,181	-16,408,240	27,560,507	8,371,712
Change in the provision for unearned premium	-16,432,825	-8,934,718	8,241,526	5,089,846	-8,191,299	-3,844,872
Non life earned premium	<u>46,646,863</u>	<u>15,845,234</u>	<u>-27,277,655</u>	<u>-11,318,394</u>	<u>19,369,208</u>	<u>4,526,840</u>
Written premium	131,743,406	56,186,556	-56,307,312	-28,750,753	75,436,094	27,435,803
Change in the provision for unearned premium	-41,864	43,136	192,405	-36,030	150,541	7,106
Life earned premium	<u>131,701,542</u>	<u>56,229,692</u>	<u>-56,114,907</u>	<u>-28,786,783</u>	<u>75,586,635</u>	<u>27,442,909</u>
Total earned premium	<u>178,348,405</u>	<u>72,074,926</u>	<u>-83,392,562</u>	<u>-40,105,177</u>	<u>94,955,843</u>	<u>31,969,749</u>

GENERALI OSIGURANJE d.d., ZAGREB**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

NOTE 23 – INCOME FROM FINANCIAL ASSETS AND INVESTMENT PROPERTIES

<i>(in HRK)</i>	<u>2006.</u>	<u>2005.</u>
Interest income from available for sale financial assets	7,223,974	2,822,028
Interest income from loans and receivables	182,649	0
Interest income from cash and cash equivalents and deposits with credit institutions	1,872,902	135,367
Income from land and buildings (investment properties)	708,567	0
Realized gains on available for sale financial assets	1,431,931	323,282
TOTAL INCOME	<u>11,420,023</u>	<u>3,280,676</u>

NOTE 24 – OTHER INCOME

<i>(in HRK)</i>	<u>2006</u>	<u>2005</u>
Income from reinsurance – Generali Group	47,615,058	27,168,722
Income from representing other insurance companies	2,361,853	0
Income from sale of equipment	110,536	0
Other income	1,246,543	1,335,076
TOTAL OTHER INCOME	<u>51,333,990</u>	<u>28,503,798</u>

The Company has, among others, concluded with its sole shareholder Generali Holding Vienna A.G. a 50% quota reinsurance agreement, according to which the reinsurer participates in 50% of the Company's expenses. Income from reinsurance relates to the stated contractual relationship.

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 25 – NET INSURANCE BENEFITS AND CLAIMS

<i>(in HRK)</i>	<u>Gross amount</u>		<u>Reinsurer's share</u>		<u>Net amount</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Claims paid	14,734,935	3,028,565	-8,111,932	-2,066,991	6,623,003	961,574
Change in claims reserves	11,632,520	3,714,004	-5,045,373	-3,423,242	6,587,147	290,762
Non-life net insurance benefits and claims	26,367,455	6,742,569	-13,157,305	-5,490,233	13,210,150	1,252,336
Claims paid	6,148,676	2,471,013	-2,432,987	-1,411,140	3,715,689	1,059,873
Change in claims reserves	1,343,096	2,376,223	-481,999	-1,322,915	861,097	1,053,308
Change in mathematical reserves	87,004,615	42,661,611	-40,536,629	-21,374,558	46,467,986	21,287,053
Change in other insurance reserves	679,483	0	0	0	679,483	0
Life net insurance benefits and claims	95,175,870	47,508,847	-43,451,615	-24,108,613	51,724,255	23,400,234
TOTAL BENEFITS AND CLAIMS	121,543,325	54,251,416	-56,608,920	-29,598,846	64,934,405	24,652,570

NOTE 26 – EXPENSES FROM FINANCIAL ASSETS AND INVESTMENT PROPERTIES

<i>(in HRK)</i>	<u>2006</u>	<u>2005</u>
Depreciation of land and buildings (investment properties)	1,190,167	0
Realized losses on available for sale financial assets	194,960	1,314,632
Impairment of available for sale financial assets	248,656	0
Impairment of loans and receivables	329,039	0
Other expenses	601,634	83,207
TOTAL EXPENSES	2,564,456	1,397,839

Other expenses include custody expense, banking fees, fees to financial institutions and similar expenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 27 – ACQUISITION AND ADMINISTRATION COSTS

<i>(in HRK)</i>	Non life segment		Life segment		Total	
	2006	2005	2006	2005	2006	2005
Acquisition commission	7,136,104	1,830,921	23,721,081	6,554,158	30,857,185	8,385,079
Other acquisition costs	12,307,173	7,988,961	18,018,388	7,945,142	30,325,561	15,934,103
Change in deferred acquisition costs	-4,824,547	0	0	0	-4,824,547	0
Net acquisition costs	14,618,730	9,819,882	41,739,469	14,499,300	56,358,199	24,319,182
Commissions from reinsurers	-1,692,894	-1,063,845	-296,923	-268,521	-1,989,817	-1,332,366
Commissions and other acquisition costs	12,925,836	8,756,037	41,442,546	14,230,779	54,368,382	22,986,816
Depreciation	2,009,024	1,186,290	1,199,702	1,106,247	3,208,726	2,292,537
Salaries, taxes and contributions on salaries	9,377,384	6,089,646	8,326,096	3,999,731	17,703,480	10,089,377
Other administration costs	13,917,859	9,604,611	13,748,242	9,069,085	27,666,101	18,673,696
Administration costs	25,304,267	16,880,547	23,274,040	14,175,063	48,578,307	31,055,610
TOTAL COSTS	38,230,103	25,636,584	64,716,586	28,405,842	102,946,689	54,042,426

Acquisition costs of non-life insurance business are deferred for the first time in 2006. If non life insurance acquisition costs had been deferred in 2005, deferred amount would be -3,122,760 HRK which would decrease result in 2006 and increase it in 2005.

Other administrative expenses mostly refer to consulting, travel, rent, entertainment and other expenses.

NOTE 28 – OTHER EXPENSES

<i>(in HRK)</i>	2006	2005
Expense from reinsurance – Generali Group	2,352,784	735,432
Statutory government insurer's expenses	895,876	407,390
Negative currency exchange differences	400,498	170,685
Other expenses	250	503,687
TOTAL OTHER EXPENSES	3,649,408	1,817,194

The Company has, among others, concluded with its sole shareholder Generali Holding Vienna A.G. a 50% quota reinsurance agreement, according to which the reinsurer receives 50% of the Company's investment result. Expense from reinsurance relates to the stated contractual relationship.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 29 – TAXATION

The Company is a tax payer under the laws and regulations of the Republic of Croatia. Income tax is assessed at the rate of 20% on a tax base defined by the law. As at 31 December 2006, on the basis of tax balance sheets, the Company was not subject to profit tax due to generated tax losses as follows:

<i>(in HRK)</i>	<u>2006</u>	<u>2005</u>
Result before taxation	-16,385,102	-18,155,806
Expected tax value of loss for 2006 at 20% rate	3,277,020	3,631,161
Adjusted for the effects on tax value		
Expenses non recognized in terms of tax	-1,305,696	-369,122
Expenses recognized in terms of tax	94,804	87,539
Tax loss non recognised as deferred tax asset	-2,066,128	-3,349,578
Tax expense	0	0
Effective tax rate	0%	0%
Tax value of loss incurred in the year	2,066,128	3,349,578
Tax value of loss brought forward from previous years	6,969,072	3,619,494
Tax value of total loss carried forward	9,035,200	6,969,072

Deferred tax assets relating to unused tax losses carried forward have not been recognized in these financial statements, as it is not probable that future taxable profit will be available against which the unused tax losses can be utilized.

Accumulated tax value of losses carried forward based on assumed rights of the merged companies Generali osiguranje d.d. and Generali životno osiguranje d.d., which may be carried forward in the next five years and the dates of their expiry, and the current year tax value of loss which expires in 2011, are presented in the table below:

Expiry year	<u>2006</u>	<u>2005</u>
2007	130,001	130,001
2008	1,534,865	1,534,865
2009	1,954,628	1,954,628
2010	3,349,578	3,349,578
2011	2,066,128	0
	<u>9,035,200</u>	<u>6,969,072</u>

The tax authorities may at any time inspect the books and records within 3 years subsequent to the year of tax assessment for the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances that may give rise to a potential material liability in this respect.

GENERALI OSIGURANJE d.d., ZAGREB**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006****NOTE 30 – RELATED PARTY TRANSACTIONS**

The Company is controlled by the company Generali Holding Vienna AG, Austria, member of the Generali Group. The ultimate parent of the Group is Assicurazioni Generali S.p.A. Group, Trieste, Italy.

As part of normal operations, the Company performs transactions with related parties of the Generali Group. Transactions relating to reinsurance activities with the Generali Group are presented in other parts of the financial statements. Other transactions and balances with the Generali Group during the year are as follows:

Purchases of products and services

<i>(in HRK)</i>	<u>2006</u>	<u>2005</u>
Purchase of products and services	3,548,050	5,073,516

These transactions relate to services provided only by Parent company in respect of mostly IT and marketing.

Retained deposits from business ceded to reinsurers

<i>(in HRK)</i>	<u>2006</u>	<u>2005</u>
Generali Holding Vienna AG	94,772,785	35,381,037

Year-end reinsurance balances

<i>(in HRK)</i>	<u>Receivables</u>		<u>Payables</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Generali Holding Vienna AG, Vienna	26,990,648	17,345,603	-	-
Generali Versicherung AG AT, Vienna	-	-	1,211,440	-
Generali International Ltd, London	-	-	71,771	22,425
Assurances France Generali S.A, Paris	-	-	594	14,054
Generali Towarzystwo Ubezpiec., Warsaw	-	-	-	324,181
Generali Servizi Amministr., Mogliano Veneto	-	-	201,802	-
BALANCE	<u>26,990,648</u>	<u>17,345,603</u>	<u>1,485,607</u>	<u>360,660</u>

Key management compensation

<i>(in HRK)</i>	<u>2006.</u>	<u>2005.</u>
Salaries and other short-term employee benefits	2,267,309	2,608,461
TOTAL	<u>2,267,309</u>	<u>2,608,461</u>

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 31 – CONTINGENCIES AND COMMITMENTS

The Company, like all other insurers, is subject to claims in the normal course of its business and provides for them, based on Company's best knowledge, through insurance provisions. However, it is difficult to assess the outcome of such claims. The Company does not believe that their final outcome will have a material effect on results of its operations and financial condition. The Company had no other contingencies and commitments at the balance sheet date.

NOTE 32 – SUBSEQUENT EVENTS

There were no significant events after the balance sheet date.

NOTE 33 – TRANSITION TO IFRS

In 2006, the Company completely adopted International Financial Reporting Standards (IFRS) for the first time. The transition to IFRS affects the financial position of the Company. Date of adoption of IFRS is 1 January 2006, while the date of transition is 1 January 2005. In preparing these financial statements in accordance with IFRS 1, the Company has applied the required mandatory exceptions from full retrospective application of IFRS. None of the optional exemptions have been applied.

For the purpose of comparability, this Note presents following reconciliations IFRS / Local GAAP:

- in the statement of changes in shareholders' equity for the opening balance of year 2005
- in the opening balance sheet for the year 2005
- in the balance sheet and income statement for the previous year ended 31 December 2005.

The differences only relate to changes in the valuation of available-for-sale financial investments.

In the opening balance sheet for year 2005 (i.e. as at 1 January 2005) the application of IFRS (IAS 39) has created an increase in the value of investments of HRK 2,160 thousand within assets, and a new item 'revaluation reserve' within capital in the amount of HRK 1,417 thousand.

In the balance sheet as at 31 December 2005 the application of IFRS (IAS 39) has created an increase in the value of investments of HRK 3,781 thousand within assets, and a new item 'revaluation reserve' within capital in the amount of HRK 4,200 thousand.

In the income statement for year 2005, the effect of applying IAS 39 has additionally increased accumulated losses by HRK 419 thousand. Accumulated loss in 2005 relates to the two companies (Generali osiguranje d.d. and Generali životno osiguranje d.d.), which at that point were not merged.

RECONCILIATION IFRS / LOCAL GAAP IN THE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(in HRK)</i>	1 January 2005	31 December 2005
Total equity under local GAAP	53,563,935	51,569,984
Effect on result of 1st time adoption of IFRS	742,700	-419,156
Change of reserve for UGL on AFS investments	1,417,112	4,199,720
Total equity under IFRS	55,723,747	55,350,548

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

DIFFERENCES IFRS / LOCAL GAAP IN THE BALANCE SHEET AS AT 1 JANUARY 2005

<i>(all amounts expressed in HRK)</i>	<u>IFRS</u>	<u>Local GAAP</u>	<u>Difference</u>
Intangible assets	1,310,557	1,310,557	
Reinsurers' share in insurance provisions	6,379,449	6,379,449	
Investments			
Available-for-sale investments	44,915,086	41,999,644	2,915,442
Term deposits with credit institutions	3,501,243	3,500,000	1,243
Other investments	147,909	147,909	
	<u>48,564,238</u>	<u>45,647,553</u>	<u>2,916,685</u>
Receivables	15,130,752	15,130,752	
Other assets	7,253,682	7,253,682	
Prepaid expenses and accrued income	0	756,873	-756,873
TOTAL ASSETS	<u>78,638,678</u>	<u>76,478,866</u>	<u>2,159,812</u>
Equity			
Share capital	33,000,000	33,000,000	
Reserve for UGL on AFS investments	1,417,112	0	1,417,112
Capital reserve	0	0	
Revenue reserve & other reserves	30,258,301	30,258,301	
Accumulated losses	-8,951,666	-9,694,366	742,700
	<u>55,723,747</u>	<u>53,563,935</u>	<u>2,159,812</u>
Insurance provisions, gross amount	11,997,494	11,997,494	
Retained deposits from business ceded to reinsurers	6,099,083	6,099,083	
Payables	4,532,019	4,532,019	
Deferred income and accrued expenses	286,335	286,335	
TOTAL EQUITY AND LIABILITIES	<u>78,638,678</u>	<u>76,478,866</u>	<u>2,159,812</u>

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

DIFFERENCES IFRS / LOCAL GAAP IN THE BALANCE SHEET AS AT 31 DECEMBER 2005

<i>(all amounts expressed in HRK)</i>	IFRS	Local GAAP	Difference
Intangible assets	1,443,100	1,443,100	
Reinsurers' share in insurance provisions	37,553,980	37,553,980	
Investments			
Available-for-sale investments	89,926,401	85,309,567	4,616,834
Term deposits with credit institutions	3,000,862	3,000,000	862
Other investments	247,909	247,909	
	93,175,172	88,557,476	4,617,696
Receivables	24,305,549	24,305,549	
Other assets	12,682,894	12,682,894	
Prepaid expenses and accrued income	0	837,132	-837,131
TOTAL ASSETS	169,160,695	165,380,131	3,780,564
Equity			
Share capital	36,000,000	36,000,000	
Revaluation reserve	4,199,720	0	4,199,720
Reserves	32,563,934	32,563,934	
Accumulated losses	-17,413,106	-16,993,950	-419,156
	55,350,548	51,569,984	3,780,564
Insurance provisions, gross amount	69,640,914	69,640,914	
Retained deposits from business ceded to reinsurers	35,381,037	35,381,037	
Payables	8,571,521	8,571,521	
Deferred income and accrued expenses	216,675	216,675	
TOTAL EQUITY AND LIABILITIES	169,160,695	165,380,131	3,780,564

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

DIFFERENCES IFRS / LOCAL GAAP IN THE INCOME STATEMENT FOR THE YEAR 2005

(all amounts expressed in HRK)

	IFRS	Local GAAP	Difference
Earned premiums	31,969,749	31,969,749	
Income from financial assets and investment properties	3,280,676	3,284,961	-4,285
Other income	28,503,798	28,503,798	
TOTAL INCOME	63,754,223	63,758,508	-4,285
Net insurance benefits and claims	-24,652,570	-24,652,570	
Expenses from financial assets and investment properties	-1,397,839	-240,268	-1,157,571
Acquisition and administration costs	-54,042,426	-54,042,426	
Other expenses	-1,817,194	-1,817,194	
TOTAL EXPENSES	-81,910,029	-80,752,458	-1,157,571
RESULT FOR THE ACCOUNTING PERIOD	-18,155,806	-16,993,950	-1,161,855

NOTE 34 – MERGER OF LIBERTAS OSIGURANJE D.D.

As the Company's sole owner, Generali Holding Vienna A.G., Austria purchased the 100% ownership share in Libertas osiguranje d.d. in mid 2006.

Business combination that occurred is treated as Pooling of interests. Financial statements are presented in a way that all the transactions, and only these, are reflected that have taken place under the control of the ultimate owner, Generali Holding Vienna A.G., Austria.

This means that the numbers presented in the Balance sheet as at 31 December 2006 comprise the assets and liabilities of all three companies. For the comparatives as at 31.12.2005 only the two Generali companies (Generali životno osiguranje d.d. and Generali osiguranje d.d.) are presented, since Libertas osiguranje d.d. was not under the control of Generali Holding Vienna A.G. at that time.

In the income statement for 2006 transactions of the two Generali companies are included for twelve months and for Libertas osiguranje d.d. only from the day when control was established (1 July 2006). For 2005 only the income statements of the two Generali companies are included, as Libertas was at that time not under the control of Generali Holding Vienna A.G..

GENERALI OSIGURANJE d.d., ZAGREB

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

The balance sheet as at 31 December 2006 was prepared based on the balance sheets of all of the three companies participating in the merger, and which form the Company for which these financial statements have been prepared. Data relating to operations of Libertas osiguranje d.d. are not included in information for the year 2005.

Since Libertas osiguranje d.d. was purchased by Generali Holding Vienna A.G. the Company did not make any purchase consideration settled in cash. The Company acquired cash and cash equivalents from the merged company which resulted in cash inflow on acquisition. The net value of assets acquired was 37.788.551 HRK.

The assets and liabilities arising from the merger of Libertas osiguranje d.d. are as follows:

<i>(all amounts expressed in HRK)</i>	<u>30 June 2006</u>
Cash and cash equivalents	28,600,840
Property, plant and equipment	343,420
Land and buildings (investment property)	19,253,905
Available-for-sale investments	69,518,046
Loans	7,408,240
Term deposits with credit institutions	37,734,578
Receivables	2,369,515
Prepaid expenses and accrued income	261,010
Unearned premiums, gross amount	-3,282,106
Claims provisions, gross amount	-3,954,703
Mathematical provisions of life insurance, gross amount	-64,778,817
Other insurance provisions, gross amount	-28,659,368
Payables arising out of direct insurance operations	-17,277,177
Other payables including taxation and social security	-9,748,833
Net assets acquired	<u>37,788,551</u>
Purchase consideration settled in cash	-
Cash and cash equivalents in subsidiary acquired	28,600,840
Cash inflow on acquisition	<u>28,600,840</u>

The income statement of Libertas osiguranje d.d. for operations in the entire year 2006 and comparative information included in the financial statements of Generali osiguranje d.d. for the year ended 31 December 2006 are presented below.

GENERALI OSIGURANJE d.d., ZAGREB**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

(all amounts expressed in HRK)

	Included in FS	Entire year
Earned premiums	21,673,929	43,347,859
Gross earned premiums	21,673,929	43,347,859
Outward reinsurance premiums	0	0
Income from financial assets and investment properties	3,580,215	7,160,430
Other income	3,236,577	6,473,154
TOTAL INCOME	28,490,721	56,981,443
Net insurance benefits and claims	-8,847,279	-17,694,557
Gross amount	-8,847,279	-17,694,557
Reinsurers' share	-	-
Expenses from financial assets and investment properties	-1,051,341	-2,102,682
Acquisition costs and administration costs	-15,005,116	-30,010,233
Commissions and other acquisition costs	-11,274,596	-22,549,192
Administration costs	-3,730,520	-7,461,041
Other expenses	-1,779,667	-3,559,334
TOTAL EXPENSES	-26,683,403	-53,366,806
RESULT BEFORE TAXATION	1,807,319	3,614,637