

**Generali osiguranje d.d.**

Financial statements as at 31 December 2007  
together with auditor's report

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## General information

### *Supervisory Board*

The members of the Supervisory Board who served during 2007 and subsequently are as follows:

Werner Moertel	President	From 29.12.2006.
Francesco Bosatra	Deputy president	From 26.06.2006.
Gojko Ostojić	Member	From 29.12.2006.
Walter Steidl	Member	From 29.12.2006.
Luisa Coloni	Member	From 26.06.2006.

### *Management Board*

The members of the Management Board who served during 2007 and subsequently are as follows:

Michele Ciriaco	President	From 29.12.2006.
Zdravko Deanović	Member	From 16.02.2007.
Jasminka Horvat-Martinović	Member	From 16.02.2007.
Viktor Milanović	Member	From 05.11.2007.

## General information (continued)

### Responsibility for the financial statements

Pursuant to the Croatian Accounting Act in force, the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Company for that period.

The Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

In preparing these financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act in force. The Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accompanying financial statements were approved for issuance by the Management Board on 7 March 2008.

Generali osiguranje d.d.  
Hektorovićeva 2  
10000 Zagreb  
Republic of Croatia

7 March 2008

On behalf of the Company,

Michele Cirieco  
President of the Management Board

## **Independent Auditors' report**

### **To the Shareholders of Generali osiguranje d.d.:**

We have audited the accompanying financial statements ("the financial statements") of Generali osiguranje d.d. (the Company) which comprise balance sheet as at 31 December 2007 and the income statement, cash flow statement for the year then ended, statement of changes in shareholder's equity and a summary of significant accounting policies and other explanatory notes (as set out on pages 5 to 41).

The financial statements for the year ended 31 December 2006 were audited by another auditor, who issued an unqualified opinion thereon dated 30 April 2007. We do not express an opinion on the comparative financial information as at and for the year ended 31 December 2006.

### **Management Responsibility**

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 judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the 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 the basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2007 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Ernst&Young d.o.o.  
Zagreb  
Republic of Croatia

7 March 2008

Income statement  
For the year ended 31 December 2007

	<u>Notes</u>	<u>2007</u> <u>HRK</u>	<u>2006</u> <u>HRK</u>
<b>Earned premiums</b>	22	<b>133,952,400</b>	<b>94,955,843</b>
Gross earned premium		251,062,687	178,348,405
Outward reinsurance premiums		-117,110,287	-83,392,562
<b>Income from financial assets and investment properties</b>	23	<b>27,739,429</b>	<b>11,420,023</b>
<b>Other income</b>	24	<b>89,090,546</b>	<b>51,333,990</b>
<b>TOTAL INCOME</b>		<b>250,782,375</b>	<b>157,709,856</b>
<b>Net insurance benefits and claims</b>	25	<b>-83,990,033</b>	<b>-64,934,405</b>
Gross amount		-157,025,237	-121,543,325
Reinsurers' share		73,035,204	56,608,920
<b>Expenses from financial assets and investment properties</b>	26	<b>-577,057</b>	<b>-2,564,456</b>
<b>Acquisition and administration costs</b>	27	<b>-147,375,929</b>	<b>-102,946,689</b>
Commissions and other acquisition costs		-93,763,204	-54,368,382
Administration costs		-53,612,725	-48,578,307
<b>Other expenses</b>	28	<b>-23,884,150</b>	<b>-3,649,408</b>
<b>TOTAL BENEFITS, CLAIMS AND EXPENSES</b>		<b>-255,827,169</b>	<b>-174,094,958</b>
<b>RESULT BEFORE TAXATION</b>		<b>-5,044,794</b>	<b>-16,385,102</b>
Income tax	29	0	0
<b>RESULT FOR THE ACCOUNTING PERIOD</b>		<b>-5,044,794</b>	<b>-16,385,102</b>

The accompanying accounting policies and notes are an integral part of this income statement.

## Balance sheet

As at 31 December 2007

	<u>Notes</u>	<u>31 December 2007</u> HRK	<u>31 December 2006</u> HRK
<b>ASSETS</b>			
<b>Intangible assets</b>	4	<b>3,031,467</b>	<b>1,727,347</b>
<b>Property, plant and equipment</b>	5	<b>8,675,266</b>	<b>7,120,416</b>
<b>Land and buildings (investment property)</b>	6	-	<b>18,042,725</b>
<b>Reinsurers' share in insurance liabilities</b>	17		
Unearned premiums, reinsurers' share		2,762,155	15,123,503
Claims provisions, reinsurers' share		26,818,877	11,064,937
Mathematical provisions, reinsurers' share		102,091,281	65,863,472
		<b>131,672,313</b>	<b>92,051,912</b>
<b>Financial assets</b>	7		
Available-for-sale investments	8	352,514,388	295,454,761
Loans	9	20,049	2,151,107
Term deposits with credit institutions	10	93,491,615	41,979,696
Other investments		147,909	147,909
		<b>446,173,961</b>	<b>339,733,473</b>
<b>Receivables</b>			
Receivables arising out of direct insurance operations	11	19,641,966	12,904,307
Receivables arising out of reinsurance operations	12	35,012,294	26,990,648
Other receivables	13	3,525,715	1,984,713
		<b>58,179,975</b>	<b>41,879,668</b>
<b>Prepaid expenses and accrued income</b>	14	<b>10,436,636</b>	<b>5,772,326</b>
<b>Cash and cash equivalents</b>	15	<b>8,895,023</b>	<b>10,298,342</b>
<b>TOTAL ASSETS</b>		<b>667,064,641</b>	<b>516,626,209</b>

## Balance sheet (continued)

As at 31 December 2007

	<u>Notes</u>	<u>31 December 2007</u> HRK	<u>31 December 2006</u> HRK
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	16		
Share capital		81,000,000	81,000,000
Reserve for UGL on AFS investments		-9,034,136	973,645
Capital reserve		-	12,000,000
Revenue reserve and other reserves		5,337,478	8,334,416
Accumulated losses		-5,044,793	-14,996,938
		<u>72,258,549</u>	<u>87,311,123</u>
<b>Insurance liabilities, gross amount</b>	17		
Unearned premiums, gross amount		57,269,250	31,509,295
Claims provisions, gross amount		52,868,777	24,307,045
Mathematical provisions of life insurance, gross amount		292,387,192	203,624,680
Other insurance liabilities, gross amount		24,292,199	28,829,864
		<u>426,817,418</u>	<u>288,270,884</u>
<b>Retained deposits from business ceded to reinsurers</b>		<b>136,313,745</b>	<b>94,772,785</b>
<b>Payables</b>			
Payables arising out of direct insurance operations	18	13,442,563	33,525,204
Payables arising out of reinsurance operations	19	773,782	1,485,607
Other payables including taxation and social security	20	12,906,895	8,837,800
		<u>27,123,240</u>	<u>43,848,611</u>
<b>Deferred income and accrued expenses</b>	21	<b>4,551,689</b>	<b>2,422,806</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>667,064,641</b></u>	<u><b>516,626,209</b></u>

The accompanying accounting policies and notes are an integral part of this balance sheet.

Signed on behalf Generali osiguranje d.d. on 7 March 2008.

Michele Cirieco

Jasminka Horvat Martinović

## Cash flow statement (continued)

For the year ended 31 December 2007

	<u>2007</u>	<u>2006</u>
	HRK	HRK
<b>Loss after taxation</b>	<b>-5,044,794</b>	<b>-16,385,102</b>
Change in the provision for unearned premiums	38,121,304	8,236,500
Change in the provisions for outstanding claims	12,807,792	7,272,075
Change in mathematical provisions and other insurance liabilities	47,997,038	47,948,469
Change in deferred acquisition costs	-4,864,563	-4,824,547
Change in prepaid expenses and accrued income	2,329,136	1,677,717
<b>Change in non/cash items</b>	<b>96,390,707</b>	<b>60,310,214</b>
Change in receivables and payables arising out of direct insurance and reinsurance operations	5,987,190	55,838,574
Change in other receivables and payables	2,528,093	-3,488,575
<b>Change in receivables and payables from operating activities</b>	<b>8,515,283</b>	<b>52,349,999</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>99,861,196</b>	<b>96,275,111</b>
Acquisition of Libertas, net of cash acquired (note 34)	0	28,600,840
Net cash flow from available for sale assets	-98,405,544	-133,912,331
Net cash flows from tangible and intangible assets	-2,858,970	-3,156,229
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-101,264,514</b>	<b>-108,467,720</b>
Net cash flow from shareholders equity to the company's equity holders	0	13,783,200
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>0</b>	<b>13,783,200</b>
<b>D) Net increase/decrease in cash and cash equivalents</b>	<b>-1,403,318</b>	<b>1,590,590</b>
E) Cash and cash equivalents at beginning of year	10,298,342	8,707,751
<b>F) Cash and cash equivalents at end of year (Note 15)</b>	<b>8,895,023</b>	<b>10,298,341</b>

## Statement of changes in shareholder's equity

For the years ended 31 December 2007 and 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 &amp; other reserves</u>	<u>Accumulated losses</u>	<u>Total</u>
<b>Balance at 1 January 2006</b>		<b>36,000,000</b>	<b>4,199,720</b>	<b>12,000,000</b>	<b>20,563,934</b>	<b>-17,413,106</b>	<b>55,350,548</b>
Change of reserve for UGL on AFS investments	16	-	-3,226,075	-	-	-	-3,226,075
<b>Net income/expense recognised directly in equity</b>		<b>0</b>	<b>-3,226,075</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3,226,075</b>
Result for the year		-	-	-	-	-16,385,102	-16,385,102
<b>Total recognised income/expense for 2006</b>		<b>0</b>	<b>-3,226,075</b>	<b>0</b>	<b>0</b>	<b>-16,385,102</b>	<b>-19,611,177</b>
Coverage of previous year's result from reserves		-	-	-	-16,993,951	16,993,951	0
Merger of Libertas osiguranje d.d	33	31,216,800	-	-	4,764,432	1,807,319	37,788,551
Capital increase through payment by owner	16	13,783,200	-	-	-	-	13,783,200
<b>Balance at 31 December 2006</b>		<b>81,000,000</b>	<b>973,645</b>	<b>12,000,000</b>	<b>8,334,415</b>	<b>-14,996,938</b>	<b>87,311,122</b>
<b>Balance at 1 January 2007</b>		<b>81,000,000</b>	<b>973,645</b>	<b>12,000,000</b>	<b>8,334,415</b>	<b>-14,996,938</b>	<b>87,311,122</b>
Change of reserve for UGL on AFS investments	16	-	-10,007,781	-	-	-	-10,007,781
<b>Net income/expense recognised directly in equity</b>		<b>0</b>	<b>-10,007,781</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-10,007,781</b>
Result for the year		-	-	-	-	-5,044,793	-5,044,793
<b>Total recognised income/expense for 2007</b>		<b>0</b>	<b>-10,007,781</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-15,052,574</b>
Coverage of previous year's result from reserves		-	-	-12,000,000	-2,996,938	14,996,938	0
<b>Balance at 31 December 2007</b>		<b>81,000,000</b>	<b>-9,034,136</b>	<b>0</b>	<b>5,337,478</b>	<b>-5,044,793</b>	<b>72,258,549</b>

UGL = Unrealised Gains and Losses

AFS = Available for Sale

# Notes to the financial statements

For the year ended 31 December 2007

## 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 Assicurazioni Generali S.p.A. Group, Trieste, Italy. On 27th November 2007 transfer of ownership occurred between Generali Holding Vienna A.G as previous and Assicurazioni Generali S.p.A. Group, Trieste, Italy as current owner.

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 the note 33.

The financial statements of Generali osiguranje d.d. for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Management Board on 7 March 2008.

These financial statements are subject to approval of Supervisory Board as required by the Croatian Company Act.

## 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.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for available-for-sale investment stated at fair value, as disclosed in the accounting policies hereafter.

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

### 2.1. Changes in accounting policies and adoption of new standards and interpretations

The Company has not early adopted other standards and interpretations which are not yet effective.

The Company has adopted the following new and amended IFRS & IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company. They did however give rise to additional disclosures.

#### *IFRS 7 Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

While there has been no effect on the financial position or results, comparative information has been revised where needed.

### *IAS 1 Presentation of Financial Statements*

This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 3.2 (e).

### *IFRIC 8 Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. The interpretation had no impact on the financial position or performance of the Company.

### *IFRIC 9 Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Company.

### *IFRIC 10 Interim Financial Reporting and Impairment*

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no interim reporting period or reversal of impairment in respect of goodwill or an investment in either an equity instrument or financial asset carried at cost, the interpretation had no impact on the financial position or performance of the Company.

Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Company in periods beginning on or after 1 January 2008 or later periods. The Company has not early adopted any of these standards or interpretations and will adopt them at their effective date, as follows:

### *IFRIC 13 Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008)*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company operates no such scheme. Adoption of the IFRIC 13 will therefore have no impact on the financial position or performance of the Company.

### *IFRS 8 – Operating segments (effective 1 January 2009)*

This standard will have no impact on the financial position or performance of the Company or any additional disclosures in financial statements in respect of operating segments, as the Company has only one operating segment.

### *IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective 1 March 2007)*

It is not expected that IFRIC 11 will have any impact on the Company's financial statements.

The Company is analysing the potential impact of the following recently published but not yet effective standards and interpretations, impact of which is not known at the moment of authorisation of these financial statements:

IAS 1 – Presentation of financial statements- revised (effective 1 January 2009)

IFRS 3 (revised 2008) – Business combinations - revised (effective 1 January 2009)

IAS 27 (amended 2008) - Amendments to IAS 27 (effective 1 January 2009).

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### 2.2 Significant accounting judgments, estimates and assumptions

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.

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

### 2.3 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.

### 2.4 Reinsurance

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

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 the resulting credit or debit is paid during the first quarter of the following year. For further information see also note 30.

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

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### **2.5 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 interest 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 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.

### **2.6. 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.

### **2.7. 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.

An impairment review is performed at reporting date or when an indication of impairment arises. When the recoverable amount is less than the carrying value an impairment loss is recognised in the income statement. DAC is also considered in the liability adequacy test.

DAC are derecognized when the related contracts are settled or disposed of.

### **2.8. Administration costs**

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

### **2.9 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### 2.10. Equity attributable to the company's equity holders

#### *Share capital*

Ordinary shares 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.

### 2.11. 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.

### 2.12. 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.

### 2.13. Insurance provisions and insurance contracts

#### *2.13.1. 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.

#### *2.13.2. 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 to 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### 2.13.3. 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 recognised 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 taking into consideration young portfolio (3 years in Non-Life and 4 years in Life) and the fact that significant growth did not appear before the 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:  $ULAE = \text{coefficient} * (\text{RBNS} + \text{IBNR})$ . Coefficient for the year =  $100 * \text{expenses allocated in claims department} / \text{incurred claims in the year}$ .

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### **2.13.4. 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.

### **2.13.5. 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.

The table below sets out the concentration of life insurance liabilities by type of contract at 31 December 2007.

	<b>Gross liabilities</b>
Term assurance	4,586
Endowment assurance	284,283
<b>Total life insurance</b>	<b>288,869</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### *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.

The table below sets out the concentration of non-life insurance contract gross liabilities by type of contract.

<i>(in HRK)</i>	2007		2006	
	Gross liabilities		Gross liabilities	
	Unearned premium	Claim reserves	Unearned premium	Claim reserves
Accident	6,635,555	4,714,336	5,283,616	2,792,926
Healthcare	0	9,932	118,426	68,208
Motor casco	12,289,902	5,312,391	5,047,205	2,161,719
Marine casco	3,885,501	2,158,331	3,219,166	3,021,901
Goods in transport	170,262	29,936	16,099	7,540
Property	9,035,546	6,352,956	5,721,873	3,692,158
Motor third part liability	20,328,699	16,972,513	9,004,014	4,020,650
Marine liability	627,305	344,706	390,506	269,566
Liability and loss adjusting services	2,233,804	5,345,823	787,508	1,158,679
<b>TOTAL GROSS INSURANCE LIABILITIES</b>	<b>55,206,575</b>	<b>41,240,924</b>	<b>29,588,413</b>	<b>17,193,346</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### **2.14. 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 recognised 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.

### **2.15. 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.

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.

### **2.16. 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.

### **2.17. Property, plant and equipment**

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and accumulated impairment losses. 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

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.

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

#### *(a) Insurance receivables*

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is the present value of estimated future cash flows discounted at the original effective interest rate. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

#### *(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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

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. These investments are initially recorded at fair value. 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.

### *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.

### *Derecognition of financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

## **2.19. 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### 2.20. 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.

### 2.21. 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.

### 2.22. 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 leases 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. The 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### 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.

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

The Company has concluded proportional reinsurance contracts by which an excess of risk over retention per business line is transferred. Furthermore, by nonproportional 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 market 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*

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Croatian kunas and euros and its exposure to foreign exchange risk arises primarily with respect to Euro.

The Company's policy is to minimise the currency risk by adjusting assets and liabilities on a 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.

The analysis below is performed for reasonably possible movements in currency exchange rate with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets; Foreign currency gains and losses are booked in P/L statement). The analysis is performed for the same change of 1% in both directions.

	Increase/decrease in Euro rate	Effect on profit before tax HRK
2007	+/-1%	-2,169,966
2006	+/-1%	-1,426,481

There is no changes in methods and assumptions used in comparison to prior year.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### *b) Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. 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 and applies Group credit risk policy that sets out the assessment and determination of what constitutes credit risk for the Group. These favor the purchase of the investments with good credit rating and encourage the diversification and dispersion of the portfolio. The asset management department reports quarterly to the Generali Group on the exposure to the components of the credit risk. The investments are mostly (more than 60%) in fixed income investments of high credit rating, 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.

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

### *(c) Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

Company sets guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations. 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:

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

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### (d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price 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 the 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 analysis below is performed for reasonably possible movements in market interest rates (measured through yield to maturity for investments in bonds) with all other variables held constant, showing the impact on fair value of company's investment in bonds. The analysis is performed for the same change of 10 bps in both directions.

	Increase/Decrease in base points	Effect on fair value HRK
2007		
Croatian kuna	+10 bps	-530,548
Euro	+10 bps	-848,715
Croatian kuna	-10 bps	+534,076
Euro	-10 bps	+855,481
2006		
Croatian kuna	+10 bps	-457,714
Euro	+10 bps	-898,996
Croatian kuna	-10 bps	460,813
Euro	-10 bps	907,045

There is no changes in methods and assumptions used in comparison to prior year.

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.

Asset allocation and portfolio limit structure, are set to ensure that assets back specific policyholders liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.

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

The Company provides duration analysis between investments and insurance provisions. For calculation of investments duration, the Company includes life and non life investment portfolio. For

## Notes to the financial statements (continued)

For the year ended 31 December 2007

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>2007</u>	<u>2006</u>
INVESTMENTS	5,55	4,91
INSURANCE PROVISIONS	15,25	15,49

#### *(e) Capital management*

Targets in terms of solvency, results and risk exposure are incorporated in risk management policies on Generali Group level, and are presented in forms of guidelines for the acceptance of the main risks on country level. The Company strongly relies on the support of the Parent company.

Externally imposed capital requirements are set and regulated by the Croatian Financial Services Supervisory Agency. These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. The Company complied with the externally imposed capital requirements during the reported financial period.

### **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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 4 – INTANGIBLE ASSETS

<i>(in HRK)</i>	<u>31 December 2007</u>	<u>31 December 2006</u>
Acquisition cost at beginning of the year	4,703,050	2,983,738
Accumulated amortisation at beginning of the year	-2,975,703	-1,540,638
<b>Net book value at beginning of the year</b>	<b>1,727,347</b>	<b>1,443,100</b>
Additions	2,966,276	1,719,312
Disposals	-29,161	-3,162,412
Amortisation for the year	-1,632,995	<b>1,727,347</b>
<b>Net book value at year-end</b>	<b>3,031,467</b>	<b>1,727,347</b>
<b>Balance at year-end</b>		
Acquisition cost	7,337,401	4,703,050
Accumulated amortisation	-4,305,934	-2,975,703
<b>Net book value at year-end</b>	<b>3,031,467</b>	<b>1,727,347</b>

Intangible assets mainly relate to software.

### 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>
<b>For the year ended 31 December 2007</b>			
Net book value at the beginning of the year	2,378,453	4,741,963	7,120,416
Additions	13,090,329	1,243,057	14,333,386
Disposals	-10,459,886	-157,917	-10,617,803
Depreciation for the year	-1,503,827	-656,906	-2,160,733
Net book value at year-end	<b>3,505,069</b>	<b>5,170,197</b>	<b>8,675,266</b>
<b>Balance at 31 December 2007</b>			
Cost	7,350,164	6,869,794	14,219,958
Accumulated depreciation	-3,845,095	-1,699,597	-5,544,692
<b>Net book value as at 31 December 2007</b>	<b>3,505,069</b>	<b>5,170,197</b>	<b>8,675,266</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

<i>(in HRK)</i>	<u>Equipment</u>	<u>Furniture</u>	<u>Total</u>
<b>For the year ended 31 December 2006</b>			
Net book value at 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	<u>-951,284</u>	<u>-426,322</u>	<u>-1,377,606</u>
Net book value at year-end	<b>2,378,453</b>	<b>4,741,963</b>	<b>7,120,416</b>
<b>Balance at 31 December 2006</b>			
Cost	5,677,777	6,002,467	11,680,244
Accumulated depreciation	<u>-3,299,324</u>	<u>-1,260,504</u>	<u>-4,559,828</u>
<b>Net book value as at 31 December 2006</b>	<b><u>2,378,453</u></b>	<b><u>4,741,963</u></b>	<b><u>7,120,416</u></b>

### NOTE 6 – LAND AND BUILDINGS (INVESTMENT PROPERTY)

	<i>(in HRK)</i>
<b>For the years ended 31 December</b>	
Net book amount at 1 January 2006	0
By acquisition of Libertas osiguranje d.d.	19,253,905
Depreciation for the year	<u>-1,211,180</u>
<b>Net book amount at 31 December 2006</b>	<b>18,042,725</b>
Disposal	-18,042,725
<b>Net book amount at 31 December 2007</b>	-
<b>Balance as at 31 December 2006</b>	
Cost	24,223,613
Accumulated depreciation	<u>-6,180,888</u>
<b>Net book amount as at 31 December 2006</b>	<b><u>18,042,725</u></b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 7 - FINANCIAL ASSETS

#### FINANCIAL ASSETS STRUCTURE BY MATURITY

in HRK	Maturity (in years)					31 December 2007
	0-1	1-3	3-5	over 5	no term	Total
Available for sale	14,816,922	6,156,000	20,357,534	221,490,543	89,693,389	352,514,388
Loans	20,049	-	-	-	-	20,049
Term deposits with credit institutions	93,491,615	-	-	-	-	93,491,615
Other investments	-	-	-	-	147,909	147,909
<b>Total</b>	<b>108,328,586</b>	<b>6,156,000</b>	<b>20,357,534</b>	<b>221,490,543</b>	<b>89,841,298</b>	<b>446,173,961</b>

in HRK	Maturity (in years)					31 December 2006
	0-1	1-3	3-5	over 5	no term	Total
Available for sale	4,435,839	11,188,675	8,676,516	210,076,689	61,077,042	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
<b>Total</b>	<b>48,566,642</b>	<b>11,188,675</b>	<b>8,676,516</b>	<b>210,076,689</b>	<b>61,224,951</b>	<b>339,733,473</b>

#### FINANCIAL ASSETS STRUCTURE BY CURRENCY

(in HRK)	Currency		31 December 2007
	HRK	EUR	Total
Available for sale	206,327,831	146,186,557	352,514,388
Loans	20,049	-	20,049
Term deposits with credit institutions	23,419,985	70,071,630	93,491,615
Other investments	147,909	-	147,909
<b>Total</b>	<b>229,915,774</b>	<b>216,258,187</b>	<b>446,173,961</b>

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

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 8 – AVAILABLE-FOR-SALE INVESTMENTS

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Debt securities and other fixed yield securities	262,820,999	234,377,719
Shares and other variable yield securities	89,693,389	61,077,042
<b>Total</b>	<b>352,514,388</b>	<b>295,454,761</b>

### SHARES AND OTHER VARIABLE YIELD SECURITIES

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Listed equity securities</b>	<b>14,600,380</b>	-
PBZ Global Fund	9,623,337	31,309,860
RBA Balanced Fund	-	20,548,960
PBZ Kuna Money Fund	-	9,187,764
PBZ Money Fund	-	30,458
Raiffeisen EM Markets	14,290,844	-
Ilirika JIE Balanced	3,564,494	-
Erste Adriatic Equity	7,253,270	-
Erste Total East	12,750,534	-
PBZ Equity	11,340,178	-
KD Nova Europa	2,470,747	-
HPB Global	1,949,327	-
HPB Dynamic	942,445	-
PBZ I-Stock	10,907,833	-
<b>Investment funds</b>	<b>75,093,009</b>	-
<b>Total</b>	<b>89,693,389</b>	<b>61,077,042</b>

### DEBT SECURITIES AND OTHER FIXED YIELD SECURITIES

<i>(in HRK)</i>	<b>Maturity</b>	<b>Effective interest rate '07.</b>	<b>31 December 2007</b>	<b>Effective interest rate '06.</b>	<b>31 December 2006</b>
Bonds RHMf-O-137A	2013	4.5%	78,476,673	4.70%	72,448,548
Bonds RHMf-O-157A	2015	4.25%	65,231,688	4.30%	54,141,116
Bonds RHMf-O-142A	2014	5.5%	30,739,155	4.77%	27,139,290
Bonds RHMf-O-19BA	2019	5.38%	22,360,604	4.85%	25,435,275
Bonds RHMf-O-125A	2012	6.88%	14,582,882	4.42%	15,412,495
Bonds RHMf-O-085A	2008	6.13%	9,017,723	4.94%	9,268,083
Bonds C-EURB 5.00%	2014	5%	7,099,729	4.25%	7,498,739
Bonds RHMf-O-103A	2010	6.75%	6,249,207	4.97%	6,462,067
Bonds RHMf-O-077A	2007	5.38%	0	3.32%	4,435,839

## Notes to the financial statements (continued)

For the year ended 31 December 2007

Bonds RHMf-O-15CA	2015	5.25%	3,956,371	4.77%	4,145,090
Bonds HBOR CBRD					
5.75%	2012	5.75%	3,733,119	5.76%	3,856,136
Bonds RHMf-O-08CA	2008	6.88%	1,854,399	5.42%	1,920,592
Bonds RHMf-O-172A	2017	4.5%	17,358,803	-	0
Bonds RBA-O-112A	2011	4.13%	991,160	4.13%	1,007,616
Bonds PLIVA-115A	2011	5.18%	584,981	5.77%	608,688
Bonds PODR-O-115A	2011	5.13%	584,505	5.15%	598,145
<b>Total</b>			<b><u>262,820,999</u></b>		<b><u>234,377,719</u></b>

### NOTE 9 – LOANS

Loans outstanding at 31 December 2007 relate to loans acquired from Libertas from 2006.

### NOTE 10 – TERM DEPOSITS WITH CREDIT INSTITUTIONS

<i>(in HRK)</i>	<u>Interest rate '07.</u>	<u>31 December 2007</u>	<u>Interest rate '06.</u>	<u>31 December 2009</u>
IMEX banka	5.80%	7,380,096	5.80%	14,411,852
Privredna banka Zagreb d.d.	5.20%	7,847,280	3.43%	9,342,636
Banco Popolare Croatia d.d.	6.50%	15,499,522	5.25%	7,045,220
ERSTE banka	6%	15,010,300	4.55%	6,139,096
NAVA banka		-	5.75%	4,023,577
Istarska kreditna banka d.d.	4.25%	3,118,418	4.00%	1,017,315
Veneto banka	6%	19,772,425		-
Raiffeisenbank d.d.	6.10%	24,863,574		-
<b>Total</b>		<b><u>93,491,615</u></b>		<b><u>41,979,696</u></b>

### NOTE 11 – RECEIVABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

As at 31 December, the ageing analysis of trade receivables is as follows:

<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>				
		<b>&lt; 30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-180 days</b>	<b>&gt;180 days</b>
19,641,966	11,440,380	3,783,441	1,376,509	693,595	2,348,041	0

Value adjustment is made for all outstanding receivables older than 180 days.

Movements in the provision for impairment of receivables were as follows:

	2007
	HRK
At 1 January	0
Charge for the year	6,674,488
Amounts reversed	-
Amounts written off	-
At 31 December	<u>6,674,488</u>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

There is no significant concentrations of credit risk in receivables arising out of direct insurance operations.

### NOTE 12 – RECEIVABLES ARISING OUT OF REINSURANCE OPERATIONS

Receivables relate to reinsurance agreement with Generali Holding Vienna A.G. (see also note 30).

### NOTE 13 – OTHER RECEIVABLES

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Advances paid	2,484,316	1,204,614
Lease of business premises	-	85,893
Other receivables	1,041,399	694,206
<b>Total</b>	<b>3,525,715</b>	<b>1,984,713</b>

### NOTE 14 – PREPAID EXPENSES AND ACCRUED INCOME

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Deferred acquisition costs	9,950,120	5,085,557
Prepaid rent	486,516	686,769
<b>Total</b>	<b>10,436,636</b>	<b>5,772,326</b>

*Movement of deferred acquisition costs*

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Net book amount at beginning of the year</b>	<b>5,085,557</b>	<b>0</b>
Acquisition of Libertas osiguranje d.d. balance	-	261,010
Change for the year	4,864,563	4,824,547
<b>Net book amount at end of the year</b>	<b>9,950,120</b>	<b>5,085,557</b>

### NOTE 15 – CASH AND CASH EQUIVALENTS

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Giro bank accounts	4,848,140	7,703,607
Foreign currency bank account	581,306	1,003,968
Cash in hand	10,659	144,410
Cheques and credit cards	3,454,918	1,446,357
<b>Total</b>	<b>8,895,023</b>	<b>10,298,342</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 16 – EQUITY

The Company's share capital amounts 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 Assicurazioni Generali S.p.A. Group, Trieste, Italy. The share capital was established by joining the capital of three merged companies. There are no treasury shares held by the Company.

In October 2006 Generali Holding Vienna AG increased the share capital in Libertas osiguranje d.d. in the 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*

(in HRK)

	<u>2007</u>	<u>2006</u>
<b>Total at beginning of year</b>	<b>973,645</b>	<b>4,199,720</b>
Revaluation	-8,774,921	-2,291,134
Net gains transferred to net profit on disposal and impairment	-1,232,860	-934,941
<b>Total at end of year</b>	<b>-9,034,136</b>	<b>973,645</b>

### NOTE 17 – INSURANCE LIABILITIES

(in HRK)	<u>Gross amount</u>		<u>Reinsurer's share</u>		<u>Net amount</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Unearned premiums	55,206,575	29,588,413	-2,176,106	-14,827,478	53,030,469	14,760,935
Claims reserves	41,240,923	17,193,346	-22,926,928	-9,004,603	18,313,995	8,188,743
<b>Non-life insurance liabilities</b>	<b>96,447,498</b>	<b>46,781,759</b>	<b>-25,103,034</b>	<b>-23,832,081</b>	<b>71,344,464</b>	<b>22,949,678</b>
Unearned premiums	2,062,675	1,920,882	-586,049	-296,025	1,476,626	1,624,857
Claims reserves	11,627,854	7,113,699	-3,891,949	-2,060,334	7,735,905	5,053,365
Mathematical provisions of life insurance	292,387,192	203,624,680	-102,091,281	-65,863,472	190,295,911	137,761,208
Other insurance liabilities	24,292,199	28,829,864	0	0	24,292,199	28,829,864
<b>Life insurance liabilities</b>	<b>330,369,920</b>	<b>241,489,125</b>	<b>-106,569,279</b>	<b>-68,219,831</b>	<b>223,800,641</b>	<b>173,269,294</b>
<b>TOTAL INSURANCE LIABILITIES</b>	<b>426,817,418</b>	<b>288,270,884</b>	<b>-131,672,313</b>	<b>-92,051,912</b>	<b>295,145,105</b>	<b>196,218,972</b>

The acquired life insurance portfolio of Libertas osiguranje d.d. has no reinsurance cover and premium is calculated with 5% interest rate. As the mathematical provision is calculated with 3,6% interest rate, a contingency reserve in other insurance provisions is created and calculated as 2,45% of sum at risk. Reinsurance is provided exclusively by Generali Holding Vienna AG.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### MOVEMENTS IN INSURANCE LIABILITIES

#### 1. Claims provisions - non-life

(in HRK)

	2007		
	Gross	Reinsurance	Net
Notified claims	11,550,256	-6,335,590	5,214,666
Incurred but not reported	5,643,090	-2,669,013	2,974,077
<b>Total at beginning of year</b>	<b>17,193,346</b>	<b>-9,004,603</b>	<b>8,188,743</b>
Cash paid for claims settled in year	-51,224,627	1,107,027	-50,117,600
Increase in liabilities	75,272,204	-15,029,352	60,242,852
<b>Total at end of year</b>	<b>41,240,923</b>	<b>-22,926,928</b>	<b>18,313,995</b>
Notified claims	25,005,881	-8,682,733	16,323,148
Incurred but not reported	16,235,042	-14,244,195	1,990,847
<b>Total at end of year</b>	<b>41,240,923</b>	<b>-22,926,928</b>	<b>18,313,995</b>

(in HRK)

	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
<b>Total at beginning of year</b>	<b>4,755,145</b>	<b>-3,959,230</b>	<b>795,915</b>
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
<b>Total at end of year</b>	<b>17,193,346</b>	<b>-9,004,603</b>	<b>8,188,743</b>
Notified claims	11,550,256	-6,335,590	5,214,666
Incurred but not reported	5,643,090	-2,669,013	2,974,077
<b>Total at end of year</b>	<b>17,193,346</b>	<b>-9,004,603</b>	<b>8,188,743</b>

#### 2. Life insurance liabilities- mathematical provisions and unearned premiums

(in HRK)

	2007	2006
At beginning of year	205,545,562	50,694,041
Valuation premium	155,842,618	98,170,735
Fees deducted from account balances	-46,604,428	-6,450,341
Liabilities released for payments on death, surrender and other terminations in the year	-11,552,508	-3,517,122
Interest credited	3,909,571	2,273,707
Other movements	-12,690,948	-9,220,868
Acquisition of Libertas provisions	0	73,595,410
<b>At end of year</b>	<b>294,449,867</b>	<b>205,545,562</b>

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

## Notes to the financial statements (continued)

For the year ended 31 December 2007

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

in HRK

	<u>2007</u>	<u>2006</u>
Up to 1 year	3,366,587	1,964,939
Between 1 and 5 years	9,649,129	4,081,601
Between 6 and 10 years	25,614,034	16,126,272
Between 11 and 20 years	153,573,340	117,626,637
More than 20 years	102,246,777	65,746,113
<b>At end of year</b>	<b><u>294,449,867</u></b>	<b><u>205,545,562</u></b>

### CURRENCY BREAKDOWN OF INSURANCE LIABILITIES

(in HRK)	<u>EUR</u>		<u>HRK</u>		<u>TOTAL</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Unearned premiums	-	-	55,206,575	29,588,414	55,206,575	29,588,414
Claims provisions	-	-	41,240,923	17,193,346	41,240,923	17,193,346
<b>Non-life insurance liabilities</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>96,447,498</u></b>	<b><u>46,781,760</u></b>	<b><u>96,447,498</u></b>	<b><u>46,781,760</u></b>
Unearned premiums	2,062,675	1,920,882	-	-	2,062,675	1,920,882
Claims provisions	-	-	11,627,854	7,113,699	11,627,854	7,113,699
Mathematical provisions of life insurance	292,387,192	203,624,680	-	-	292,387,192	203,624,680
Other insurance liabilities	24,292,199	28,829,865	-	-	24,292,199	28,829,865
<b>Life insurance liabilities</b>	<b><u>318,742,066</u></b>	<b><u>234,375,427</u></b>	<b><u>11,627,854</u></b>	<b><u>7,113,699</u></b>	<b><u>330,369,920</u></b>	<b><u>241,489,126</u></b>
<b>TOTAL INSURANCE LIABILITIES</b>	<b><u>318,742,066</u></b>	<b><u>234,375,427</u></b>	<b><u>108,075,352</u></b>	<b><u>53,895,459</u></b>	<b><u>426,817,418</u></b>	<b><u>288,270,886</u></b>

### NOTE 18 – PAYABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

(in HRK)	<u>31 December 2007</u>	<u>31 December 2006</u>
Commissions payables	7,305,664	27,866,308
Unallocated paid premium	4,356,141	4,282,305
Claims payable	645,372	841,833
Insurance taxes and contributions	1,126,878	534,758
Other	8,508	0
<b>Total</b>	<b><u>13,442,563</u></b>	<b><u>33,525,204</u></b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 19 – PAYABLES ARISING OUT OF REINSURANCE OPERATIONS

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Outward reinsurance premiums – Generali Group	773,782	1,485,607
<b>Total</b>	<b>773,782</b>	<b>1,485,607</b>

### NOTE 20 – OTHER PAYABLES INCLUDING TAXATION AND SOCIAL SECURITY

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Due to related parties – Generali Group	3,759,863	3,573,919
Due to suppliers	1,332,541	564,877
Due for salaries, taxes and contributions on salaries	5,384,323	3,336,438
Other	2,430,168	1,362,566
<b>Total</b>	<b>12,906,895</b>	<b>8,837,800</b>

### NOTE 21 – DEFERRED INCOME AND ACCRUED EXPENSES

<i>(in HRK)</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Accrued lease expenses	1,789,417	2,055,326
Accrued interest	2,762,272	21,887
Other deferred income	-	345,593
<b>Total</b>	<b>4,551,689</b>	<b>2,422,806</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 22 – EARNED PREMIUMS

<i>(in HRK)</i>	<u>Gross amount</u>		<u>Reinsurer's share</u>		<u>Net income</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Written premium	120,980,024	63,079,688	-39,427,373	-35,519,181	81,552,651	27,560,507
Change in the provision for unearned premium	-25,618,162	-16,432,825	-12,651,372	8,241,526	-38,269,534	-8,191,299
<b>Non life earned premium</b>	<b>95,361,862</b>	<b>46,646,863</b>	<b>-52,078,745</b>	<b>-27,277,655</b>	<b>43,283,117</b>	<b>19,369,208</b>
Written premium	155,842,618	131,743,406	-65,321,565	-56,307,312	90,521,053	75,436,094
Change in the provision for unearned premium	-141,793	-41,864	290,023	192,405	148,230	150,541
<b>Life earned premium</b>	<b>155,700,825</b>	<b>131,701,542</b>	<b>-65,031,542</b>	<b>-56,114,907</b>	<b>90,669,283</b>	<b>75,586,635</b>
<b>Total earned premium</b>	<b>251,062,687</b>	<b>178,348,405</b>	<b>117,110,287</b>	<b>-83,392,562</b>	<b>133,952,400</b>	<b>94,955,843</b>

### NOTE 23 – INCOME FROM FINANCIAL ASSETS AND INVESTMENT PROPERTIES

<i>(in HRK)</i>	<u>2007.</u>	<u>2006.</u>
Interest income from available for sale financial assets	11,828,957	7,223,974
Interest income from loans and receivables	24,500	182,649
Interest income from cash and cash equivalents and deposits with credit institutions	4,655,208	1,872,902
Income from land and buildings (investment properties)	-	708,567
Realised gains on available for sale financial assets	11,230,764	1,431,931
<b>TOTAL INCOME</b>	<b>27,739,429</b>	<b>11,420,023</b>

### NOTE 24 – OTHER INCOME

<i>(in HRK)</i>	<u>2007</u>	<u>2006</u>
Income from reinsurance – Generali Group	80,422,461	47,615,058
Income from representing other insurance companies	-	2,361,853
Income from sale of equipment	-	110,536
Other income	8,668,085	1,246,543
<b>TOTAL OTHER INCOME</b>	<b>89,090,546</b>	<b>51,333,990</b>

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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Claims paid	32,686,150	14,734,935	-17,337,866	-8,111,932	15,348,284	6,623,003
Change in claims reserves	24,047,577	11,632,520	-13,922,326	-5,045,373	10,125,251	6,587,147
<b>Non-life net insurance benefits and claims</b>	<b>56,733,727</b>	<b>26,367,455</b>	<b>-31,260,192</b>	<b>-13,157,305</b>	<b>25,473,535</b>	<b>13,210,150</b>
Claims paid	11,552,508	6,148,676	-3,715,588	-2,432,987	7,836,920	3,715,689
Change in claims reserves	4,380,016	1,343,096	-1,831,615	-481,999	2,548,401	861,097
Change in mathematical reserves	88,866,794	87,004,615	-36,227,809	-40,536,629	52,638,985	46,467,986
Change in other insurance reserves	-4,507,808	679,483	0	0	-4,507,808	679,483
<b>Life net insurance benefits and claims</b>	<b>100,291,510</b>	<b>95,175,870</b>	<b>-41,775,012</b>	<b>-43,451,615</b>	<b>58,516,498</b>	<b>51,724,255</b>
<b>TOTAL BENEFITS AND CLAIMS</b>	<b>157,025,237</b>	<b>121,543,325</b>	<b>-73,035,204</b>	<b>-56,608,920</b>	<b>83,990,033</b>	<b>64,934,405</b>

### NOTE 26 – EXPENSES FROM FINANCIAL ASSETS AND INVESTMENT PROPERTIES

<i>(in HRK)</i>	<u>2007</u>	<u>2006</u>
Depreciation of land and buildings (investment properties)	-	1,190,167
Realised losses on available for sale financial assets	363,577	194,960
Impairment of available for sale financial assets	-	248,656
Impairment of loans and receivables	-	329,039
Other expenses	213,480	601,634
<b>TOTAL EXPENSES</b>	<b>577,057</b>	<b>2,564,456</b>

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

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 27 – ACQUISITION AND ADMINISTRATION COSTS

<i>(in HRK)</i>	<b>Non life segment</b>		<b>Life segment</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Acquisition commission	17,633,522	7,136,104	27,300,945	23,721,081	44,934,467	30,857,185
Other acquisition costs	22,861,318	12,307,173	33,495,648	18,018,388	56,356,966	30,325,561
Change in deferred acquisition costs	-4,864,564	-4,824,547	0	0	-4,864,564	-4,824,547
Net acquisition costs	35,630,276	14,618,730	60,796,593	41,739,469	96,426,869	56,358,199
Commissions from reinsurers	-2,225,599	-1,692,894	-438,066	-296,923	-2,663,665	-1,989,817
<b>Commissions and other acquisition costs</b>	<b>33,404,677</b>	<b>12,925,836</b>	<b>60,358,527</b>	<b>41,442,546</b>	<b>93,763,204</b>	<b>54,368,382</b>
Depreciation	2,788,564	2,009,024	1,005,164	1,199,702	3,793,728	3,208,726
Salaries, taxes and contributions on salaries	10,391,231	9,377,384	9,454,714	8,326,096	19,845,945	17,703,480
Other administration costs	13,240,615	13,917,859	16,732,437	13,748,242	29,973,052	27,666,101
<b>Administration costs</b>	<b>26,420,410</b>	<b>25,304,267</b>	<b>27,192,315</b>	<b>23,274,040</b>	<b>53,612,725</b>	<b>48,578,307</b>
<b>TOTAL COSTS</b>	<b>59,825,087</b>	<b>38,230,103</b>	<b>87,550,842</b>	<b>64,716,586</b>	<b>147,375,929</b>	<b>102,946,689</b>

Acquisition costs of non-life insurance business are deferred for the first time in 2006.

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

### NOTE 28 – OTHER EXPENSES

<i>(in HRK)</i>	<b>2007</b>	<b>2006</b>
Expense from reinsurance – Generali Group	13,379,040	2,352,784
Statutory government insurer's expenses	1,352,751	895,876
Negative currency exchange differences	250,269	400,498
Other expenses	8,902,090	250
<b>TOTAL OTHER EXPENSES</b>	<b>23,884,150</b>	<b>3,649,408</b>

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.

Other expenses mainly relate to value adjustment of doubtful receivables (note 11).

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### 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 sheet and income statement accounts, the Company was not subject to profit tax due to generated tax losses as follows:

<i>(in HRK)</i>	<u>2007</u>	<u>2006</u>
<b>Result</b>	<b>-5,044,793</b>	<b>-16,385,102</b>
Expected tax value of loss for the year at 20% rate	1,008,959	3,277,020
<b>Adjusted for the effects on tax value of loss</b>		
Tax non-deductible expenses	-686,923	-1,305,696
Tax incentives	107,842	94,804
Tax loss non recognised as deferred tax asset	-579,081	-1,210,892
<b>Tax expense</b>	<b>0</b>	<b>0</b>
<b>Effective tax rate</b>	<b>0%</b>	<b>0%</b>
<b>Tax value of loss incurred in the year</b>	<b>429,878</b>	<b>2,066,128</b>
Tax value of loss carried forward from previous years	<u>9,035,200</u>	<u>6,969,072</u>
<b>Tax value of total loss carried forward</b>	<b><u>9,465,078</u></b>	<b><u>9,035,200</u></b>

Deferred tax assets relating to unused tax losses carried forward have not been recognised 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 2012, are presented in the table below:

<b>Expiry year</b>	<u>2007</u>	<u>2006</u>
2007	-	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	2,066,128
2012	429,878	-
	<b><u>9,465,078</u></b>	<b><u>9,035,200</u></b>

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.

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### NOTE 30 – RELATED PARTY TRANSACTIONS

Throughout the year the Company was owned by the company Generali Holding Vienna AG, Austria, member of the Generali Group, until 27th November 2007 when ownership was transferred to Assicurazioni Generali S.p.A. Group, Trieste, Italy, who is also the ultimate parent of the Group.

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>2007</u>	<u>2006</u>
Purchase of products and services	3,826,199	3,548,050

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>2007</u>	<u>2006</u>
Generali Holding Vienna AG	136,313,745	94,772,785

#### Year-end reinsurance balances

<i>(in HRK)</i>	<u>Receivables</u>		<u>Payables</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Generali Holding Vienna AG, Vienna	35,012,294	26,990,648	-	-
Generali Versicherung AG AT, Vienna	-	-	-	1,211,440
Generali International Ltd, London	-	-	321,430	71,771
Assurances France Generali S.A, Paris	-	-	-6,956	594
Generali Towarzystwo Ubezpiec., Warsaw	-	-	456,093	-
Generali Servizi Amministr., Mogliano Veneto	-	-	-	201,802
Grupo Generali España, A.I.E.	-	-	<b>3,215</b>	-
<b>BALANCE</b>	<b><u>35,012,294</u></b>	<b><u>26,990,648</u></b>	<b><u>773,782</u></b>	<b><u>1,485,607</u></b>

#### Key management compensation

<i>(in HRK)</i>	<u>2007.</u>	<u>2006.</u>
Salaries and other short-term employee benefits	1,646,781	2,267,309
<b>TOTAL</b>	<b><u>1,646,781</u></b>	<b><u>2,267,309</u></b>

## Notes to the financial statements (continued)

For the year ended 31 December 2007

### **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 – MERGER OF LIBERTAS OSIGURANJE D.D. IN 2006**

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.

The business combination that occurred was 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.

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).

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.

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.