

GENERALI OSIGURANJE D.D.

Financial statements as at 31 December 2008
together with auditor's report

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General information

Supervisory Board

The members of the Supervisory Board who served during 2008 and subsequently are as follows:

Gregor Pilgram	President	From 16.06.2008
Werner Moertel	President	From 29.12.2006 until 16.06.2008
Luisa Coloni	Deputy president	From 16.06.2008
Francesco Bosatra	Deputy president	From 26.06.2006 until 16.06.2008
Gojko Ostojić	Member	From 29.12.2006
Juraj Jurčik	Member	From 16.06.2008
Lorenzo Kravina	Member	From 16.06.2008
Walter Steidl	Member	From 29.12.2006 until 16.06.2008

Management Board

The members of the Management Board who served during 2008 and subsequently are as follows:

Michele Cirieco	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 27 February 2009.

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

27 February 2009

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 2008 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 43).

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 2008 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

27 February 2009

Income statement
For the year ended 31 December 2008

	<u>Notes</u>	<u>2008</u> <u>HRK</u>	<u>2007</u> <u>HRK</u>
Earned premiums	4	248,585,897	133,952,400
Gross earned premium		260,839,837	251,062,687
Outward reinsurance premiums		-11,253,940	-117,110,287
Income from financial assets	5	22,136,118	27,739,429
Other income	6	7,093,591	89,090,546
TOTAL INCOME		278,815,606	250,782,375
Net insurance benefits and claims	7	-117,178,670	-83,990,033
Gross amount		-122,163,905	-157,025,237
Reinsurers' share		4,985,235	73,035,204
Expenses from financial assets	8	-49,571,836	-577,057
Acquisition and administration costs	9	-163,315,793	-147,375,929
Commissions and other acquisition costs		-111,242,382	-93,763,204
Administration costs		-52,073,412	-53,612,725
Other expenses	10	-5,218,973	-23,884,150
TOTAL BENEFITS, CLAIMS AND EXPENSES		-335,285,272	-255,827,169
RESULT BEFORE TAXATION		-56,469,666	-5,044,794
Income tax	11	0	0
RESULT FOR THE ACCOUNTING PERIOD		-56,469,666	-5,044,794

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

Balance sheet
As at 31 December 2008

	<u>Notes</u>	<u>31 December 2008</u> HRK	<u>31 December 2007</u> HRK
ASSETS			
Intangible assets	12	5,617,525	3,031,467
Property, plant and equipment	13	11,787,892	8,675,266
Reinsurers' share in insurance liabilities	25		
Unearned premiums, reinsurers' share		558,466	2,762,155
Claims provisions, reinsurers' share		16,224,895	26,818,877
Mathematical provisions, reinsurers' share		182,137	102,091,281
		16,965,498	131,672,313
Financial assets	14		
Available-for-sale investments	15	332,618,626	352,514,388
Loans	16	45,000	20,049
Term deposits with credit institutions	17	181,622,871	93,491,615
Investments for the benefit of the unit-linked life assurance	18	2,009,369	
Other investments		147,909	147,909
		516,443,775	446,173,961
Receivables			
Receivables arising out of direct insurance operations	19	24,314,320	19,641,966
Receivables arising out of reinsurance operations	20	4,008,811	35,012,294
Other receivables	21	2,454,557	3,525,715
		30,777,688	58,179,975
Prepaid expenses and accrued income	22	10,533,946	10,436,636
Cash and cash equivalents	23	10,023,541	8,895,023
TOTAL ASSETS		602,149,864	667,064,641

Balance sheet (continued)
As at 31 December 2008

	<u>Notes</u>	<u>31 December 2008</u> HRK	<u>31 December 2007</u> HRK
EQUITY AND LIABILITIES			
Equity	24		
Share capital		81,000,000	81,000,000
Reserve for UGL on AFS investments		-23,510,562	-9,034,136
Revenue reserve and other reserves		64,792,684	5,337,478
Accumulated losses		-56,469,666	-5,044,793
		<u>65,812,456</u>	<u>72,258,549</u>
Insurance liabilities, gross amount	25		
Unearned premiums, gross amount		63,685,482	57,269,250
Claims provisions, gross amount		75,924,410	52,868,777
Mathematical provisions of life insurance, gross amount		335,932,789	292,387,192
Technical provisions of life insurance – unit linked		1,541,168	0
Other insurance liabilities, gross amount		6,025,688	24,292,199
		<u>483,109,537</u>	<u>426,817,418</u>
Retained deposits from business ceded to reinsurers		18,928,305	136,313,745
Payables			
Payables arising out of direct insurance operations	26	13,687,166	13,442,563
Payables arising out of reinsurance operations	27	6,245,958	773,782
Other payables including taxation and social security	28	10,352,480	12,906,895
		<u>30,285,604</u>	<u>27,123,240</u>
Deferred income and accrued expenses	29	4,013,962	4,551,689
TOTAL EQUITY AND LIABILITIES		<u>602,149,864</u>	<u>667,064,641</u>

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

Signed on behalf Generali osiguranje d.d. on 27 February 2009.

Michele Cirieco

Jasminka Horvat Martinović

Cash flow statement
For the year ended 31 December 2008

	<u>2008</u>	<u>2007</u>
	HRK	HRK
Loss after taxation	-56,469,666	-5,044,794
Depreciation for the year	3,746,499	3,605,821
Net book value of disposed assets	2,637,431	2,858,574
Change in the provision for unearned premiums	8,619,921	38,121,304
Change in the provisions for outstanding claims	33,649,615	12,807,792
Change in mathematical provisions	146,995,909	47,997,038
Change in other insurance liabilities	-18,266,511	52,534,703
Change in deferred acquisition costs	-392,264	-4,537,665
Interest expense	-21,760,077	-15,302,629
Change in non-cash items	155,230,523	85,223,337
Change in receivables and payables arising out of direct insurance and reinsurance operations	-20,614,350	5,987,190
Change in other receivables and payables	-1,483,257	2,528,093
Change in deferred income and accrued expenses	-537,726	2,128,883
Change in prepaid expenses and accrued income (excluding deferred acquisition costs)	294,954	2,329,136
Change in receivables and payables from operating activities	-87,063,561	54,514,262
CASH FLOW FROM OPERATING ACTIVITIES	11,697,296	134,692,805
Investments in tangible and intangible assets	-12,082,614	-9,323,365
Investments in deposits	-88,131,256	-51,511,919
Net cash flow from available for sale assets	3,385,016	-90,563,468
Cash inflow from interest	21,760,077	15,302,629
CASH FLOW FROM INVESTING ACTIVITIES	-75,068,777	-136,096,123
Net cash flow from shareholders equity to the company's equity holders	64,500,000	0
CASH FLOW FROM FINANCING ACTIVITIES	64,500,000	0
D) Net increase/decrease in cash and cash equivalents	1,128,519	-1,403,318
E) Cash and cash equivalents at beginning of year	8,895,023	10,298,341
F) Cash and cash equivalents at end of year (Note 23)	10,023,541	8,895,023

Statement of changes in shareholder's equity
For the years ended 31 December 2008 and 2007

<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 2007		81,000,000	973,645	12,000,000	8,334,415	-14,996,938	87,311,122
Change of reserve for UGL on AFS investments	24	-	-10,007,781	-	-	-	-10,007,781
Net income/expense recognised directly in equity		0	-10,007,781	0	-	-	-10,007,781
Result for the year		-	-	-	-	-5,044,793	-5,044,793
Total recognised income/expense for 2007		0	-10,007,781	0	-	-	-15,052,574
Coverage of previous year's result from reserves		-	-	-12,000,000	-2,996,938	14,996,938	0
Balance at 31 December 2007		81,000,000	-9,034,136	0	5,337,477	-5,044,793	72,258,549
Balance at 1 January 2008		81,000,000	-9,034,136	0	5,337,477	-5,044,793	72,258,549
Change of reserve for UGL on AFS investments	24	-	-14,476,426	-	-	-	-14,476,426
Net income/expense recognised directly in equity		0	-14,476,426	0	-	-	-14,476,426
Result for the year		-	-	-	-	-56,469,666	-56,469,666
Recapitalization		-	-	-	64,500,000	-	64,500,000
Total recognised income/expense for 2008		0	-14,476,426	0	64,500,000	-56,469,666	-6,446,092
Coverage of previous year's result from reserves		-	-	-	-5,044,793	5,044,793	0
Balance at 31 December 2008		81,000,000	-23,510,562	0	64,792,684	-56,469,666	65,812,456

UGL = Unrealised Gains and Losses

AFS = Available for Sale

Notes to the financial statements

For the year ended 31 December 2008

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 PPF Holding B.V., Amsterdam, Netherlands. On 16th June 2008 transfer of ownership occurred between Assicurazioni Generali S.p.A. Group, Trieste, Italy as previous and Generali PPF Holding B.V., Amsterdam, Netherlands, as current owner. Assicurazioni Generali S.p.A. Group, Trieste, Italy is the ultimate parent of the Group.

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 2008 were authorised for issue in accordance with a resolution of the Management Board on 27 February 2009.

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 investments 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.

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

IFRIC 12, Service Concession Agreements (effective 1 January 2008)

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from January 1, 2008)

Notes to the financial statements (continued)

For the year ended 31 December 2008

IAS 39 and IFRS 7: Reclassification of Financial Assets (effective 1 July 2008)

An amendment to the IAS 39, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

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 2009. 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.

This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

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)

IAS 23 (Amendment), Borrowing Costs (effective from January 1, 2009)

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

Amendments to IAS 1 and IAS 32: Puttable financial instruments (effective 1 January 2009)

IAS 39 Recognition and Measurement: Eligible Hedged Items (effective 1 July 2009)

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

IFRIC 15, Agreements for the Constructions of Real Estate (effective from period beginning on or after 1 October 2008)

IFRIC 16, Hedges of Net Investment in a Foreign Operation (effective 1 January 2009)

IFRIC 17, Distributions of Non-cash Assets to Owners (effective 1 July 2009)

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:

Notes to the financial statements (continued)

For the year ended 31 December 2008

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.

2.5 Income from financial assets and investment properties

The item includes income from financial instruments not at fair value through profit and loss. In detail, it includes mainly interest from financial instruments measured using the effective interest method, interest income from cash and cash equivalents 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.

Notes to the financial statements (continued)

For the year ended 31 December 2008

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 financial instruments. It includes: realised losses from financial assets, impairment of financial assets, unrealized losses from unit linked investments and impairment of loans and receivables.

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

Intangible assets relate to 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.

Notes to the financial statements (continued)

For the year ended 31 December 2008

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.

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

Notes to the financial statements (continued)

For the year ended 31 December 2008

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: $ULAE = \text{coefficient} * (RBNS + IBNR)$. Coefficient for the year = $100 * \text{expenses allocated in claims department} / \text{incurred claims in the year}$.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2008

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 (gross liabilities) by type of contract at 31 December.

	31 December 2008 HRK thousand	31 December 2007 HRK thousand
Term assurance	10,221	4,586
Endowment assurance	343,386	284,283
Pure endowment assurance	890	-
Unit linked	1,687	-
Total life insurance	356,185	288,869

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.

Notes to the financial statements (continued)
For the year ended 31 December 2008

2.13.5. Sensitivity on insurance risks (continued)

Property insurance contracts (continued)

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

<i>(in HRK)</i>	2008		2007	
	Gross liabilities		Gross liabilities	
	Unearned premium	Claim reserves	Unearned premium	Claim reserves
Accident	6,573,113	4,054,582	6,635,555	4,714,336
Healthcare	-	-	-	9,932
Motor casco	13,514,650	10,924,701	12,289,902	5,312,391
Avio casco	3,983			
Marine casco	4,096,500	1,989,430	3,885,501	2,158,331
Goods in transport	145,149	67,795	170,262	29,936
Property	10,642,158	10,635,607	9,035,546	6,352,956
Motor third part liability	24,350,750	30,134,153	20,328,699	16,972,513
Avio liability	5,751	-	-	-
Marine liability	644,337	483,474	627,305	344,706
Liability and loss adjusting services	2,219,943	6,318,526	2,233,804	5,345,823
Co-insurance	119,601	-	-	-
TOTAL GROSS INSURANCE LIABILITIES	62,315,934	64,608,269	55,206,575	41,240,924

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.

Notes to the financial statements (continued)

For the year ended 31 December 2008

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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2008

2.17. Property, plant and equipment (continued)

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.

Investments for the benefit of the unit-linked life assurance

Investments for the benefit of the unit-linked life assurance comprise policyholders' investments in unit-linked products and are classified as financial assets at fair value through profit and loss.

(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.

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

Notes to the financial statements (continued)

For the year ended 31 December 2008

2.18. Financial assets (continued)

(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 2008

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.

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. From 2008 the Company mainly uses excess of loss reinsurance agreements.

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
2008	+/-1%	+/-2,994,878
2007	+/-1%	+/-2,169,966

Notes to the financial statements (continued)

For the year ended 31 December 2008

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

(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.

(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.

Notes to the financial statements (continued)

For the year ended 31 December 2008

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
2008		
Croatian kuna	+10 bps	-467,485
Euro	+10 bps	-1,096,784
Croatian kuna	-10 bps	+470,285
Euro	-10 bps	+1,105,782
2007		
Croatian kuna	+10 bps	-530,548
Euro	+10 bps	-848,715
Croatian kuna	-10 bps	+534,076
Euro	-10 bps	+855,481

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 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>2008</u>	<u>2007</u>
INVESTMENTS	5,64	5,55
INSURANCE PROVISIONS	15,15	15,25

Notes to the financial statements (continued)

For the year ended 31 December 2008

(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.

Insurance companies in Croatia have to comply with certain regulatory requirements regarding minimum capital set by HANFA.

Due to global market situation, during the year the Company recognised high amount of unrealized losses on equity investments, what resulted in non-compliance with solvency requirements (i.e. capital adequacy). This has been solved by additional capital of HRK 64.5 million paid by the owner into Company which has been recognised under reserves.

As at 31 December 2008 the solvency requirements are satisfied (equity for life segment amounts HRK 28,143 thousand and for non-life segment HRK 37,669 thousand). As Generali osiguranje d.d. is composite insurance company, minimum required equity for each business segment is HRK 22.5 million.

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 2008

NOTE 4 – EARNED PREMIUMS

<i>(in HRK)</i>	<u>Gross amount</u>		<u>Reinsurer's share</u>		<u>Net income</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Written premium	139,795,563	120,980,024	-7,279,916	-39,427,373	132,515,647	81,552,651
Change in the provision for unearned premium	-7,109,359	-25,618,162	-1,660,769	-12,651,372	-8,770,128	-38,269,534
Non life earned premium	132,686,204	95,361,862	-8,940,685	-52,078,745	123,745,519	43,283,117
Written premium	127,460,507	155,842,618	-2,136,175	-65,321,565	125,324,332	90,521,053
Change in the provision for unearned premium	693,126	-141,793	-177,080	290,023	516,046	148,230
Life earned premium	128,153,633	155,700,825	-2,313,255	-65,031,542	125,840,378	90,669,283
Total earned premium	260,839,837	251,062,687	-11,253,940	117,110,287	249,585,897	133,952,400

NOTE 5 – INCOME FROM FINANCIAL ASSETS AND INVESTMENT PROPERTIES

<i>(in HRK)</i>	<u>2008</u>	<u>2007</u>
Interest income from available for sale financial assets	12,682,534	11,828,957
Interest income from loans and receivables	-	24,500
Interest income from cash and cash equivalents and deposits with credit institutions	9,077,543	4,655,208
Realised gains on available for sale financial assets	133,313	11,230,764
Positive foreign exchange differences	242,728	-
TOTAL INCOME	22,136,118	27,739,429

NOTE 6 - OTHER INCOME

<i>(in HRK)</i>	<u>2008</u>	<u>2007</u>
Income from reinsurance – Generali Group	2,708,548	80,422,461
Other income	4,385,043	8,668,085
TOTAL OTHER INCOME	7,093,591	89,090,546

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 2008

NOTE 7 – NET INSURANCE BENEFITS AND CLAIMS

<i>(in HRK)</i>	<u>Gross amount</u>		<u>Reinsurer's share</u>		<u>Net amount</u>	
	2008	2007	2008	2007	2008	2007
Claims paid	54,103,777	32,686,150	-9,341,707	-17,337,866	44,762,070	15,348,284
Change in claims reserves	23,367,345	24,047,577	4,610,243	-13,922,326	27,977,588	10,125,251
Non-life net insurance benefits and claims	77,471,122	56,733,727	-4,731,464	-31,260,192	72,739,658	25,473,535
Claims paid	18,184,241	11,552,508	-398,176	-3,715,588	17,786,065	7,836,920
Change in claims reserves	-949,307	4,380,016	127,631	-1,831,615	-821,676	2,548,401
Change in mathematical reserves	44,183,381	88,866,794	54,393	-36,227,809	44,237,774	52,638,985
Change in other insurance reserves	-16,725,532	-4,507,808	-37,619	0	-16,763,151	-4,507,808
Life net insurance benefits and claims	44,692,783	100,291,510	-253,771	-41,775,012	-44,439,012	58,516,498
TOTAL BENEFITS AND CLAIMS	122,163,905	157,025,237	-4,985,235	-73,035,204	117,178,670	83,990,033

NOTE 8 – EXPENSES FROM FINANCIAL ASSETS AND INVESTMENT PROPERTIES

<i>(in HRK)</i>	<u>2008</u>	<u>2007</u>
Realised losses on available for sale financial assets	22,765,954	363,577
Impairment of available for sale financial assets	25,509,849	-
Unrealized loss on Unit linked investments	613,418	-
Negative foreign exchange differences	383,256	-
Other expenses	299,359	213,480
TOTAL EXPENSES	49,571,836	577,057

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 2008

NOTE 9 – ACQUISITION AND ADMINISTRATION COSTS

<i>(in HRK)</i>	Non life segment		Life segment		Total	
	2008	2007	2008	2007	2008	2007
Acquisition commission	21,422,621	17,633,522	39,151,268	27,300,945	60,573,889	44,934,467
Other acquisition costs	21,687,211	22,861,318	29,840,377	33,495,648	51,527,588	56,356,966
Change in deferred acquisition costs	-392,264	-4,864,564	0	0	-392,264	-4,864,564
Net acquisition costs	42,717,569	35,630,276	68,991,645	60,796,593	111,709,214	96,426,869
Commissions from reinsurers	-81,555	-2,225,599	-385,277	-438,066	-466,832	-2,663,665
Commissions and other acquisition costs	42,636,014	33,404,677	68,606,368	60,358,527	111,242,382	93,763,204
Depreciation	2,704,635	2,788,564	1,041,864	1,005,164	3,746,499	3,793,728
Salaries, taxes and contributions on salaries	11,640,651	10,391,231	10,684,312	9,454,714	22,324,963	19,845,945
Other administration costs	6,603,246	13,240,615	19,398,704	16,732,437	26,001,950	29,973,052
Administration costs	20,948,532	26,420,410	31,124,880	27,192,315	52,073,412	53,612,725
TOTAL COSTS	63,584,546	59,825,087	99,731,248	87,550,842	163,315,794	147,375,929

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 10 – OTHER EXPENSES

<i>(in HRK)</i>	2008	2007
Expense from reinsurance – Generali Group	28,080	13,379,040
Bad debt provision	3,177,868	6,840,073
Statutory government insurer's expenses	1,733,395	1,352,751
Negative currency exchange differences	236,728	250,269
Other expenses	42,902	2,062,017
TOTAL OTHER EXPENSES	5,217,973	23,884,150

The Company has changed its reinsurance policy and from 2008 uses Excess Loss reinsurance agreements. In 2007 the Company had, 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 19).

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 11 – 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>2008</u>	<u>2007</u>
Result	-56,469,666	-5,044,793
Expected tax value of loss for the year at 20% rate	11,293,933	1,008,959
Adjusted for the effects on tax value of loss		
Tax non-deductible expenses	-5,600,126	-686,923
Tax incentives	40,466	107,842
Tax value of loss incurred in the year	5,734,273	429,878
Tax value of loss brought forward from previous years	9,335,077	9,035,200
Tax loss expired	-1,534,865	-130,001
Tax value of total loss carried forward	13,534,485	9,335,077
	<u>0</u>	<u>0</u>
Tax expense loss for the year	0	0
Effective tax rate	0%	0%

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:

Expiry year	<u>2008</u>	<u>2007</u>
2008	-	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	429,878
2013	5,734,273	-
	13,534,485	9,335,077

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 2008

NOTE 12 – INTANGIBLE ASSETS

2008	Software	Assets under construction	Total
Cost at beginning of the year	7,337,401	0	7,337,401
Additions		3,929,580	3,929,580
Transfer from Assets under construction	2,029,365	-2,029,365	0
Disposals	0		0
Cost at year-end	9,366,767	1,900,214	11,266,981
Accumulated depreciaiton at beginning of the year	-4,305,935	0	-4,305,935
Depreciation for the year	-1,343,521	0	-1,343,521
Depreciation of disposals	0	0	0
Accumulated depreciaiton at at year-end	-5,649,456	0	-5,649,456
Net book value as at 1 January 2008	3,031,467	0	3,031,467
Net book value as at 31 December 2008	3,717,311	1,900,214	5,617,525

2007	Software	Assets under construction	Total
Cost at beginning of the year	4,703,051	0	4,703,051
Additions		2,966,276	2,966,276
Transfer from Assets under construction	2,966,276	-2,966,276	0
Disposals	-331,925		-331,925
Cost at year-end	7,337,401	0	7,337,401
Accumulated depreciaiton at beginning of the year	-2,975,704		-2,975,704
Depreciation for the year	-1,632,995		-1,632,995
Depreciation of disposals	302,764		302,764
Accumulated depreciaiton at at year-end	-4,305,935		-4,305,935
Net book value as at 01 January 2007	1,727,347	0	1,727,347
Net book value as at 31 December 2007	3,031,467	0	3,031,467

Intangible assets mainly relate to software.

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 13 – 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:

2008	Assets under construction	Equipment	Furniture	Total
Cost at beginning of the year	71,248	7,278,917	6,869,794	14,219,959
Additions	5,415,093	2,737,941		8,153,034
Transfer from Assets under construction	-4,902,790	4,088,377	814,413	0
Disposals		-2,637,431	0	-2,637,431
Cost at year-end	583,551	11,467,805	7,684,207	19,735,563
Accumulated depreciaiton at beginning of the year	0	3,845,096	1,699,597	5,544,693
Depreciation for the year	0	1,656,453	746,524	2,402,978
Depreciation of disposals	0	0	0	0
Accumulated depreciation at at year-end	0	5,501,549	2,446,121	7,947,670
Net book value as at 01 January 2008	71,248	3,433,821	5,170,197	8,675,266
Net book value as at 31 December 2008	583,551	5,966,255	5,238,086	11,787,892

2007	Assets under construction	Equipment	Furniture	Total
Cost at beginning of the year	751,007	4,883,387	6,002,466	11,636,861
Additions	2,704,105	3,652,984	0	6,357,089
Transfer from Assets under construction	-3,383,864	2,140,808	1,243,057	0
Disposals	0	-3,398,262	-375,729	-3,773,991
Cost at year-end	71,248	7,278,917	6,869,794	14,219,959
Accumulated depreciaiton at beginning of the year	0	-3,255,941	-1,260,504	-4,516,445
Depreciation for the year	0	-1,315,921	-656,906	-1,972,827
Depreciation of disposals	0	726,766	217,812	944,578
Accumulated depreciation at at year-end	0	3,845,096	1,699,597	5,544,693
Net book value as at 1 January 2007	751,007	1,627,446	4,741,963	7,120,416
Net book value as at 31 December 2007	71,248	3,433,821	5,170,197	8,675,266

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 14 – FINANCIAL ASSETS

FINANCIAL ASSETS STRUCTURE BY MATURITY

in HRK	Maturity (in years)					31 December 2008
	0-1	1-3	3-5	over 5	no term	Total
Available for sale	5.597.025	15.345.000	18.524.484	270.261.948	22.890.169	332.618.626
Loans	45000	-	-	-	-	45000
Term deposits with credit institutions	181.622.871	-	-	-	-	181.622.871
Unit-linked investments	-	-	-	-	2.009.369	2.009.369
Other investments	-	-	-	-	147.909	147.909
Total	187.264.896	15.345.000	18.524.484	270.261.948	25.047.447	516.443.775

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
Total	108,328,586	6,156,000	20,357,534	221,490,543	89,841,298	446,173,961

FINANCIAL ASSETS STRUCTURE BY CURRENCY

(in HRK)	Currency		31 December 2008
	HRK	EUR	Total
Available for sale	135,500,049	197,118,577	332,618,626
Loans	45,000	-	45,000
Term deposits with credit institutions	84,844,808	96,778,063	181,622,871
Unit linked investments	1,611,904	397,465	2,009,369
Other investments	147,909	-	147,909
Total	222,149,671	294,294,104	516,443,775

(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
Total	229,915,774	216,258,187	446,173,961

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 15 – AVAILABLE-FOR-SALE INVESTMENTS

<i>(in HRK)</i>	31 December 2008	31 December 2007
Debt securities and other fixed yield securities	309,728,457	262,820,999
Shares and other variable yield securities	22,890,169	89,693,389
Total	332,618,626	352,514,388

SHARES AND OTHER VARIABLE YIELD SECURITIES

<i>(in HRK)</i>	31 December 2008	31 December 2007
Listed equity securities	5,960,847	14,600,380
PBZ Global Fund	4,727,248	9,623,337
Raiffeisen EM Markets	2,613,690	14,290,844
Ilirika JIE Balanced	-	3,564,494
Erste Adriatic Equity	3,407,031	7,253,270
Erste Total East	-	12,750,534
PBZ Equity	5,184,158	11,340,178
KD Nova Europa	-	2,470,747
HPB Global	997,194	1,949,327
HPB Dynamic	-	942,445
PBZ I-Stock	-	10,907,833
Investment funds	16,929,322	75,093,009
Total	22,890,169	89,693,389

Notes to the financial statements (continued)
For the year ended 31 December 2008

DEBT SECURITIES AND OTHER FIXED YIELD SECURITIES

<i>(in HRK)</i>	<u>Maturity</u>	<u>Effective interest rate '08.</u>	<u>31 December 2008</u>	<u>Effective interest rate '07.</u>	<u>31 December 2007</u>
Bonds RHMF-O-137A	2013	4,50%	74,967,813	4.5%	78,476,673
Bonds RHMF-O-157A	2015	4,25%	62,539,899	4.25%	65,231,688
Bonds RHMF-O-142A	2014	5,50%	31,542,976	5.5%	30,739,155
Bonds RHMF-O-19BA	2019	0	0,00	5.38%	22,360,604
Bonds RHMF-O-125A	2012	6,88%	14,275,905	6.88%	14,582,882
Bonds RHMF-O-085A	2008	0	0	6.13%	9,017,723
Bonds C-EURB 5.00%	2014	0	0	5%	7,099,729
Bonds RHMF-O-103A	2010	6,75%	15,677,372	6.75%	6,249,207
Bonds RHMF-O-077A	2007	0	0	5.38%	0
Bonds RHMF-O-15CA	2015	5,25%	3,549,808	5.25%	3,956,371
Bonds HBOR CBRD 5.75%	2012	5,75%	2,884,100	5.75%	3,733,119
Bonds RHMF-O-08CA	2008	0	0	6.88%	1,854,399
Bonds RHMF-O-172A	2017	4.5%	22,920,550	4.5%	17,358,803
Bonds RBA-O-112A	2011	4,13%	991,141	4.13%	991,160
Bonds PLIVA-115A	2011	0	0	5.18%	584,981
Bonds RHMF - O -19 RAGB 2019	2019	5,38%	64,630,336	0	0
CROATIA 2014 EUR	2019	5,00%	8,703,034	0	0
Bonds PODR-O-115A	2014	5,25%	6,521,605	0	0
	2011	5.13%	523,918	5.13%	584,505
Total			<u>309,728,457</u>		<u>262,820,999</u>

NOTE 16 – LOANS

Loans relate to loans approved to employees.

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 17 – TERM DEPOSITS WITH CREDIT INSTITUTIONS

<i>(in HRK)</i>	Interest rate '08.	31 December 2008	Interest rate '07.	31 December 2007
IMEX banka	6,0%	23,857,040	5.80%	7,380,096
Privredna banka Zagreb d.d.	4,30%	6,949,932	5.20%	7,847,280
Banco Popolare Croatia d.d.	7,40%	41,188,862	6.50%	15,499,522
ERSTE banka	6,13%	19,090,823	6%	15,010,300
NAVA banka				-
Istarska kreditna banka d.d.	4,75%	3,107,514	4.25%	3,118,418
Veneto banka	6,6%	43,444,322	6%	19,772,425
PARTNER BANKA DD	7,00%	5,020,734		
Centar banka d.d.	6,50%	12,049,780		
Credo banka d.d.	6,75%	2,016,638		
Raiffeisenbank d.d.	6,26%	24,897,225	6.10%	24,863,574
Total		181,622,871		93,491,615

NOTE 18 – INVESTMENTS FOR THE BENEFIT OF THE UNIT-LINKED LIFE ASSURANCE

	31 December 2008 HRK
PBZ Global	556,831
PBZ Equity	674,200
PBZ Bond	397,465
PBZ I-Stock	380,974
Total	2,009,369

Investments for the benefit of the unit-linked life assurance have been introduced by the Company during 2008. Change in value of investments is recored in income statement.

NOTE 19 – RECEIVABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

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

Total	Neither past due nor impaired	Past due but not impaired				
		< 30 days	31-60 days	61-90 days	91-180 days	>180 days
24,314,320	14,271,450	3,996,666	1,886,465	1,370,154	2,789,585	0

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

Notes to the financial statements (continued)
For the year ended 31 December 2008

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

	2008 HRK
At 1 January	6,674,488
Charge for the year	10,406,971
Amounts reversed	-7,229,103
Amounts written off	-
At 31 December	<u>9,852,356</u>

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

NOTE 20 – RECEIVABLES ARISING OUT OF REINSURANCE OPERATIONS

Receivables relate to reinsurance agreement with Generali Holding Vienna A.G. and other related party companies (see also note 30).

NOTE 21 – OTHER RECEIVABLES

<i>(in HRK)</i>	31 December 2008	31 December 2007
Advances paid	873,847	2,484,316
Other receivables	1,580,719	1,041,399
Total	<u>2,454,557</u>	<u>3,525,715</u>

NOTE 22 – PREPAID EXPENSES AND ACCRUED INCOME

<i>(in HRK)</i>	31 December 2008	31 December 2007
Deferred acquisition costs	10,342,384	9,950,120
Prepaid rent	191,562	486,516
Total	<u>10,553,946</u>	<u>10,436,636</u>

Movement of deferred acquisition costs

<i>(in HRK)</i>	31 December 2008	31 December 2007
Net book amount at beginning of the year	9,950,120	5,085,557
Change for the year	392,264	4,864,563
Net book amount at end of the year	<u>10,342,384</u>	<u>9,950,120</u>

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 23 – CASH AND CASH EQUIVALENTS

<i>(in HRK)</i>	31 December 2008	31 December 2007
Giro bank accounts	5,748,274	4,848,140
Foreign currency bank account	543,856	581,306
Cash in hand	44,631	10,659
Cheques and credit cards	3,686,780	3,454,918
Total	10,023,541	8,895,023

NOTE 24 – 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 Generali PPF Holding B.V., Amsterdam, Netherlands. The share capital was established by joining the capital of three merged companies. There are no treasury shares held by the Company.

Reserves for unrealised gains and losses on available for sale investments

<i>(in HRK)</i>	2008	2007
Total at beginning of year	-9,034,136	973,645
Revaluation	62,752,329	-8,774,921
Net gains transferred to net profit on disposal and impairment	48,275,903	-1,232,860
Total at end of year	-23,510,562	-9,034,136

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 25 – INSURANCE LIABILITIES

<i>(in HRK)</i>	Gross amount		Reinsurer's share		Net amount	
	2008	2007	2008	2007	2008	2007
Unearned premiums	62,315,934	55,206,575	-515,337	-2,176,106	61,800,597	53,030,469
Claims reserves	64,608,269	41,240,923	-16,080,532	-22,926,928	48,527,737	18,313,995
Non-life insurance liabilities	126,924,203	96,447,498	-16,595,869	-25,103,034	110,328,334	71,344,464
Unearned premiums	1,369,548	2,062,675	-43,129	-586,049	1,326,419	1,476,626
Claims reserves	11,316,142	11,627,854	-144,363	-3,891,949	11,171,779	7,735,905
Mathematical provisions of life insurance	335,932,789	292,387,192	-182,137	102,091,281	335,750,652	190,295,911
Technical provisions – unit linked insurance	1,541,168	0	0	0	1,541,168	0
Other insurance liabilities	6,025,687	24,292,199	0	0	6,025,687	24,292,199
Life insurance liabilities	356,185,334	330,369,920	-369,629	106,569,279	355,815,705	223,800,641
TOTAL INSURANCE LIABILITIES	483,109,537	426,817,418	16,965,498	131,672,313	466,144,039	295,145,105

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 mainly by Generali Holding Vienna AG and other group members.

MOVEMENTS IN INSURANCE LIABILITIES

1. Claims provisions - non-life

<i>(in HRK)</i>	2008		
	Gross	Reinsurance	Net
Notified claims	25,005,881	-8,682,733	16,323,148
Incurred but not reported	16,235,042	-14,244,195	1,990,847
Total at beginning of year	41,240,923	-22,926,928	18,313,995
Cash paid for claims settled in year	-97,925,602	10,024,701	-87,900,901
Increase in liabilities	121,292,948	-3,178,305	118,114,643
Total at end of year	64,608,269	-16,080,532	48,527,737
Notified claims	40,515,672	-9,584,321	30,931,351
Incurred but not reported	24,092,597	-6,496,211	17,596,386
Total at end of year	64,608,269	-16,080,532	48,527,737

Notes to the financial statements (continued)
For the year ended 31 December 2008

(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
Total at beginning of year	17,193,346	-9,004,603	8,188,743
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
Total at end of year	41,240,923	-22,926,928	18,313,995
Notified claims	25,005,881	-8,682,733	16,323,148
Incurred but not reported	16,235,042	-14,244,195	1,990,847
Total at end of year	41,240,923	-22,926,928	18,313,995

2. Life insurance liabilities- mathematical provisions and unearned premiums

(in HRK)

	2008	2007
At beginning of year	294,449,867	205,545,562
Valuation premium	123,276,861	155,842,618
Fees deducted from account balances	-71,373,040	-46,604,428
Liabilities released for payments on death, surrender and other terminations in the year	-18,113,038	-11,552,508
Interest credited	4,703,765	3,909,571
Other movements	4,357,921	-12,690,948
At end of year	337,302,337	294,449,867

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

3. Life insurance liabilities- technical provision of unit-linked insurance

(in HRK)

	2008	2007
At beginning of year	0 0	0
Valuation premium	4.183.645 0	4.183.645
Fees deducted from account balances	0 0	0
Liabilities released for payments on death, surrender and other terminations in the year	-71.203 0	-71.203
Interest credited	0 0	0
Other movements	-2.571.274 0	-2.571.274
At end of year	1.541.168 0	1.541.168

Notes to the financial statements (continued)
For the year ended 31 December 2008

INSURANCE LIABILITIES FOR LIFE INSURANCE POLICIES - MATHEMATICAL PROVISION AND UNEARNED PREMIUM RESERVE – BY MATURITY

in HRK

	2008	2007
Up to 1 year	79,624,762	3,366,587
Between 1 and 5 years	10,828,555	9,649,129
Between 6 and 10 years	27,461,759	25,614,034
Between 11 and 20 years	99,521,749	153,573,340
More than 20 years	119,865,512	102,246,777
At end of year	337,302,337	294,449,867

INSURANCE LIABILITIES FOR LIFE INSURANCE POLICIES - TECHNICAL PROVISION FOR UNIT-LINKED INSURANCE – BY MATURITY

in HRK

	2008	2007
Up to 1 year	0	0
Between 1 and 5 years	388,068	0
Between 6 and 10 years	640,912	0
Between 11 and 20 years	224,502	0
More than 20 years	287,686	0
At end of year	1,541,168	0

CURRENCY BREAKDOWN OF INSURANCE LIABILITIES

<i>(in HRK)</i>	EUR		HRK		TOTAL	
	2008	2007	2008	2007	2008	2007
Unearned premiums	-	-	62,315,934	55,206,575	62,315,934	55,206,575
Claims provisions	-	-	64,608,269	41,240,923	64,608,269	41,240,923
Non-life insurance liabilities	0	0	126,924,203	96,447,498	126,924,203	96,447,498
Unearned premiums	1,369,548	2,062,675	-	-	-	2,062,675
Claims provisions	-	-	11,316,142	11,627,854	11,316,142	11,627,854
Mathematical provisions of life insurance	335,932,789	292,387,192	-	-	335,932,789	292,387,192
Technical provisions – unit linked insurance	1,541,168	-	-	-	1,541,168	-
Other insurance liabilities	6,025,687	24,292,199	-	-	6,025,687	24,292,199
Life insurance liabilities	344,869,192	318,742,066	11,316,142	11,627,854	356,185,334	330,369,920
TOTAL INSURANCE LIABILITIES	344,869,192	318,742,066	138,240,345	108,075,352	483,109,537	426,817,418

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 26 – PAYABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

<i>(in HRK)</i>	31 December 2008	31 December 2007
Commissions payables	7,484,745	7,305,664
Unallocated paid premium	4,444,749	4,356,141
Claims payable	734,570	645,372
Insurance taxes and contributions	875,326	1,126,878
Other	147,776	8,508
Total	<u>13,687,166</u>	<u>13,442,563</u>

NOTE 27 – PAYABLES ARISING OUT OF REINSURANCE OPERATIONS

<i>(in HRK)</i>	31 December 2008	31 December 2007
Outward reinsurance premiums – Generali Group	6,245,958	773,782
Total	<u>6,245,958</u>	<u>773,782</u>

NOTE 28 – OTHER PAYABLES INCLUDING TAXATION AND SOCIAL SECURITY

<i>(in HRK)</i>	31 December 2008	31 December 2007
Due to related parties – Generali Group	4,240,680	3,759,863
Due to suppliers	1,416,859	1,332,541
Due for salaries, taxes and contributions on salaries	4,194,587	5,384,323
Other	500,354	2,430,168
Total	<u>10,352,480</u>	<u>12,906,895</u>

NOTE 29 – DEFERRED INCOME AND ACCRUED EXPENSES

<i>(in HRK)</i>	31 December 2008	31 December 2007
Accrued lease expenses	2,813,962	1,789,417
Accrued commission expense	1,200,000	2,762,272
Total	<u>4,013,962</u>	<u>4,551,689</u>

Notes to the financial statements (continued)
For the year ended 31 December 2008

NOTE 30 – RELATED PARTY TRANSACTIONS

The sole shareholder of the Company is Generali PPF Holding B.V., Amsterdam, Netherlands. On 16th June 2008 transfer of ownership occurred between Assicurazioni Generali S.p.A. Group, Trieste, Italy as previous and Generali PPF Holding B.V., Amsterdam, Netherlands, as current owner.

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>2008</u>	<u>2007</u>
Purchase of products and services	4,307,016	3,826,199

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>2008</u>	<u>2007</u>
Generali Holding Vienna AG	18,928,305	136,313,745

Year-end reinsurance balances

<i>(in HRK)</i>	<u>Receivables</u>		<u>Payables</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Generali Holding Vienna AG, Vienna	2,656,665	35,012,294	-	-
Generali Versicherung AG AT, Vienna	-	-	2,870,435	-
Generali International Ltd, London	14,281	-	75,454	321,430
Assurances France Generali S.A, Paris	6,980	-	2,442	-6,956
Generali Towarzystwo Ubezpiec., Warsaw	483,648	-	501,900	456,093
Generali Servizi Amministr., Mogliano Veneto	847,237	-	2,358,905	-
Grupo Generali España, A.I.E.	-	-	365,856	3,215
BALANCE	4,008,811	35,012,294	6,174,992	773,782

Key management compensation

<i>(in HRK)</i>	<u>2008</u>	<u>2007</u>
Salaries and other short-term employee benefits	2,063,626	1,646,781
TOTAL	2,063,626	1,646,781

Notes to the financial statements (continued)

For the year ended 31 December 2008

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.